



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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August 1, 2001

The Honorable Jose C. Sablan
Mayor of Saipan
P.O. Box 501457 CK
Saipan, MP 96950

Dear Mayor Sablan:

Subject: Final Letter Report on the Audit of Cash Receipts and Disbursements of the 1999 Liberation Day Committee from April 1 to October 31, 1999 (LT-01-03)

This report presents the results of our audit of cash receipts and disbursements of the 1999 Liberation Day Committee (LDC) for the period April 1 to October 31, 1999. Our audit objectives were to determine whether: (1) LDC followed sound operating and accounting procedures in conducting its activities, and (2) LDC properly used and accounted for its funds and resources.

Our audit showed that LDC conducted its activities without following sound operating and accounting procedures, and was unable to account for all of its funds. More specifically, we found that LDC: (1) had incomplete accounting records; (2) could not account for raffle tickets valued at \$18,950; (3) did not issue official cash receipts to document cash collections of \$56,277 and in-kind contributions valued at about \$4,400; (4) used cash collections instead of checks to pay for expenses of \$6,400; (5) disposed of and transferred property, valued at about \$28,000, to other agencies without having adequate documentation; (6) spent about \$10,300 on unsupported expenditures and about \$8,985 on questionable expenditures, and (7) purchased goods and services of about \$105,000 without following competitive procurement procedures. We also noted that LDC conducted fund-raising activities and practices which the Office of the Attorney General (AGO) considered questionable.

Accordingly, we recommended that the Saipan Mayor's Office (SMO):

1. Develop and implement written policies and procedures to guide future LDC appointees. At a minimum, the policies and procedures should address record keeping, maintenance of cash receipts and disbursement records, competitive procurement, adequate documentation and justification of expenditures, establishment of control procedures, and accountability.

2. Immediately address concerns previously raised by the AGO. The AGO had recommended on June 17, 1999 that the SMO seek to enact legislation addressing: (a) LDC's authority to conduct fund-raising activities, (b) LDC's need to comply with CNMI laws and regulations such as procurement and ethics rules, and (c) LDC's need to maintain good records and account for funds received and used. Such legislation should clarify whether LDC needs to comply with applicable CNMI regulations or adopt regulations more suited to its unique and short-term operation.

In his letter response dated May 10, 2001, the Mayor of Saipan concurred with Recommendation 1. In addressing Recommendation 2, the Mayor of Saipan provided OPA documents showing that on April 19, 1999 and again on January 13, 2000, he sought clarification from the AGO regarding the validity of a local ordinance granting the SMO authority over the Liberation Day activities. He also provided OPA with documents showing that the AGO authorized LDC to operate as a non-profit, tax-exempt corporation, licensed to engage in fund-raising activities. He further stated that the agenda of LDC's board of directors included the promulgation of rules and procedures for procurement and finance, as well as guidelines for appointing a chairperson.

Based on the response we received from the SMO, we consider Recommendations 1 resolved, and Recommendation 2 closed. The additional information or actions required to close Recommendation 1 is presented in **Appendix C**.

BACKGROUND

According to Chapter 7, Section 71(3) of the Saipan Municipal Code, the Mayor of the Municipality of Saipan is authorized to appoint a Liberation Day Committee to plan and make arrangements for the annual July 4th Liberation Day celebration. Accordingly, each year the Mayor of Saipan appoints an LDC Chairman, who in turn selects members and officials from both the CNMI Government and the private sector.

LDC's primary purpose is to ensure the successful celebration of the July 4th Liberation Day. Accordingly, it conducts fund-raising activities (e.g., raffle ticket sales) and contests (e.g., Liberation Day queen competition) to finance the cost of entertaining the public (e.g., prizes, fireworks, and concerts) during the Liberation Day celebration.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine whether: (1) LDC followed sound operating and accounting procedures in conducting its activities, and (2) LDC properly used and accounted for its funds and resources.

Our audit covered LDC cash receipts and disbursements from April 1 to October 31, 1999. We conducted our audit at the office of the Mayor of Saipan from May 2000 through March 2001. To accomplish our objectives, we reviewed LDC operating and accounting procedures covering receipts and disbursements as well as the procurement of goods and services. We also examined supporting documents such as official receipts, concessionaires' agreements, ticket sales collection reports, and vendors' receipts, invoices, and contracts. We also reviewed related LDC correspondence and interviewed knowledgeable LDC and SMO officials. The scope of our audit was, however, limited because of inadequate or missing records and documents, and consequently we did not evaluate management controls.

The Government Auditing Standards issued by the Comptroller General of the United States require that organizations conducting government audits should have an external quality control review at least once every three years. OPA's last review was conducted in 1997 when we received a full compliance rating. An external quality control review is scheduled for later this year. Except for the scope limitation noted above and the need for a current external review, this audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as we considered necessary.

FINDINGS AND RECOMMENDATIONS

Completeness and Accountability of Funds and Resources

Adequate policies and procedures should be in place in order for an organization, such as LDC, to properly account for, control, and protect its funds and resources. These policies and procedures should include: (1) maintenance of complete accounting records; (2) use of pre-numbered official receipts, payment vouchers and other documents to ensure the propriety of transactions; (3) establishment of appropriate internal controls such as intact deposits of all collections, proper authorization of transactions, etc.; and (4) procurement of goods and services at the best price and quality through competitive procurement. LDC, however, conducted its activities without following sound operating and accounting procedures, and without accounting for all of its funds. More specifically:

- LDC maintained incomplete accounting records. Cash receipts, cash disbursement books, or equivalent records were not maintained by LDC officials or members; and LDC could not accurately summarize the financial results of its operations. Consequently, we could not determine if cash receipts and disbursements records were complete, and whether funds were used appropriately.
- LDC could not account for raffle tickets valued at \$18,950. Our review showed that 15,000 ticket booklets, each with a value of \$5, were printed. Based on our inventory of unsold tickets as well as our accounting of tickets sold, we were unable to account for at least 3,790 ticket booklets due to weakness in LDC control procedures for monitoring ticket sales and

distribution. We also found that ticket distribution log sheets and control forms were not consistently used for tickets issued.

- LDC did not document, with official receipts, \$56, 277 of \$192,593 in cash collections and \$4,400 of \$6,750 in in-kind contributions.
- LDC used cash collections instead of checks to pay for expenses of \$6,400, and did not properly account for and document petty cash transactions in disbursing this amount directly from undeposited collections. Proper controls dictate that receipts and disbursements of cash be separately accounted for. Also, all collections should be remitted and forwarded to a designated member and deposited intact, while disbursements should be paid by check or from imprest funds, in order to accurately record transactions and maintain the integrity of established controls.
- LDC disposed of and transferred property to other agencies without adequate documentation. More specifically, LDC transferred construction materials and supplies valued at about \$28,000 to SMO and Northern Marianas College's Vocational Educational (Voc Ed) Program without formal documentation.
- Certain LDC disbursements were unsupported or questionable. Of the \$244,254 disbursed, LDC spent about \$10,300 without supporting vendor invoices, receipts, or other payment documents. Also, LDC improperly spent an additional \$8,985¹ for representation, entertainment, meals, and hotel accommodations of its members, guests, and candidates, of which \$1,172 appeared to be personal in nature, and may have been paid because LDC has no clear cut policy addressing such expenses.
- LDC purchased goods and services without following competitive procurement procedures. Of over \$105,000 in goods and services procured, we found no evidence that LDC had solicited or obtained price quotations or proposals as required under CNMI Procurement Regulations.
- An LDC official² participated in procuring services of about \$5,375 from a contractor where the official had a direct financial interest. According to Section 6-204 of the CNMI Procurement Regulations, a government employee may be breaching the regulation's ethics standards if he or she knowingly participates in a procurement action in which he or she has a financial interest. Therefore, the LDC official who is also an employee of the contractor, should not have participated in the procurement process, as stated in the Ethics in Public Contracting provisions of the CNMI Procurement Regulations.

¹ Of this amount, \$6,655 was included among the LDC's unpaid obligations which were subsequently paid by SMO.

²In accordance with statutory restrictions in the Auditing and Ethics Act, names of individuals and corporations are not disclosed in this report.

- AGO also questioned LDC's fund-raising activities and practices. In a letter dated June 17, 1999 addressed to the LDC Chairperson, AGO ruled that: (1) LDC's fund-raising activities had no statutory basis; (2) LDC, like any other entity of government, is bound by CNMI laws including procurement regulations, ethic rules, and the requirements to maintain clear and specific records, and to account for funds received and used; and (3) the business license issued to LDC cannot be used or extended to its booth operators and concessionaires. Further, LDC cannot use its business license as an umbrella to authorize a variety of business activities run by other individuals. AGO recommended that SMO seek legislation to clarify the legal status of LDC and its activities.

The above conditions occurred primarily because SMO provided no formal or written guidance to LDC officials or members on how to properly operate and account for LDC activities. As a result, there is no assurance that LDC funds and resources were properly used and accounted for.

Although available records and documents show a \$4,248 cash deficit for activities covering the period from April 1 through October 31, 1999 (See **Appendix A**), LDC also had an obligation of \$47,413 which SMO subsequently liquidated after the reporting period using fees collected from bingo, cockfights, and batu, as authorized under Saipan Local Law 12-3.

Conclusion and Recommendations

To ensure that future LDC operations and activities are not hampered by these deficiencies, we recommended that SMO:

1. Develop and implement written policies and procedures to guide future LDC appointees. At a minimum, the policies and procedures should address record keeping, maintenance of cash receipts and disbursement records, competitive procurement, adequate documentation and justification of expenditures, establishment of control procedures and accountability.
2. Immediately address concerns previously raised by AGO. AGO had recommended on June 17, 1999 that SMO seek to enact legislation addressing: (a) LDC's authority to conduct fund-raising activities, (b) LDC's need to comply with CNMI laws and regulations such as procurement and ethics rules, and (c) any LDC need to maintain good records and account for funds received and used. Such legislation should clarify whether LDC needs to comply with applicable CNMI regulations or adopt regulations more suited to its unique and short-term operation.

SMO Response

In his letter response dated May 10, 2001, the Mayor of Saipan concurred with Recommendation No.1. In addressing Recommendation 2, the Mayor provided OPA documents showing that on April 19, 1999 and again on January 13, 2000, he had sought clarification from the Attorney General's Office regarding the validity of a local ordinance granting SMO authority over the Liberation Day activities. The Mayor also provided OPA copies of LDC's certificate of

incorporation, business license, articles of incorporation, and by-laws which show that the Attorney General's Office authorized LDC to operate as a non-profit, tax-exempt corporation licensed to engage in fund-raising activities in support of Liberation Day activities. The Mayor of Saipan further stated that the agenda of LDC's board of directors included the promulgation of rules and procedures for procurement and finance, as well as guidelines for appointing a chairperson. He also stated that SMO accounting personnel have recently become more involved in ensuring that: (1) funds are receipted for, (2) disbursements are paid by check instead of with cash, and (3) all raffle tickets are recorded and accounted for.

OPA Comments

We consider Recommendation 1 resolved. The Mayor of Saipan concurred with Recommendation 1 and submitted a time frame for promulgating policies and procedures on or before October 1, 2001.

We consider Recommendation 2 closed. The Mayor stated he had previously sought clarification from the Attorney General's Office concerning the validity of a local ordinance granting SMO authority over Liberation Day activities. He also provided us the charter and by-laws that created LDC as a non-profit corporation on May 24, 2000. The Mayor indicated that the incorporation of LDC as a non-profit corporation not only addressed AGO's concerns, but also now explained the absence of rules, regulations, and guidelines pertaining to procurement, finance and appointment of a chairperson.

OPA would like to note that although the chartering of LDC as a non-profit corporation may now provide the basis for conducting fund-raising activities, a provision in LDC's bylaws appears to be inconsistent with the requirement of Chapter 7, Section 71(3) of the Saipan Municipal Code. The Municipal Code states that the Mayor of Saipan is the one "authorized to annually appoint the Liberation Day Committee to plan and make arrangements for annual July 4th Liberation Day celebrations." On the other hand, Article VI of LDC's by-laws states that "the Board of Directors may establish committees and appoint chairman as needed." This means that the LDC board may either act as a Committee themselves, or establish and appoint a separate committee at their discretion. Although the current Mayor of Saipan is a member of the Board of Directors, the decision to appoint a committee will no longer be solely made by him but rather by a vote of the entire Board of Directors. The Board is not selected by the Mayor but is chosen by a vote of the membership. In theory, a committee appointed by the Board and a committee appointed by the Mayor could each decide to organize the event in completely different and even inconsistent ways, creating uncertainty over who is in charge of Liberation Day activities.

In transmitting this final letter report, we suggested to the Legislature that it enact legislation to clarify questions raised by the Attorney General's Office. Such legislation should: (a) state who will be responsible for LDC operations, (b) state whether the Liberation Day celebration will be considered a government sponsored event, (c) state how Liberation Day activities will be funded, (d) state what period of time will be covered by the Liberation Day event, (e) specify which

policies should govern committee activities, and (f) clarify the legality of any gambling activity by booth concessionaires.

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Our office has implemented an audit recommendation tracking system. All audit recommendations will be included in the tracking system as open or resolved until we have received evidence that the recommendations have been implemented. An *open* recommendation is one where no action or plan of action has been made by the client (department or agency). A *resolved* recommendation is one in which OPA is satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame of action. A *closed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or we have withdrawn it.

Please provide to us the status of Recommendation 1 within 30 days, along with documentation showing the specific action taken. If corrective action takes longer than 30 days, please provide us additional information every 60 days until we notify you that the recommendation has been closed.

Sincerely,



Michael S. Sablan
Public Auditor

xc: Governor
Lt. Governor
Twelfth CNMI Legislature (27 copies)
Attorney General
Secretary of Finance
Special Assistant for Management and Budget
Press Secretary
Media

Appendix A

1999 Liberation Day Committee Summary of Receipts and Disbursements From April 1 to October 31, 1999

Receipts:

Ticket Sales/Candidates' Sponsorships	\$ 56,473
Solicitations	12,250
Nightly Raffle	3,602
Booth Concessionaire	118,958
Float Fees	900
Others	410
Total Receipts	<u>192,593</u>

Disbursements:

Fireworks	40,000
Entertainment	39,750
Constructions Costs	35,868
Rental Expenses	30,699
Raffle Prizes	14,290
Candidates Expenses	13,250
Food Expenses	8,686
Advertising	5,375
Flowers	2,678
Others	6,245
Total Disbursements	<u>196,841</u>

Cash Deficit (see Note 1) \$ 4,248

Note 1 - Although available records and documents show a \$4,248 cash deficit for activities covering the period from April 1 through October 31, 1999, LDC also had an obligation of \$47,413 which SMO subsequently liquidated after the reporting period using fees collected from bingo, cockfights, and batu, as authorized under Saipan Local Law 12-3. Had this amount been disbursed during the period, it would have increased the deficit to \$51,661.



JOSE C. SABLAN
Mayor of Saipan

Commonwealth of the Northern Mariana Islands
Office of the Mayor

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May 10, 2001

Michael S. Sablan
Public Auditor
Office of the Public Auditor
2nd Floor, J.E. Tenorio Building
Saipan, MP 96950

Subject: 1999 Liberation Day Committee Audit Finding

Dear Mr. Sablan:

In response to your letter of March 28, 2001, my office has implemented the following to avoid similar problems as that faced by the 1999 Liberation Day Committee.

1. The Saipan Mayor's Office Accounting Department are more involved in making sure that all money are received for and all disbursements are paid for by check instead of cash.
2. All tickets are recorded and accounted for by our Accounting Department.
3. We have submitted application to the Commonwealth Registrar for a Non-Profit Corporation, a concern the Attorney General Office have for years. On May 24, 2000 the Registrar of Corporation, Office of the Attorney General approved a Non-Profit Charter of Incorporation.
4. All procurement of materials and contracts enter by the Chairman of the Liberation Day must be approved by the Board of Directors of the Liberation Day Non-Profit Corporation.
5. The new Board of Directors of the Non-Profit Corporation's agenda is to promulgate rules and procedures for procurement, finance and guidelines in appointing a chairperson. Once the Board of Directors adopts the Rules and Procedures and Guidelines, we will provide you a copy for your review.

Should you need additional information, please call Ray Diaz, President of the Non-Profit Corporation at 234-5997.

Sincerely,


JOSE C. SABLAN
Mayor of Saipan



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**Saipan Mayor's Office
Audit of Cash Receipts and Disbursements
of the 1999 Liberation Day Committee**

Status of Recommendations

Recommendations	Agency to Act	Status	Agency Response/ Action Required
<p>1. Develop and implement written policies and procedures to guide future LDC appointees. At a minimum, the policies and procedures should address record keeping, maintenance of cash receipts and disbursement records, competitive procurement, adequate documentation and justification of expenditures, establishment of control procedures and accountability.</p>	<p>SMO</p>	<p>Resolved</p>	<p>In his letter response dated May 10, 2001, the Mayor of Saipan concurred with Recommendation 1 and submitted a time frame for promulgating policies and procedures on or before October 1, 2001.</p> <p><i>Further Action Required:</i></p> <p>Provide OPA with a copy of policies and procedures addressing this recommendation.</p>
<p>2. Immediately address concerns previously raised by AGO. AGO had recommended on June 17, 1999, that the SMO seek to enact legislation addressing: (a) LDC's authority to conduct fund-raising activities, (b) LDC's need to comply with CNMI laws and regulations such as procurement and ethics rules, and (c) LDC's need to maintain good records and account for funds received and used. Such legislation should clarify whether LDC needs to comply with applicable CNMI regulations or adopt regulations more suited to its unique and short-term operation.</p>	<p>SMO</p>	<p>Closed</p>	<p>In his letter response dated May 10, 2001, the Mayor of Saipan addressed Recommendation 2 by providing OPA copies of LDC's certificate of incorporation, business license, articles of incorporation, and by-laws which show that the Attorney General's Office authorized LDC to operate as a non-profit, tax-exempt corporation licensed to engage in fund-raising activities in support of Liberation Day activities. He also provided us documents showing that on April 19, 1999 and again on January 13, 2000 the Mayor sought clarification from the Attorney General's Office regarding the validity of a local ordinance granting SMO authority over the Liberation Day activities.</p> <p>OPA referred these issues to the Legislature for possible legislative action.</p>