

NORTHERN MARIANAS HOUSING CORPORATION
(A DIVISION OF THE
COMMONWEALTH DEVELOPMENT AUTHORITY)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2012

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Northern Marianas Housing Corporation:

We have audited the financial statements of the Northern Marianas Housing Corporation (NMHC), as of and for the year ended September 30, 2012, and have issued our report thereon dated June 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of NMHC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered NMHC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMHC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NMHC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 10 through 77), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and one other deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01 and 2012-02 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2012-03 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NMHC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-04.

We noted certain matters that we reported to management of NMHC in a separate letter dated June 19, 2013.

NMHC's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit NMHC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

June 19, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors
Northern Marianas Housing Corporation:

Compliance

We have audited the Northern Marianas Housing Corporation's (NMHC) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of NMHC's major federal programs for the year ended September 30, 2012. NMHC's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 10 through 77). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of NMHC's management. Our responsibility is to express an opinion on NMHC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NMHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of NMHC's compliance with those requirements.

As described in items 2012-05 through 2012-37 in the accompanying Schedule of Findings and Questioned Costs, NMHC did not comply with requirements regarding eligibility, reporting and special tests and provisions that are applicable to its Section 8 Housing Assistance Payments Program major program (CFDA 14.195), allowable costs/cost principles, Davis-Bacon Act, equipment and real property management, real property acquisition and relocation assistance and reporting that are applicable to its Community Development Block Grants/Special Purpose Grants/Insular Area major program (CFDA 14.225), eligibility, program income, reporting and special tests and provisions that are applicable to its HOME Investment Partnerships Program major program (CFDA 14.239), allowable costs/cost principles and Davis-Bacon Act that are applicable to its ARRA - Community Development Block Grants/Special Purpose Grants/Insular Areas major program (CFDA 14.254) and allowable costs/cost principles, eligibility and special tests and provisions that are applicable to its Section 8 Housing Choice Vouchers major program (CFDA 14.871). Compliance with such requirements is necessary, in our opinion, for NMHC to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, NMHC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of NMHC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered NMHC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NMHC's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-11, 2012-15, 2012-16, 2012-18, 2012-19, 2012-22 through 2012-25 and 2012-28 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-05 through 2012-10, 2012-12 through 2012-14, 2012-17, 2012-20, 2012-21, 2012-26, 2012-27, 2012-29 and 2012-30 through 2012-37 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of NMHC as of and for the year ended September 30, 2012, and have issued our report thereon dated June 19, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the NMHC's financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 6 and 7) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

NMHC's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit NMHC's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

June 19, 2013

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
Direct Programs:		
U.S. Department of Housing and Urban Development		
Section 8 Housing Assistance Payments Program:		
TQ11-0011-005 Mihaville	14.195	\$ 493,114
TQ11-0016-004 Koblerville	14.195	343,381
TQ11-0011-001 Tinian	14.195	220,581
TQ11-0006-004 Rota	14.195	190,312
Subtotal CFDA #14.195		<u>1,247,388</u>
Community Development Block Grants/Special Purpose Grants/Insular Area		
Major Rehabilitation of the Susupe Sports Complex	14.225	155,041
Rehabilitation of the DanDan Children's Park	14.225	85,637
Valley Inn Property Acquisition	14.225	32,923
ADA Improvements to the Marianas Medical Center	14.225	13,621
Neighborhood Stabilization Program Administrative Cost	14.225	5,401
A&E Design Services for Saipan Southern High Swim	14.225	3,230
Purchase of Life Saving and Fire Protection Equipment	14.225	1,353
Administrative Fee	14.225	182,057
Subtotal CFDA #14.225		<u>479,263</u>
Emergency Shelter Grants Program	14.231	94,667
HOME Investment Partnerships Program:		
HOME Project Costs Program Year 2008	14.239	416,597
HOME Program Income Program Year 2011	14.239	343,173
HOME Project Costs Program Year 2010	14.239	51,084
HOME Project Costs Program Year 2009	14.239	29,477
HOME/Admin Program Year 2007	14.239	27,116
HOME/Admin Program Year 2008	14.239	17,072
HOME Project Costs Program Year 2007	14.239	6,829
Subtotal CFDA #14.239		<u>891,348</u>
ARRA - Community Development Block Grants/Special Purpose Grants/Insular Areas		
Chalan Kanoa Kios Ku Public Facility	14.254	445,620
Sinapalo Children's Park Pathway	14.254	60,000
ADA Improvements to the Marianas Medical Center	14.254	31,812
CDBG-R Planning and Administrative Costs	14.254	25,558
Subtotal CFDA #14.254		<u>562,990</u>
ARRA - Homelessness Prevention and Rapid Re-Housing Program		
HPRP-HP-HR-NMPASI	14.257	22,930
NMHC Data Collection and Reporting	14.257	7,425
HPRP-HP-HR-NMHC	14.257	6,255
HPRP-HA-FA-NMPASI	14.257	3,325
HPRP-AD-NMPASI	14.257	3,670
NMPASI Homeless Prevention	14.257	2,550
NMPASI Homeless Assistance	14.257	2,290
Subtotal CFDA #14.257		<u>48,445</u>
Section 8 Housing Choice Vouchers	14.871	3,841,202
U.S. Department of Treasury		
Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Grant	21.TDP2009GRMP55	2,895,004
		<u>10,060,307</u>
Less program not subject to OMB A-133 audit:		
LIHTC Grant	21.TDP2009GRMP55	<u>(2,895,004)</u>
		<u>\$ 7,165,303</u>

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2012

Reconciliation of expenditures to Statement of Revenues, Expenses and Changes in Net Assets	
Federal award expenditures per above	
U.S. Department of Housing and Urban Development	
Section 8 Housing Choice Vouchers	\$ 3,841,202
Section 8 Housing Assistance Payments Program	<u>1,247,388</u>
	<u>\$ 5,088,590</u>
Federal award expenditures per Statement of Revenues, Expenses and Changes in Net Assets	
U.S. Department of Housing and Urban Development	
Section 8 Housing Choice Vouchers:	
Section 8 rental	\$ 3,226,627
Utilities	370,504
Salaries and wages	154,808
Travel	46,482
Employee benefits	28,532
Professional fees	13,489
Miscellaneous	760
	<u>3,841,202</u>
Section 8 Housing Assistance Payments Program:	
Repairs and maintenance	470,960
Salaries and wages	395,456
Professional fees	133,213
Employee benefits	113,716
Utilities	91,797
Travel	29,228
Rent	10,800
Other	2,218
	<u>1,247,388</u>
	<u>\$ 5,088,590</u>

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(1) Scope of Review

The Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority (CDA), was established under Public Law 5-37 as amended by Public Law 5-67. The purpose of NMHC is to develop and administer low cost residential housing in the CNMI. All significant operations of NMHC are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as NMHC's cognizant agency for the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed, which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotment or grant award received. Disbursements made to subrecipients related to grant agreements are reported as expenditures. Disbursements made to subrecipients related to loan agreements are reported within applicable loan portfolios, and are subject to the Single Audit.

b. Subgrantees

Certain program funds are passed through NMHC to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees outside of NMHC's control utilized the funds.

c. Funds Received

U.S. Department of Housing and Urban Development - Community Development Block Grants/Special Purpose Grants/Insular Area/HOME Investment Partnerships Program/Neighborhood Stabilization Program - Housing and Economic Recovery Act (HERA)/Emergency Shelter Grants Program - NMHC received these funds in a direct capacity in fiscal year 2012 and administers the funds and is responsible for ensuring compliance with laws and regulations.

U.S. Department of Housing and Urban Development - Section 8 Housing Assistance Payments Program/Section 8 Housing Choice Vouchers - NMHC records federal rental assistance as Section 8 income.

U.S. Department of Housing and Urban Development - Community Development Block Grants/Special Purpose Grants/Insular Areas (Recovery Act Funded)/Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded) - NMHC received these funds in a direct capacity in fiscal year 2012 through the American Recovery and Reinvestment Act (ARRA) of 2009, and administers the funds and is responsible for ensuring compliance with laws and regulations.

d. Indirect Cost Allocation

NMHC does not receive an indirect cost allocation.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2012

(3) Loan Funds

NMHC (formerly the Mariana Islands Housing Authority (MIHA)) received economic development loan funds from the former Northern Mariana Islands Economic Development Loan Fund pursuant to a Memorandum of Understanding transferring funds received under Section 702(c) of the Covenant to MIHA. These funds are used for a revolving fund for a special program of low interest housing loans for low-income families. As of September 30, 2012, \$1,722,418 (net of the related allowance for doubtful accounts of \$2,145,274 and out of total NMHC net loans receivable of \$3,867,692) of loans originating from this revolving fund were outstanding.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | |
|---|-----------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |
| CFDA | |
| <u>Number</u> <u>Federal Program</u> | |
| 14.195 Section 8 Housing Assistance Payments Program | |
| 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area | |
| 14.239 HOME Investment Partnerships Program | |
| 14.254 ARRA -Community Development Block Grants/Special Purpose Grants/Insular Areas | |
| 14.871 Section 8 Housing Choice Vouchers | |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. NMHC qualified as a low-risk auditee? | No |

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

B. FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2012-01	Loans Receivable	12
2012-02	Loan Guarantee Agreements	13
2012-03	Interfund Balances and Transactions	14
2012-04	Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Grant	15 - 16

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2012-05 - 12	14.195	Eligibility	\$ 63,508	17 - 30
2012-13	14.195	Reporting	\$ -	31 - 33
2012-14 - 17	14.195	Special Tests and Provisions	\$ 9,741	34 - 39
2012-18	14.225	Davis-Bacon Act	\$ -	40 - 41
2012-19	14.225	Equipment and Real Property Management	\$ -	42 - 43
2012-20	14.225	Real Property Acquisition and Relocation Assistance	\$ -	44 - 45
2012-21	14.225	Reporting	\$ -	46
2012-22 - 24	14.239	Eligibility	\$ 57,000	47 - 57
2012-25	14.239	Program Income	\$ -	58 - 59
2012-26	14.239	Reporting	\$ -	60
2012-27 - 28	14.239	Special Tests and Provisions	\$ -	61 - 63
2012-29	14.254	Davis-Bacon Act	\$ -	64
2012-30	14.871	Allowable Costs/Cost Principles	\$ -	65
2012-31 - 36	14.871	Eligibility	\$ 9,618	66 - 75
2012-37	14.871	Special Tests and Provisions	\$ 4,139	76 - 77

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

B. FINANCIAL STATEMENT FINDINGS

Loans Receivable

Finding No. 2012-01

Criteria: An effective system of internal control includes procedures to determine that loan payments are received on a timely basis and that actions are taken to address delinquencies.

Condition: An analysis of NMHC's past due loans was performed to determine the propriety of the allowance for doubtful loans as of September 30, 2012. This analysis revealed that loans, including interest, which are over one hundred twenty days past due amounted to \$4,789,786 or 55.67% of total loans and interest outstanding, excluding HOME deferred loans receivable, of \$8,604,497 as of September 30, 2012. An audit adjustment of \$364,873 was proposed to increase the allowance for loans receivable as of September 30, 2012.

Cause: The cause of the above condition is the increase in past due loans and the failure to implement collection efforts on delinquent loans.

Effect: The effect of the above condition is the increased possibility of loan losses due to nonpayment.

Recommendation: We recommend that follow-up procedures be adhered to, evaluations of loans be performed and corrective action developed and documented. Legal action should be considered for those loans considered unlikely to be serviceable.

Prior Year Status: NMHC's significant past due loans was reported as a finding in the Single Audits of CDA for fiscal years 2006 through 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC will propose and change allowance calculations for loans receivable by following the current fiscal year delinquency report and not the average delinquency report from the last three years. Corrective action will be documented for fiscal year 2013.

Proposed Completion Date: Fiscal year 2013.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Loan Guarantee Agreements

Finding No. 2012-02

Criteria: An effective system of internal control includes procedures to periodically assess and review contingent liabilities for probable losses.

Condition: NMHC has existing loan guarantee and purchase agreements with certain financial institutions. As of September 30, 2012, NMHC's related loan guarantees amounted to \$14,235,491. Of the total, approximately \$8,616,206 is delinquent and past due. NMHC has received demand notices of \$1,769,724; however, NMHC is unable to determine if an additional reserve should be established due to limited information provided by the institutions. NMHC is currently working with related institutions to obtain sufficient information to determine a better estimate of the reserve for loan guarantees.

Cause: The cause of the above condition is the lack of established policies and procedures to assess the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses.

Effect: The effect of the above condition is the possible misstatement of the reserve for loan guarantees and related accounts.

Recommendation: We recommend that NMHC periodically assess and review the adequacy of the reserve for guaranteed loans. Further, we recommend NMHC establish policies and procedures to assess the adequacy of the reserve for guaranteed loans, both past due and current. Additionally, we recommend that NMHC continue to obtain sufficient information from financial institutions about the status of defaulted loans and determine which of the defaulted loans will likely result in payment or settlement.

Prior Year Status: The lack of established policies and procedures to assess and review the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses was reported as a finding in the Single Audits of CDA for fiscal years 2006 through 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC will ensure that all demand notices are monitored and recorded by the Mortgage and Credit Manager for accurate allowance calculations on all loans guaranteed by NMHC. NMHC requested for copies of demand notices from the institutions and the contact person.

Proposed Completion Date: Fiscal year 2013.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Interfund Balances and Transactions

Finding No. 2012-03

Criteria: Interfund transactions should be monitored, reviewed and reconciled.

Condition: NMHC initially records disbursements for certain expenses in general fund accounts. NMHC allocates expenses to applicable accounts in the corresponding funds through interfund transactions. Tests of interfund balances noted an unreconciled amount of \$123,677 at September 30, 2012. Of this amount, \$113,356 was subsequently corrected through a proposed audit adjustment. The remaining balance of \$10,321 is unreconciled as of September 30, 2012.

Cause: The cause of the above condition is a lack of monitoring controls over interfund transactions and balances.

Effect: The effect of the above condition is the potential misstatement of shared expenses and interfund balances and transactions.

Recommendation: We recommend that NMHC timely monitor, review and reconcile interfund transactions and balances. NMHC may wish to consider a system of recording grant expenses at the time the expense is incurred.

Prior Year Status: The lack of monitoring controls over recording interfund transactions and balances was reported as a finding in the Single Audits of NMHC for fiscal years 2010 and 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: The Fiscal Division will do it's very best to reconcile the interfund balances and transactions. Interfund transactions and balances of all accounts will be monitored, reviewed and reconciled every month as a corrective action. The corrective action will be implemented for FY 2013.

Proposed Completion Date: Fiscal Year 2013

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Grant

Finding No. 2012-04

Criteria: The 1602 Exchange Fund Agreement between NMHC and the Owner requires the following:

- The Owner shall provide with each request for reimbursement to NMHC, receipts, invoices and evidence of payment for all costs expended for which reimbursement is sought. Particularly, with each drawdown request, the Owner shall provide the following to NMHC:
 - a. receipts and invoices for all eligible costs incurred submitted by the Owner for reimbursement;
 - b. a certification of eligible costs prepared by the Owner, its CPA or a lawyer;
 - c. most recent inspection report prepared by the project architect or approved third party construction monitor; and
 - d. a *Jobs Reporting* form.
- The Owner shall submit monthly reports to NMHC every 15th of the month starting after the month the agreement is executed.

Condition: Test of three disbursements totaling \$2,895,004 noted the following:

1. Request for reimbursement was supported with a purchase order or pro-forma invoice and not with an actual receipt, invoice and documentation of payment evidencing expense sought for reimbursement:

<u>General Ledger Date</u>	<u>Reference No.</u>	<u>Amount</u>
10/13/11	18338	\$ 19,385

2. No inspection report and *Jobs Reporting* form are included in the requests for reimbursement.
3. Monthly reports could not be provided. NMHC represented that only quarterly reports were submitted to correspond with quarterly performance requirements; however, no amendment to the subaward agreement was made.

Cause: The cause of the above condition is the potential lack of adherence with terms and conditions of the 1602 Exchange Fund Agreement.

Effect: The effect of the above condition is potential noncompliance with applicable grant terms and conditions.

Recommendation: We recommend that NMHC only accept requests for reimbursement that meet the terms and conditions of the 1602 Exchange Fund Agreement and strengthen and implement adequate accounting and monitoring procedures over subaward disbursements.

Prior Year Status: The potential lack of adherence with terms and conditions of the 1602 Exchange Fund Agreement was reported as a finding in the Single Audit of NMHC for fiscal year 2011.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-04, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Zenie P. Mafnas, Planner/Grant Writer

Corrective Action:

Condition 2: Inspection reports and *Job Reporting* forms were included in the quarterly reports.

Condition 3: Quarterly reports, not monthly reports were submitted.

NMHC will ensure that complete documentation evidencing expenses for reimbursements are on file. NMHC will also ensure that, for future LIHTC Section 1602 Grants, monthly reports are submitted, and if required, job reporting forms and inspections reports are attached to invoices.

Proposed Completion Date: Upon implementation of future Section 1602 Grants (LIHTC).

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: 2012-05
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$220

Criteria: The amount of federal assistance paid on behalf of a family is calculated using the family's annual income less allowable deductions. Owners must verify all deductions claimed by the tenant/applicant to determine the level of federal assistance.

Condition: Tests of seventy-five tenant files noted that deductions claimed include allowances for dependents which are not the legal children of the household head/co-head for three tenants. For K14, approval of consent to appoint legal guardianship was not signed by the judge. For K17, appointment of legal guardianship was only signed by the Clerk of Court but not by a judge. For R27, there was no legal document approving guardianship of minors.

Unit No.	Period Tested	Certification Effective	Dependents Claimed that are not Legal Children (Household Member Ref. No.)	Allowance Claimed	Housing Assistance Payment (HAP) Amount	HAP Without Allowance	Variance	Total Questioned Costs
K14	01/01/12	01/01/12	3	\$ 400	\$ 1,017	\$ 1,005	\$ 12 x 7	\$ 84
K17	11/01/11	11/01/11	3	\$ 480	\$ 684	\$ 672	\$ 12 x 8	96
R27	04/01/12	04/01/12	2	\$ 480	\$ 1,007	\$ 999	\$ 8 x 5	<u>40</u>
								\$ <u>220</u>

Cause: The cause of the above condition is the lack of adequate policies and procedures to require that deductions claimed by the tenant/applicant are verified.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$220 since the projected questioned cost is greater than \$10,000.

Recommendation: We recommend NMHC verify that deductions claimed are valid and agree to relevant supporting documentation.

Prior Year Status: The lack of adequate policies and procedures to verify that deductions claimed by tenants are valid and agree to relevant supporting documentation was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager and Melinda Babauta, Housing Specialist

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-05, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Eligibility
Questioned Costs: \$220

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: NMHC will require families to adhere to program requirements. Failure to comply may result with consequences including termination of continued assistance.

Proposed Completion Date: Action shall be implemented immediately and corrections must be made before the next annual re-certifications.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-06
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$-0-

Criteria: Owners must use verification methods that are acceptable to HUD. The owner is responsible for determining if the verification documentation is adequate and credible. HUD accepts three methods of verification; in order of acceptability, third party verification, review of documents, and family certification. When third party verification is not available, owners must document efforts made to obtain the required verification and the reason if the verification was not obtained by including the following documents in the applicant's or tenant's file:

1. A written note to file explaining why third party verification is not possible; or
2. A copy of the date-stamped original request that was sent to the third party including:
 - a. Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
 - b. A written note to file indicating that the request has been outstanding without a response from the third party.

Condition: Tests of seventy-five tenant files noted the following:

1. For three tenants or 4%, the following tenant/applicants reported other income. No third party verification documentation was in file; however, we did observe affidavit/notarized statements signed by the tenant/applicant. Further, documentation why a third-party verification is not possible or documentation indicating that efforts were made to obtain third-party verifications was not evident in the file as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member No.</u>	<u>Other Income Reported (Monthly Income)</u>
R23	08/01/12	07/01/12	Head	\$ 150
R24	03/01/12	11/01/11	Head	\$ 100
R28	12/01/11	09/01/11	Head	\$ 100

2. For four tenants or 5%, income reported in the Form HUD 50059 did not agree to third party verifications as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Per Form HUD 50059</u>	<u>Income Per Third Party Verification</u>
T15	05/01/12	01/01/12	\$ 1,300	\$ 2,280
R15	07/01/12	02/01/12	\$ 720	\$ 395
T08	07/01/12	06/01/12	\$ 2,016	\$ 588
R30	05/01/12	05/01/12	\$ 1,700	\$ 1,400

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-06, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

3. For four tenants or 5%, income reported by the applicant/tenant was not included in the Form HUD 50059 as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Type</u>	<u>Income Per Form HUD 50059</u>	<u>Income Per Third Party Verification</u>
M30	08/01/12	08/01/12	In-kind support	\$ -	\$ 25
R01	11/01/11	05/05/11	Food Stamp	\$ 5,392	\$ 370
R05	05/01/12	03/06/12	Food Stamp	\$ -	\$ 212
T09	02/01/12	02/01/12	Food Stamp	\$ 10,712	\$ 498

4. Assets were reported by the applicant/tenant for one tenant or 1%; however, the third party verification obtained, if any, could not be located in file as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Asset Type</u>
K03	01/01/12	01/01/12	Land

Cause: The cause of the above condition is failure to obtain third party verifications and failure to document instances when third party verifications cannot be obtained.

Effect: The effect of the above condition is noncompliance with eligibility requirements. No questioned costs result as the tenants did not exceed the income limit threshold.

Recommendation: We recommend that adequate third party verification be obtained. When third party verification cannot be obtained, NMHC should obtain required documentation and the reason the verification was not obtained and this should be documented in the tenant file or equivalent.

Prior Year Status: Failure to obtain adequate third party verifications and failure to document instances when third party verifications cannot be obtained was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Frances Diaz, NMHC Tinian Representative, Melinda Babauta, Housing Specialist and Barrie Toves, NMHC Rota Representative

Corrective Action: NMHC will conduct formal staff training and impose appropriate disciplinary action against responsible employees (i.e. reprimand, suspension, etc.).

Proposed Completion Date: Recommendations shall be implemented at the earliest possible time.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-07
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Eligibility
Questioned Costs: \$-0-

Criteria: Owners must include verification documentation in the tenant file. Further, NMHC accepts the following notarized statement or signed affidavits from the tenant/applicant as support of income and assets for all adult members of the household:

1. Affidavit as to assets
2. Statement of unemployment
3. Affidavit of zero income of adult member
4. Affidavit of child support
5. Certification of asset disposition

Condition: Of seventy-five tenant files tested, the following were noted for eight tenants or 11%:

<u>Unit No.</u>	<u>Month Tested</u>	<u>Recertification Effective</u>	<u>Household Member No.</u>	<u>Documents Not Found in Tenant File</u>
R01	11/01/11	05/05/11	2	Statement of unemployment and affidavit of zero income
R01	11/01/11	05/05/11	1	Affidavit of zero income not signed and dated by NMHC
R15	07/01/12	02/01/12	Head	Affidavit of child support
R28	12/01/11	09/01/11	2	Affidavit of zero income not signed by dated by NMHC
T03	03/01/12	01/01/12	Head	Notice of disposition for food stamps of \$23
R19	03/01/12	11/29/11	Head	Certification of asset disposition
R24	03/01/12	11/01/11	Head	Affidavit as to assets
R28	12/01/11	09/01/11	Head	Affidavit as to assets

Cause: The cause of the above condition is the lack of adequate monitoring procedures to obtain and file required documentation.

Effect: The effect of the above condition is inadequate documentation of the eligibility determination. No questioned costs result as the tenants did not exceed the income limit threshold.

Recommendation: We recommend that all relevant documentation supporting eligibility determinations be obtained and included in file.

Prior Year Status: The lack of adequate monitoring procedures to ensure that required documentation is obtained and filed was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Frances Diaz, NMHC Tinian Representative, Melinda Babauta, Housing Specialist and Barrie Toves, NMHC Rota Representative

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-07, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: NMHC will develop standard operating procedures on file management and security.

Proposed Completion Date: May 1, 2013.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-08
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$6,608

Criteria: Adult members of a family must sign consent forms as required verification documents allowing the owner to verify sources of family income and family size. The owner must consider a family ineligible if the adult members refuse to sign applicable consent and verification forms. Consent forms must be signed by:

1. The head of household (regardless of age);
2. The spouse or co-head of household (regardless of age); and
3. Any other family member who is 18 years old or older.

NMHC uses the *Document Package for Applicant's/Tenant's Consent to the Release of Information* (the Document Package) form to document compliance with this requirement.

Condition: Tests of seventy-five tenant files noted one tenant (or 1%) where the Document Package was not signed by NMHC:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
R11	06/01/12	02/03/12	\$ 826 x 8	\$ 6,608

Cause: The cause of the above condition is the lack of adequate monitoring procedures to require that documentation is obtained and filed.

Effect: The effect of the above condition is inadequate documentation supporting eligibility determination and requirements and questioned costs of \$6,608.

Recommendation: We recommend that relevant documentation supporting eligibility determinations be obtained and included in file.

Prior Year Status: The lack of adequate monitoring procedures to require that documentation is obtained and filed was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Frances Diaz, NMHC Tinian Representative, Melinda Babauta, Housing Specialist and Barrie Toves, NMHC Rota Representative

Corrective Action: NMHC will immediately address all audit findings through complete assessment of tenant files, conduct formal staff training and impose appropriate disciplinary action against responsible employees (i.e. reprimand, suspension, etc.).

Proposed Completion Date: Recommendations shall be implemented at the earliest possible time.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-09
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$19,826

Criteria: Owners must conduct a certification/re-certification of family income and composition (a) prior to move-in; (b) at least annually; and (c) if there are changes in income, allowances or family characteristics reported between annual re-certification. Owners must then recompute the tenant rents and assistance payments, if applicable, based on information gathered.

NMHC uses a *Certification/Re-certification Interview Sheet* to document certifications and re-certifications performed. NMHC also uses a *Tenant Obligation to Report Interim Change* form to be signed by tenants. A Housing Assistance Payment (HAP) contract and lease agreement is signed by the tenant and NMHC.

Condition: Tests of seventy-five tenant files noted the following:

1. For five tenants or 7% tested, the quality control worksheet was not signed by the Housing Manager or could not be located in file. Thus, there was no evidence of review of the eligibility determination or re-determination performed by the Housing Specialist prior to commencement of the housing assistance. No questioned costs result as the tenants were determined to be eligible.

<u>Unit No.</u>	<u>Period Tested</u>
R01	11/01/11
R15	07/01/12
R19	03/01/12
R23	08/01/12
R28	12/01/11

2. For three tenants or 4%, the following annual re-certifications were not timely performed:

<u>Unit No.</u>	<u>Current Annual Certification</u>		<u>Finding</u>
	<u>Effective Date</u>	<u>Date Performed</u>	
R23	07/01/12	06/01/12	We noted no re-certifications performed in 2008, 2009, 2010 and 2011
R24	11/01/11	10/28/11	We noted no re-certifications performed in 2009 and 2010
R27	04/01/12	01/09/12	We noted no re-certification performed in 2011

3. For three tenants or 4%, the HAP and lease amendment contract was not signed by either tenant or NMHC or was signed after the effective date for the following.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
R17	03/01/12	11/18/11	\$ 1,071 x 1	\$ 1,071
R24	03/01/12	11/01/11	\$ 1,007 x 1	1,007
T05	09/01/12	01/01/12	\$ 1,020 x 9	<u>9,180</u>
				<u>\$ 11,258</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-09, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$19,826

Condition, Continued:

4. For one tenant or 1%, the tenant obligation to report interim change could not be located in file.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
R15	07/01/12	02/01/12	\$ 1,071 x 8	\$ 8,568

5. For two tenants or 3%, the certification/recertification interview sheets could not be located in file. No questioned costs result as the tenants were determined to be eligible.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>
T05	09/01/12	01/01/12
T15	05/01/12	01/01/12

Cause: The cause of the above condition is the lack of adequate monitoring procedures to require complete certification/re-certification forms and related forms.

Effect: The effect of the above condition is noncompliance with program eligibility requirements and questioned costs of \$19,826.

Recommendation: We recommend NMHC establish adequate monitoring procedures to require that certification/re-certification forms and related forms are completed and filed in a timely manner.

Prior Year Status: The lack of adequate monitoring procedures requiring certification/re-certification forms and related forms was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Frances Diaz, NMHC Tinian Representative, Melinda Babauta, Housing Specialist and Barrie Toves, NMHC Rota Representative

Corrective Action: NMHC will request for approval to assign Field Office Representatives with signature rights given to the Program and Housing Division Manager, conduct formal staff training and impose appropriate disciplinary action against responsible employees (i.e. reprimand, suspension, etc.).

Proposed Completion Date: Recommendations shall be implemented at the earliest possible time.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-10
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$389

Criteria: Owners apply their occupancy standards before assigning the family to a unit. Owners should review family size and occupancy standards prior to completing required verifications so, if the property cannot accommodate the family, the owner may immediately inform the family of its ineligibility. Additionally, owners also compare family composition to occupancy standards when there is a change in family size. Owners should use the occupancy standards established for the property to determine whether the unit is still the appropriate size for the tenant.

Condition: Tests of seventy-five tenant files noted that the assigned unit for the following does not appear reasonable based on the size of the household/family:

Unit No.	Period Tested	Form HUD 50059 Effective Date	Unit Size	No. of Household	HAP Amount Per General Ledger	HAP Amount Expected	Variance
K14	01/01/12	01/01/12	5	3	\$ 1,017	\$ 1,005	\$ 12
K20	02/01/12	11/01/11	5	3	\$ 906	\$ 751	155
T01	11/01/11	08/01/11	3	2	\$ 1,032	\$ 940	92
T05	09/01/12	08/01/12	4	3	\$ 1,020	\$ 880	140
T12	01/01/12	08/01/11	3	2	\$ 1,051	\$ 959	92
T14	09/01/12	09/01/12	3	1	\$ 1,051	\$ 1,001	50
Total							541
Less costs already questioned in previous Finding Nos. 2012-05 and 2012-09							(152)
Questioned costs this finding							\$ 389

Justification for the larger unit size assigned was not noted in file.

Cause: The cause of the above condition is the lack of adequate monitoring procedures to document that all units assigned to tenants are in accordance with established occupancy standards.

Effect: The effect of the above condition is noncompliance with program eligibility requirements and questioned costs of \$389 since the projected cost is greater than \$10,000.

Recommendation: We recommend that NMHC strictly adhere to established program occupancy standards.

Prior Year Status: The lack of adequate monitoring procedures to document that units assigned are in accordance with established occupancy standards was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Frances Diaz, NMHC Tinian Representative, Melinda Babauta, Housing Specialist and Barrie Toves, NMHC Rota Representative

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-10, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Eligibility
Questioned Costs: \$389

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: NMHC will conduct formal staff training and impose appropriate disciplinary action against responsible employees (i.e. reprimand, suspension, etc.).

Proposed Completion Date: Recommendations shall be implemented at the earliest possible time.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-11
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$24,996

Criteria: To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirement, among others:

- Applicants must disclose social security numbers (SSN) for all family members at least six years of age and older and provide documentation of SSNs. Adequate documentation means a social security card issued by the Social Security Administration or other acceptable evidence of the SSN.
- Only U.S. citizens or eligible noncitizens may receive assistance under Section 8 programs. All family members, regardless of age, must declare their citizenship or immigration status. Owners must obtain proof of citizenship. NMHC’s policy is to require all family members to complete and sign a *Declaration of Section 214 Status* form and obtain copies of birth certificates or other acceptable evidence of citizenship and include such in file.

Condition: Tests of seventy-five tenant files noted the following:

1. For four tenants or 5%, verification of citizenship status of household members indicated in Form HUD 50059 noted one or more of the following: (1) inconsistencies in names, birthdates, etc. to supporting documentation (i.e., birth certificate, ID, etc.); and (2) court order of name change not adhered to.

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household Member No.</u>	<u>Inconsistent Information</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
R01	05/05/11	3	Last name	\$ 933 x 8	\$ 7,464
R28	09/01/11	3	Birth dates	\$ 1,007 x 12	12,084
T05	08/01/12	3	Birth date	\$ 1,020 x 2	2,040
K16	08/01/12	4	Last name	\$ 734 x 2	<u>1,468</u>
Total					23,056
Less costs already questioned in previous Finding No. 2012-09					<u>(2,040)</u>
Questioned costs this finding					\$ <u>21,016</u>

2. For two tenants or 3%, a copy of the social security card (or other acceptable evidence of the SSN) for the following household members could not be located in file. No questioned costs result as the amount was previously questioned at 2012-05 and we were able to verify citizenship through birth certificate for T14.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member No.</u>
R27	04/01/12	04/01/12	2
T14	09/01/12	09/01/12	1

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-11, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$24,996

Condition, Continued:

3. For two tenants or 3%, the completed and signed *Declaration of Section 214 Status* form for the following household members either could not be located or was signed after the effective date of certification:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household Member No.</u>	<u>HAP Amount Per General Ledger</u>	<u>Total Questioned Costs</u>
R28	09/01/11	5	\$ 1,007 x 12	\$ 12,084
R30	05/01/12	4	\$ 796 x 5	<u>3,980</u>
			Total	16,064
			Less costs already questioned in Condition 1	<u>(12,084)</u>
				<u>\$ 3,980</u>

Cause: The cause of the above condition is the lack of systematic filing of relevant documentation supporting citizenship.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$24,996.

Recommendation: We recommend NMHC file relevant documentation supporting citizenship.

Prior Year Status: The lack of systematic filing of relevant documentation supporting citizenship was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Melinda Babauta, Housing Specialist and Barrie Toves, NMHC Rota Representative

Corrective Action: NMHC will have affected families immediately resolve these ID issues. Failure to correct these deficiencies shall result in the removal of the affected household member or the termination of the entire family's continued assistance. NMHC will also conduct formal staff training. If the error is PHA-caused, NMHC shall impose appropriate disciplinary action against responsible employees (i.e. reprimand, suspension, etc.).

Proposed Completion Date: Corrective actions shall be implemented immediately and errors will be corrected by May 1, 2013.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-12
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$11,469

Criteria: Owners must develop a method to maintain documentation of the waiting list composition, application status, and actions taken. Further, owners should periodically analyze their waiting list policies and documentation procedures to determine whether an independent party reviewing the list and its supporting documentation could follow the actions taken, applicable preferences, and reasons why certain individuals may have been selected ahead of others on the waiting list. If not, the owner must make the waiting list format and associated practices more transparent.

Condition: Tests of seventy-five tenant files noted that records of the waiting list from which these tenants were selected were not in the tenant’s file for one new admission or 1%. We are unable to determine if selection of these tenants were in accordance with NMHC’s admission policies in its administrative plan.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Form HUD 50059 Effective Date</u>	<u>Admission Date</u>	<u>HAP Amount Per General Ledger</u>	<u>Variance</u>
T12	01/01/12	08/01/11	02/01/11	\$ 1,051 x 11	\$ 11,561
				Less costs already questioned in Finding No. 2012-10	<u>(92)</u>
				Questioned costs this finding	\$ <u>11,469</u>

Cause: The cause of the above condition is the lack of established policies and procedures in maintaining documentation of the waiting list.

Effect: The effect of the above condition is noncompliance with waiting list management compliance requirements and questioned costs of \$11,469.

Recommendation: We recommend NMHC maintain a record of waiting list on a periodic basis and file this information in the tenant file and/or in a central waiting list selection file.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Frances Diaz, NMHC Tinian Representative and Barrie Toves, NMHC Rota Representative

Corrective Action: Field Office Representatives must locate these missing documents and place them into the tenants’ files. If the documents are in fact missing, then they should be easily located in the offices unless documents were not processed or completed.

Proposed Completion Date: Field Office Representatives must immediately exert all efforts in locating these missing documents. If documents were not signed by the tenants during the selection and admission process, then they must be called back in and instructed to sign these required documents at the earliest possible time. Tenants’ refusal to comply will result in consequences including termination of continued assistance.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-13
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: The Form HUD 50059 must be submitted electronically to HUD each time the Public Housing Agency (PHA) completes an admission, annual reexamination, interim reexamination, move-in, or other change of unit for a family, among others. The signed Form HUD 50059 should be filed in the tenant file. Additionally, information reported in Form HUD 50059 must be consistent with underlying records or supporting documentation.

The owner must sign and obtain the signature of the head, spouse, co-head, and all adult family members on the copy of the Form HUD 50059 certifying to the information that is transmitted to HUD or the Contract Administrator, whether the Form HUD 50059 was produced on site or received from a service provider. The signed Form HUD 50059 should be filed in the tenant file. In all cases, the computer generated Form HUD 50059 must include the required tenant signatures and owner signatures prior to submitting the data to the Contract Administrator or HUD. The owner may consider extenuating circumstances when an adult family member is not available to sign the Form HUD 50059; for example, an adult serving in the military, students away at college, adults who are hospitalized for an extended period of time, or a family member who is permanently confined to a nursing home or hospital. The owner must document in the file why the signature(s) was not obtained and, if applicable, when the signature(s) will be obtained.

Condition: Tests of Form HUD 50059 for seventy-five tenants noted the following:

1. For *Section C. Household Information* of Form HUD 50059, the household member's name did not agree to the name reflected on the social security card for one tenant or 1%:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household No.</u>	<u>Inconsistent Information</u>
R15	07/01/12	1	Last name

2. For *Section C. Household Information* of Form HUD 50059, the household member's name did not agree to the name reflected on the birth certificate due to a spelling error for one tenant or 1%:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household No.</u>	<u>Inconsistent Information</u>
R01	05/05/11	3	Last name

3. Copies of Form HUD 50059 effective for the period examined for eleven tenants or 15% were not signed by NMHC.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-13, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Reporting
 Questioned Costs: \$-0-

Condition, Continued:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>
R01	05/05/11
R05	03/06/12
R11	02/03/12
R15	02/01/12
R17	11/18/11
R19	11/29/11
R23	07/01/12
R24	11/01/11
R27	04/01/12
R28	09/01/11
R30	05/01/12

4. The Form HUD 50059 for one tenant or 1% for fiscal year 2012 could not be located in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP Requested Per Form HUD 52670</u>
R15	07/01/12	\$ 1,071

Cause: The cause of the above condition is an oversight by NMHC personnel when preparing Form HUD 50059.

Effect: The effect of the above condition is noncompliance with program reporting requirements. No questioned costs result for Conditions 1, 2 and 3 since errors were due to lack of oversight by NMHC personnel when preparing Form HUD 50059. No questioned costs result for Condition 4 as the amount was previously questioned at Finding No. 2012-09.

Recommendation: We recommend that program reporting requirements be adhered to. Further, we recommend that a signed final copy of the Form HUD 50059 be on file.

Prior Year Status: The lack of oversight by NMHC personnel when preparing Form HUD 50059 was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Frances Diaz, NMHC Tinian Representative and Barrie Toves, NMHC Rota Representative

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-13, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: Field Office Representatives must locate these missing documents and place them into the tenants' files. If the documents are, in fact, missing, then they should be easily located in the offices unless documents were not processed or completed. As for identity issues, the burden falls with the families. Families must immediately be instructed to correct these ID errors and be informed that failure to comply will result in consequences leading up to termination of continued assistance.

Proposed Completion Date: Field Office Representatives must immediately exert all efforts in locating these missing documents. If documents were not signed by the tenants during the selection and admission process, then they must be called back in and instructed to sign these required documents at the earliest possible time. Tenants' refusal to comply will result in consequences including termination of continued assistance. Personnel must monitor and follow through with tenants who are not in compliance. While it is difficult to determine the completion date since it involves the SSA and countries of origin for most of these families for birth certificate amendments, NMHC should establish a timeline of two months for admission into the program.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-14
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Special Tests and Provisions
 Questioned Costs: \$390

Criteria: Utility reimbursements are designed to assist tenants in paying their monthly utility bills to avoid disconnection.

Condition: During our test of cash management of utility reimbursements aggregating \$5,757, we noted eight tenants or 11% whose utility payments were reduced due to tenant's outstanding debt with NMHC. The reduced payments were not approved by the grantor agency.

<u>Unit No.</u>	<u>Required Utility Reimbursement</u>	<u>Amount Reimbursed to Tenant</u>	<u>Questioned Costs</u>
K10	\$ 135	\$ -	\$ 135
R05	\$ 99	\$ -	99
R17	\$ 112	\$ 62	50
R19	\$ 85	\$ 35	50
R23	\$ 59	\$ 49	10
R24	\$ 99	\$ 74	25
R28	\$ 99	\$ 49	50
T19	\$ 96	\$ -	<u>96</u>
		Total	515
	Less costs already questioned in Finding Nos. 2012-09 and 2012-11		<u>(125)</u>
		Questioned costs this finding	\$ <u>390</u>

Cause: The cause of the above condition is the failure to obtain prior grantor approval for reducing such tenant's utility payments.

Effect: The effect of the above condition is potential noncompliance with applicable regulations and questioned costs of \$515 since the projected cost is greater than \$10,000.

Recommendation: We recommend that NMHC obtain prior grantor approval before implementing a reduction to tenant's utility payments.

Prior Year Status: The failure to obtain prior grantor approval for reducing such tenant's utility payments was reported as a finding in the Single Audit of NMHC for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager and Melinda Babauta, Housing Specialist

Corrective Action: NMHC will immediately cease and desist from the practice of reducing tenant utility payments based on the tenant's outstanding debt with NMHC.

Proposed Completion Date: Recommended corrective action was implemented in August 2012.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-15
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Special Tests and Provisions
 Questioned Costs: \$9,351

Criteria: The PHA or owner must provide housing that is decent, safe, and sanitary. To achieve this end, the PHA must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to assure that the units are decent, safe, and sanitary (24 CFR sections 880.612, 881.601, 882.516, 882,808(n), 883.701, 884.217, 886.123 and 886,323). Owners must document these inspections, as well as actions taken to address deficiencies, if any, noted during inspections.

Condition: Tests of NMHC's compliance with the housing quality standards requirements for seventy-five tenants noted the following:

1. The housing quality inspections performed during fiscal year 2012 were not conducted within twelve months from the previous housing quality inspections for the following. No questioned costs result since this is a timing issue.

<u>Unit No.</u>	<u>Inspections Performed During FY 2012</u>	<u>Prior Inspection Date</u>
K03	December 2011	October 2010
K20	August 2012	July 2011
T05	July 2012	June 2011
T19	April 2012	January 2011

2. The NMHC inspector reports for the following indicated deficiencies; however, relevant documentation indicating whether the deficiencies were addressed and/or whether needed repairs were timely completed could not be located in file:

<u>Unit No.</u>	<u>Date of Inspection</u>	<u>Overall Inspection Results</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
K03	December 2011	fail	01/01/12	\$1,039 x 9	\$ 9,351

3. There was no prior year inspection report in the tenant's file and we could not determine if the current year inspection report was performed within twelve months for the following. No questioned costs result since the inspection was performed during the year.

<u>Unit No.</u>	<u>Date of Inspection</u>	<u>Overall Inspection Results</u>
R01	April 2012	pass
R15	January 2012	pass
R23	June 2012	pass
R24	October 2011	not indicated
R27	March 2012	pass

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-15, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Special Tests and Provisions
 Questioned Costs: \$9,351

Condition, Continued:

4. The inspector did not indicate overall housing quality inspection results in the inspection form. We are unable to determine if NMHC complied with the housing quality standards, whether any needed repairs are required and whether actions were taken by NMHC to address such for the following:

<u>Unit No.</u>	<u>Date of Inspection</u>	<u>Type of Inspection</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
R11	February 2012	Move-in	02/03/12	\$826 x 8	\$ 6,608
R17	November 2011	Move-in	11/18/11	\$1,071 x 1	1,071
R24	October 2011	Annual	11/01/11	\$1,007 x 1	<u>1,007</u>
					8,686
Less costs already questioned at Finding Nos. 2012-08 and 2012-09					<u>(8,686)</u>
					\$ _____

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to unit inspections and lack of monitoring procedures being performed.

Effect: The effect of the above condition is noncompliance with housing quality standards requirements and questioned costs of \$9,351 resulting from Condition 2.

Recommendation: We recommend adherence to existing policies and procedures relating to unit inspections. Additionally, we recommend that housing quality inspection procedures performed, as well as actions taken to address deficiencies noted during inspections, be documented in file.

Prior Year Status: The lack of adherence to established policies and procedures relating to unit inspections was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Frances Diaz, NMHC Tinian Representative, Melinda Babauta, Housing Specialist, Barrie Toves, NMHC Rota Representative, Herman Lieto, Housing Preservation Technician II and Carlos Pua, Housing Preservation Technician II

Corrective Action:

Condition 1: Responsible NMHC staff shall ensure that annual inspections and re-inspections (if applicable) are performed within the prescribed periods. NMHC shall improve its quality assurance and quality control of tenant files.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-15, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Special Tests and Provisions
Questioned Costs: \$9,351

Condition 2: Responsible NMHC staff shall ensure that work orders documenting repairs to units found with inspection deficiencies during annual inspections are properly completed and placed in tenant files.

Condition 3: Responsible NMHC staff shall ensure that completed annual inspection and re-inspection (if applicable) reports are properly placed in tenant files.

Condition 4: 1) Quality Assurance and Quality Control; 2) Formal Staff Training

Proposed Completion Dates:

Condition 1: Ongoing

Condition 2: Ongoing

Condition 3: Ongoing

Condition 4: 1) Ongoing; 2) NMHC's Rota Field Office Representative is leaving at the end of the month to undergo formal REAC/UPCS training and to take a certification exam. Similarly, the two Building Preservation Technicians ("Inspectors") are scheduled to undergo the same formal training and take the same exam sometimes next year.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-16
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Special Tests and Provisions
 Questioned Costs: \$-0-

Criteria: In accordance with federal regulations, the initial renewal rent applicable to NMHC projects is determined at the lesser of (a) the annual adjusted rent potential of expiring contracts and (b) the Section 8 contract rent potential from the budget-based rent determination.

Condition: The budgets reported by NMHC in the budget worksheet attached to the contract renewal request forms for the projects below appear to be higher compared to the historical results of NMHC's actual expenditures from prior fiscal years and are inconsistent with established budgets for the related fiscal year.

Project No.	NMHC's Certification Date	Budget Reported in the Contract Renewal Request Form	Per NMHC's Budget Schedule for Fiscal Year 2012	Average Actual Expenditures (from Fiscal Years 2009 thru 2011)	Total Rent Approved by Grantor	Excess of Approved Rent over Average Actual Expenditures	Estimated Project Occupancy Rate during Fiscal Year 2012	Estimated Variance
TQ100016004	06/22/12	\$ 200,080	\$ 348,012	\$ 324,002	\$ 350,460	\$ 26,458	90.92%	\$ 24,056
TQ100011001	06/22/12	\$ 150,593	\$ 233,148	\$ 222,476	\$ 235,656	\$ 13,180	87.10%	11,480
TQ100006004	06/22/12	\$ 231,056	\$ 111,000	\$ 117,999	\$ 331,560	\$ 213,561	51.98%	111,009
								\$ 146,545

Estimated project occupancy rate during fiscal year 2012 represents the percentage of actual housing assistance payments (excluding utility reimbursements) over total contract rent approved by the grantor. No questioned cost is reported as total rent was approved by HUD.

Cause: The cause of the above condition is the lack of established policies and procedures in determining reasonableness of budgets reported.

Effect: The effect of the above condition is the incorrect determination of contract rents.

Recommendation: We recommend NMHC ascertain that reported budgets are reviewed for reasonableness.

Prior Year Status: The lack of established policies and procedures in determining reasonableness of budgets reported was reported as a finding in the Single Audit of NMHC for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager and Roger A. Dris, Chief Accountant

Corrective Action: NMHC will develop stronger lines of communication and information-sharing between the Program and Housing and Accounting Divisions. The Accounting Division must also intensify its expense monitoring efforts.

Proposed Completion Date: June 1, 2013.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-17
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: In accordance with federal regulations under Contract Rent Adjustments for Option Four *Renewal of Projects Exempted from OAHF* (Office of Affordable Housing Preservation), the owner submits at least 120 days before contract expiration the following: 1) Contract Renewal Request Form and Office of Affordable Operating Cost Adjustment Factor (OCAF) Worksheet; and 2) budget, which includes a budget and rent schedule.

Condition: During fiscal year 2012, the owner submitted the contract renewal request form for the Mihaville project on June 22, 2012 or 70 days before its expiration date of August 31, 2012. Projects for Koblerville, Tinian and Rota were submitted on June 22, 2012, or 39 days before its expiration of July 31, 2012.

Cause: The cause of the above condition is the failure to adhere to applicable regulations regarding contract renewal deadlines.

Effect: The effect of the above condition is noncompliance with federal regulations. No questioned costs result because the contract renewal forms were approved by the federal grantor agency.

Recommendation: We recommend that NMHC implement monitoring procedures to ascertain that contract renewal forms are submitted timely.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Melinda Babauta, Housing Specialist II and and Roger Dris, Chief Accountant

Corrective Action: NMHC shall timely submit its contract renewals in accordance with HUD prescribed requirements and set deadlines.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-18
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001, B-09ST-69-0001, B-10ST-69-0001 and B-11ST-69-0001
Area: Davis-Bacon Act
Questioned Costs: \$-0-

Criteria: NMHC includes requirements of the Davis-Bacon Act in contractor and subcontractor construction contracts and discusses Davis-Bacon Act requirements in pre-construction conferences. Further, certified payroll reports are required to be submitted and interviews with contractor workers at the job sites are required to be performed.

Condition: Of forty-four disbursements tested totaling \$412,355 of a total population of \$473,862, we noted the following:

1. For eight disbursements (or 18%), although the Invitation-to-Bid and pre-construction conference stated that the project was subject to compliance with the Davis-Bacon Act and the Labor Standards Provisions for Wage Rate Determination of the Commonwealth, the contract itself did not include a clause with compliance with Davis-Bacon Act requirements.

<u>Check Number</u>	<u>Contract Number</u>
11858	NMHC-2011-009
11858	NMHC-2011-009
11456	NMHC-2011-003
11566	NMHC-2011-003
11572	NMHC-2011-003
11555	NMHC-2011-009
12909	NMHC-2011-009
12188	NMHC-2011-009

2. For four disbursements (or 9%), records of contractor employee interviews were not available to substantiate that the required interviews occurred.

<u>Check Number</u>	<u>Contract Number</u>
11456	NMHC-2011-003
11566	NMHC-2011-003
11572	NMHC-2011-003
11525	NMHC-2011-006

Cause: The cause of the above condition is lack of evidence of compliance with Davis-Bacon Act requirements.

Effect: The effect of the above condition is noncompliance with Davis-Bacon Act requirements. No questioned costs result as payroll was paid under prevailing wage rates based on our tests of certified payroll reports.

Recommendation: We recommend NMHC document compliance with Davis-Bacon Act requirements.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-18, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose
Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001, B-09ST-69-0001, B-10ST-69-0001
and B-11ST-69-0001
Area: Davis-Bacon Act
Questioned Costs: \$-0-

Prior Year Status: The lack of evidence of compliance with Davis-Bacon Act requirements was reported as a finding in the Single Audit of NMHC for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jocelyn C. Seman, Office Manager/Procurement Officer

Corrective Action:

1. The Administration Department includes in the IFB, Pre-Bid Conference, Pre-Construction, agenda/minutes the discussion of Davis-Bacon and Related Act requirements but not in the contract itself. All correspondences/documents from IFB, Pre-Bid Conference, Pre-Construction, agenda/minutes are included with the contract. The Administration Department will include the following provision in all contracts "Compliance with Davis-Bacon and Related Act requirements. All rulings and interpretations of the Davis-Bacon and Related Acts contained in 29 CFR parts 1, 3 and 5 are herein incorporated by reference in this Contract" and adhere to federal regulations of Davis-Bacon Act requirements.
2. The Administration Department could not provide records of contractor's employee interview when it was under the former Technical Maintenance Coordinator. With the new Technical Maintenance Coordinator on board, the Administration Department will ensure that employee interviews are conducted as required and adhere to federal regulations of Davis-Bacon Act requirements.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-19
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001, B-09ST-69-0001, B-10ST-69-0001 and B-11ST-69-0001
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: Applicable equipment management requirements state that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

1. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property;
2. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;
3. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
4. Adequate maintenance procedures must be developed to keep property in good condition;
5. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return; and
6. The grantee must establish and implement property management controls over the transfer of properties to subrecipients.

Condition: NMHC does not maintain a listing of equipment purchased using federal funds. NMHC did not conduct a physical inventory in fiscal year 2011 and represented that physical counts of fixed assets were not conducted during fiscal year 2012; therefore, the required biannual physical inventory did not occur. Further, fixed asset listings of items funded through CDBG grants were not available. Total capital outlays, or expenses other than administrative expenses, incurred for the fiscal years ended September 30, 2012, 2011 and 2010 amounted to \$281,741, \$2,896,205 and \$27,000, respectively.

Cause: The cause of the above condition is the lack of adequate procedures to maintain and implement property management controls.

Effect: The effect of the above condition is a lack of compliance with applicable equipment management requirements. No questioned costs result due to our inability to assess the overall cumulative monetary value of the deficiencies above.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-19, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001, B-09ST-69-0001, B-10ST-69-0001 and B-11ST-69-0001
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Recommendation: We recommend that equipment maintenance controls over fixed assets be effectively established and implemented. We further recommend that equipment listings be maintained and updated and adequate procedures for equipment maintenance and safeguards against loss, damage or theft of equipment be implemented.

Prior Year Status: The lack of adequate equipment maintenance control procedures over fixed assets and failure to maintain equipment listings was reported as a finding in the Single Audits of NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zenie P. Mafnas, Planner/Grant Writer

Corrective Action: NMHC will continue to implement its equipment and real property management procedures. NMHC currently maintains a master listing of inventory funded by CDBG which have been transferred to the subrecipients. The master listing contains serial number, description of the inventory, location, owner, date of acquisition, the location and condition of the property and any disposal information (if applicable). The process regarding inventory account is as follows: 1) NMHC will conduct a physical inventory of the property at least once every two years and the results will be reconciled with the property records; 2) NMHC will maintain count sheets, which will indicate the date of the inventory count and all other pertinent information related to the inventory count. This particular corrective action was conveyed to HUD on January 18, 2013 and HUD closed the finding in its response to the CNMI dated January 25, 2013.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-20
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001, B-09ST-69-0001, B-10ST-69-0001 and B-11ST-69-0001
Area: Real Property Acquisition and Relocation Assistance
Questioned Costs: \$-0-

Criteria: The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, (URA) provides for uniform and equitable treatment of persons displaced by federally-assisted programs from their homes, businesses, or farms. Property acquired must be appraised by qualified independent appraisers. All appraisals must be examined by a review appraiser to ensure acceptability. After acceptance, the review appraiser certifies the recommended or approved value of the property for establishment of the offer of just compensation to the owner. Federal requirements govern the determination of payments for replacement housing assistance, rental assistance, and down payment assistance for individuals displaced by federally funded projects. Specifically for rental assistance payments, eligibility determination shall be performed prior to disbursement as follows:

- The displaced tenant occupied the displacement dwelling for at least 90 days immediately prior to initiation of negotiations;
- The displaced tenant rented, or purchased, and occupied a decent, safe, and sanitary replacement dwelling within one year;
- The non-Federal entity prepared written justification if the payment exceeded \$5,250; and
- The displaced tenant must qualify as low-income as defined by applicable federal regulations. Household income is defined as the total gross income received for a 12-month period from all sources (earned and unearned) including, but not limited to wages, salary, child support, alimony, unemployment benefits, workers compensation, social security, or the net income from a business, excluding income received or earned by dependent children and full-time students under 18 years of age. Applicable regulations require that the household income at the time the relocation is offered should be used for eligibility purposes.

In addition, a cost of comparable replacement dwelling must be determined to establish an upper limit of replacement housing or rental payment. A comparable replacement dwelling is defined as any dwelling that is (A) decent, safe, and sanitary; (B) adequate in size to accommodate the occupants; (C) within the financial means of the displaced person; (D) functionally equivalent; (E) in an area not subject to unreasonable adverse environmental conditions; and (F) in a location generally not less desirable than the location of the displaced person's dwelling with respect to public utilities, facilities, services, and the displaced person's place of employment. Form HUD 40061, *Selection of Most Representative Replacement Dwelling*, may be used for purposes of computing the replacement housing payment; otherwise, other reasonable documentation must be maintained.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-20, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area
 Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001, B-09ST-69-0001, B-10ST-69-0001 and B-11ST-69-0001
 Area: Real Property Acquisition and Relocation Assistance
 Questioned Costs: \$-0-

Condition: Of three disbursements tested totaling \$6,653 of a total population of \$18,050, NMHC did not use Form HUD 40061 for rental housing payments to two tenants of \$5,250 each (07-2011-01 and 07-2011-07), but used a comparison of rental rates of three comparable units to determine comparable replacement dwellings. Further, claim number 07-2011-06 used Form HUD 40061; however, the information was not completely filled out and the form was unsigned. Consideration of the above attributes A through F was not documented. Additionally, management approval of low-income determination was not documented. The total relocation costs incurred from these tenants amounted to \$6,653.

<u>Tenant</u>	<u>Real Property and Relocation Costs</u>	<u>Total</u>
1	\$ 664 x 2	\$ 1,328
2	\$ 1,750 + \$75	1,825
3	\$ 1,750 x 2	3,500
		<u>\$ 6,653</u>

No questioned costs are reported as the URA program has ceased and HUD forgave a similar finding in fiscal year 2011.

Cause: The cause of the above condition is failure to develop and establish procedures over real property acquisition and relocation assistance and lack of adequate planning.

Effect: The effect of the above condition is noncompliance with real property acquisition and relocation assistance.

Recommendation: We recommend NMHC develop and establish procedures for real property acquisition and relocation assistance.

Prior Year Status: The failure to develop and establish procedures over real property acquisition and relocation and lack of adequate planning was reported as a finding in the Single Audit of NMHC for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Zenie P. Mafnas, Planner/Grant Writer and Jacob Muna, Planning Assistant

Corrective Action: The CNMI established procedures for real property acquisition and relocation, which was forwarded to HUD on January 18, 2013. The Planning Division complied with real property and relocation guidelines and all households were eligible and qualified for the URA program. Being that it was the first time NMHC operated a URA program, there was frequent consultation with Mr. Mark Chandler, CPD Director. As such, HUD closed the finding in its letter to the CNMI dated January 25, 2013.

Proposed Completion Date: The particular URA payments have been made and the project has been completed. In case NMHC selects projects which involve URA payments, URA guidelines and requirements will be immediately adhered to.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-21
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose
Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001, B-09ST-69-0001, B-10ST-69-0001
and B-11ST-69-0001
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, for grants in excess of \$200,000 that involve housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons* (Form HUD 60002). When the program providing Section 3 assistance requires submission of an annual performance report, the HUD 60002 report will be submitted with the annual performance report.

Condition: The Form HUD 60002 and related evidence of submission for grant number NMHC-2011-003 was not provided.

Cause: The cause of the above condition is management's oversight of reporting requirements.

Effect: The effect of the above is noncompliance with grant reporting requirements.

Recommendation: We recommend NMHC adhere to grant reporting requirements.

Prior Year Status: Management's oversight of reporting requirements was reported as a finding in the Single Audit of NMHC for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jocelyn C. Seman, Officer Manager/Procurement Officer

Corrective Action: The Administration Department acknowledges oversight of reporting Form HUD 60002. The Administration Department will ensure that reporting requirements are reported as required and adhere to federal regulations in reporting Community Development Block Grants HUD 60002 requirements.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-22
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
 Area: Eligibility
 Questioned Costs: \$57,000

Criteria: NMHC shall refer to the *Technical Guide for Determining Income and Allowances for the HOME Program, Third Edition* in verifying household's assets and income. NMHC shall adopt the guide and make use of the Part 5 income and asset calculation worksheets including any forms required in determining an applicant's annual and adjusted income. Part 5 defines gross income as income of all adult household members that is anticipated to be received during the coming 12-month period. The income limits are adjusted by household size; therefore, determining size of the applicant household is an important step in determining eligibility. Once the applicant is determined to be eligible, the household gross income is adjusted to determine the interest rate for the requested loan. The adjusted income determines a borrower's interest rate and/or grant being requested. NMHC must verify all deductions claimed by the applicant to determine the level of federal assistance and/or interest rate.

In addition, NMHC must determine an applicant's credit worthiness and repayment ability. NMHC shall request and obtain a written credit report from a recognized credit bureau. Poor repayment of credit obligations shall be considered a credit risk and shall be a reason for denial of assistance. On a case by case basis, NMHC may reconsider the denial if the applicant has reestablished his/her credit standing and submits a letter justifying the delinquency. Finally, NMHC shall use forty percent (40%) of the household's gross monthly income to determine the amount of available debt-service or repayment ability. Any remaining debt-service or repayment ability after existing monthly obligations is subtracted from the total available debt service, which shall not exceed thirty percent (30%) of household gross monthly income, will be used to determine the applicant's repayment ability.

Condition: Tests of twenty-one loan files noted the following:

1. For one loan file (or 5%), the debt-to-income ratio exceeded the maximum allowed of 40%.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Balance</u>
439	HNC-2011-439-29	\$ 55,491
	Less costs already questioned in fiscal year 2011 audit	<u>(55,491)</u>
		\$ _____

2. For one loan file (or 5%), the potential income declared was not included in the household income determination on the eligibility review sheet. No questioned costs result as the potential income from assets declared would still be within the income limit.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
499	HR-2010-356-11	\$ 40,000

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-22, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Eligibility
Questioned Costs: \$57,000

Condition, Continued:

3. For one loan file (or 5%), the potential income from assets does not agree to the household income from assets per third party verifications in file. No questioned costs result as the potential income from assets would still be within the income limit.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
517	HP-2012-517	\$ 56,000

4. For one loan file (or 5%), the income eligibility verification was completed on 06/10/11; however, the third party written credit report was dated 11/23/10. No questioned costs result as the borrower has consistently been making monthly loan payments from February 2012 through September 2012.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
463	HR-2011-463	\$ 40,000

5. For one loan file (or 5%), the applicant had a prior delinquent loan which was referred to an attorney per the third party credit report and court order. Per examination of the loan account ledger report, the applicant has not been making the scheduled payments as stipulated in the court order. A loan write-up report for Board approval (dated July 13, 2011) indicated payments were being made on the prior loan when in fact the last payment had been made in September, 2010.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
496	HNC-2011-496	\$ 57,000

Cause: The cause of the above condition is the lack of adequate policies and procedures to determine that gross and adjusted income, household size, income deductions and repayment ability are properly calculated, verified and documented.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$57,000, which resulted from Condition 5.

Recommendation: We recommend NMHC evaluate its existing policies to determine that gross and adjusted income, household size, income deductions and repayment ability are properly calculated, verified and documented.

Prior Year Status: The lack of adequate policies and procedures to determine that gross and adjusted income, household size, income deductions and repayment ability are properly calculated, verified and documented was reported as a finding in the Single Audits of NMHC for fiscal years 2010 and 2011.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-22, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Eligibility
Questioned Costs: \$57,000

Auditee Response and Corrective Action Plan:

Name of Contact Person: Christopher B. Pangelinan, Mortgage & Credit Division Manager

Corrective Action:

Condition 1: This should not be considered as a finding for fiscal year 2012 since it was already considered a finding for fiscal year 2011 as Finding No. 2011-25 Condition 4.

Condition 5: As was indicated in the loan write-up for the Board's approval, the delinquent Wells Fargo loan account that the borrower had, was in fact, forwarded to an attorney for further collection efforts as it was stipulated by the court order for the borrower to make \$40 monthly payments. Payments were behind; however, a justification letter indicating the reason for the delinquency was received by us and filed accordingly. Clearly, as indicated on the updated payment ledger, the client was not and continues to not be making payments as required as well as an oversight in part by the Loan Specialist in reviewing the client's payment history. Nonetheless, the collection account was initially taken into consideration and supporting documentation was requested and received during the review process. Importantly, the \$40 monthly payment was factored into the monthly debt calculation resulting in a 15.88% debt-to-income ratio which is less than the 40% maximum threshold. Therefore, based on the technical and overall underwriting process, the client was deemed qualified and eligible for the HOME loan. Given the above argument, it can be concluded that although this may be a finding, it should not be considered a questioned cost.

The Loan Specialist will ensure that proper documentation is provided and/or obtained prior to loan closing as well as properly calculate, verify and document gross income, household size and repayment ability.

Proposed Completion Date: Currently in effect.

Auditor Response:

Condition 1: The loan has not been fully repaid as of September 30, 2012, thus, borrower is still receiving federal benefits during fiscal year 2012.

Condition 5: It was noted on the loan write-up report dated 07/13/11 that the borrower has been faithfully paying the account that was referred to the attorney for collection; however, the last payment made was on 09/16/10 per the loan account ledger report received by NMHC on 03/21/11 as well as an updated account ledger report received by NMHC on 12/19/11 and on 12/30/11. In addition, a most recent updated loan account ledger report received by NMHC on 05/24/13 reflects that the borrower is still delinquent. Additionally, the borrower is also delinquent with their HOME loan account. Per Section 3.11 of the HOME Policies and Procedures, poor repayment of credit obligations shall be considered a credit risk and shall be a reason for denial of assistance.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-23
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Eligibility
Questioned Costs: \$-0-

Criteria: NMHC must perform eligibility determination prior to providing HOME loan assistance. Specifically, the NMHC HOME Program Policies and Procedures state the following:

- NMHC uses a *Home Rehabilitation Loan Application* form and a *Uniform Residential Loan Application* form for rehabilitation loans and new construction loans, respectively. Loan application forms shall be completed and signed by applicants requesting assistance. Completed application forms must be submitted together with a checklist of necessary information and copies of required supporting documents.
- The responsible Loan Specialist shall review and/or verify the applicant's credit, income, assets and liabilities, documented in a *Review Eligibility Worksheet* form. If the applicant is deemed to have met all requirements based on the Loan Specialist's analysis, a Loan Review Conclusion Write-up is prepared for review and approval by the Loan Manager and Corporate Director. Final approval of any loan application request shall be made by the NMHC Board of Directors.
- Once the loan application is approved by the NMHC Board of Directors, the responsible Loan Specialist shall prepare the Commitment Letter for the Corporate Director's signature.
- All approved applicants must attend a counseling session that will be provided by NMHC. The counseling session must be scheduled after the NMHC Board of Directors has approved the requested loan amount and shall coincide with the day that NMHC issues a Commitment Letter to the applicant.
- Applicants approved to receive financial assistance for Home Rehabilitation must own the property and occupy the property as their principal residence at the time of application, immediately upon completion of the HOME-funded project, and throughout the NMHC affordability period. Proof of residency must be verified on an annual basis through an affidavit signed by the applicant(s). In addition, homeowners/applicants must submit copies of utility or telephone billing which reflect their names and addresses.
- In many instances, applicant(s) requesting assistance under this program live in substandard homes which are often unsafe and unsanitary. Many of which are termite infested and dilapidated to the point where a complete tearing down of the unit would be most appropriate. Reconstruction refers to rebuilding a structure on the same lot where housing is standing at the time of project commitment. HOME funds may be used to build a new foundation or repair an existing foundation. Reconstruction may take place on the same foundation that the existing structure is on. Reconstruction may take place anywhere on the lot. During reconstruction, the number of rooms per unit may change but the number of units may not.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-23, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
 Area: Eligibility
 Questioned Costs: \$-0-

Condition: Tests of twenty-one loan files noted the following:

1. For one loan file (or 5%), the loan conclusion was reviewed and concurred with by the Loan Manager and Corporate Director on 12/01/10; however, the loan agreement was completed and signed on 01/20/12. Further, the interest rate in the signed loan conclusion does not agree to the interest rate in the signed loan agreement due to an increase in the applicant's household income, thus, an increase in the loan interest rate. An updated loan conclusion write-up was not in file and the Board was not provided with an updated loan conclusion write-up for re-approval. No questioned costs result as the updated household income is within the income limit and the interest rate in the signed loan agreement is based on the updated household income.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
516	HNC-2012-516	\$ 30,000

2. For one loan file (or 5%), the loan conclusion was not reviewed and signed by the Loan Manager since he was either on leave or off-island as indicated in the loan conclusion; however, there is no documentation that the loan conclusion was reviewed and signed upon his return or by an authorized personnel in an acting capacity. No questioned costs result as the loan was reviewed and approved by the Board.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
475	HR-2011-475	\$ 40,000

3. For six loan files (or 29%), proof of principal residency at the time of application was not in file. No questioned costs result as applicants have fee simple title to the property as stated on the land title documents as well as pictures taken of the applicants' residence during the site visits gave indication that the structure was the applicants' primary residence.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Balance</u>
462	HR-2011-462	\$ 40,000
505	HR-2012-505	\$ 40,000
499	HR-2010-356-11	\$ 40,000
513	HR-2012-513	\$ 40,000
463	HR-2011-463	\$ 40,000
475	HR-2011-475	\$ 40,000

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-23, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

4. For two loan files (or 10%), documentation of annual re-certifications performed in fiscal year 2012 could not be provided. No questioned costs result as the annual re-certification was subsequently performed in fiscal year 2013.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Balance</u>
462	HR-2011-462	\$ 18,983
439	HNC-2011-439-29	\$ 55,491

5. For one loan file (or 5%), there were three separate complete structures and one incomplete structure used as living areas prior to the owner applying for Home Rehabilitation assistance. Home Rehabilitation assistance was used to reconstruct the incomplete structure and demolish one of the complete structures. Therefore, Home Rehabilitation assistance may have been used that changed the number of units. In addition, documentation that one of the complete structures was demolished is not evident. No questioned costs result; however, NMHC should obtain HUD concurrence that the potential change in units was justified.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
475	HR-2011-475	\$ 40,000

Cause: The cause of the above condition is the lack of adequate control procedures to adhere to the loan eligibility application, determination and approval process, verification of continued principal residency and use of loan funds.

Effect: The effect of the above condition is noncompliance with eligibility.

Recommendation: We recommend that control procedures be implemented to adhere to the HOME loan eligibility application, determination and approval process.

Prior Year Status: The lack of adequate control procedures to adhere to the loan eligibility application, determination and approval process was reported as a finding in the Single Audits of NMHC for fiscal years 2010 and 2011.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-23, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Christopher B. Pangelinan, Mortgage & Credit Division Manager

Corrective Action:

- Condition 1: Upon initial eligibility, the borrower was just a one household member; however, before the final eligibility was conducted, the borrower's household size increased to three, thereby increasing the reported household income. Hence, an updated eligibility review was conducted and based on that review, the assistance was extended to the borrower accordingly as specified in the HOME homebuyer regulations. Further, the HOME regulations did not specifically indicate that an updated loan conclusion or eligibility review be submitted for re-approval to the Board in this type of situation.
- Condition 2: The activity indicated in this section should not be a finding because the matter has already been addressed in the previous audit. The Loan Manager was off-island and did not delegate any authority within the division; however, the Loan Manager verbally recommends these applicants for Board approval. In the future, the Loan Manager will delegate authority within the division prior to leaving off-island.
- Condition 3: The HOME rehabilitation policy does not specifically indicate that with the initial submission of an application, a borrower must submit an affidavit of principal residency; however, Section 2.4 (E) of the HOME rehabilitation policy for principal residence states that applicants approved to receive financial assistance must own the property and occupy the property as their principal residence at the time of application, immediately upon completion of the HOME-funded project, and throughout the NMHC affordability period. Since the CMNI currently does not have street addresses, proof of residency must be verified on an annual basis through an affidavit signed by the applicant(s).
- Condition 4: Further verification of principal residency was performed by personally conducting visits and obtaining pictures of the homeowners' and their property.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-23, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Condition 5: For this loan file, IDIS 475, the Home Rehabilitation assistance was used solely to reconstruct the one (1) incomplete structure into a complete residential unit. Per the HOME Program Policies and Procedures for Homeowner Rehabilitation under Section 2.8, Subpart C, HOME funds may be used to build a new foundation or repair an existing foundation. Reconstruction may take place on the same foundation that the existing structure is on. Reconstruction may take place anywhere on the lot. During reconstruction, the number of rooms per unit may change but the number of units may not. Indeed, there were three (3) complete structures and one (1) incomplete structure prior to owner applying for HOME Rehabilitation assistance but out of the total four (4) structures, the HOME funds were used for the one (1) "incomplete structure" only as the assisted unit. Thus, reconstructing and changing the number of rooms but the unit itself did not change in number or multiply; rather, it changed into a one (1) complete residential unit. Furthermore, one (1) out of the three (3) complete structures was demolished after the completion of the new residential unit. The other two (2) remained standing but one (1) was converted into a storage unit and the other remained as an outdoor toilet unit.

A more detailed tracking sheet has been created to ensure that eligibility application and documentations are obtained so that a proper eligibility determination is conducted.

Proposed Completion Date: Currently in effect.

Auditor Response:

Condition 1: Final approval of any loan request shall be made by the Board. Since the applicant's household income and the loan interest rate differed from what was initially approved by the Board, an updated loan review conclusion write-up should be forwarded to the Board for re-approval.

Condition 2: Although this matter was reported in the audit for fiscal year 2011, the same loan number was selected for testing for fiscal year 2012. Accordingly, the same finding is repeated in the current year.

Condition 3: Per the HOME Program Policies and Procedures, homeowner/applicants must submit copies of utility or telephone billings which reflect their names and addresses. Copies of utility or telephone billings were not in file.

Condition 4: Affidavits signed by the applicants and copies of utility and telephone billings were not in file.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-24
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
 Area: Eligibility
 Questioned Costs: \$-0-

Criteria: The HOME program has income targeting requirements; therefore, NMHC must perform income eligibility determination prior to providing HOME loan assistance. NMHC must use verification methods that are acceptable to HUD. Verification must be made in writing, from a reliable third party, and such verification shall be considered for a period of 180 days from the date the verification was completed. Prior to verification, NMHC shall obtain written authorization from the applicant. For purposes of calculating income from assets (e.g. bank accounts), copies of bank statements for the last six (6) months for checking accounts and the most recent statement for savings accounts must be obtained as third party verification of assets. NMHC is responsible for determining if the verification documentation is adequate and credible. If a written third party verification is not used, notarized statements or signed affidavits by the applicant shall be an acceptable form of verification, but only in situations where a more acceptable form of verification cannot be obtained.

In addition, the Home Program permits income verification not more than six (6) months prior to receipt of assistance. NMHC is not required to re-examine the family's income at the time the HOME assistance is provided, unless more than six (6) months has elapsed since NMHC determined that the family qualified as income eligible.

Condition: Tests of twenty-one loan files noted the following:

1. For one loan file (or 5%), the income eligibility verification was completed on 06/20/11; however, a copy of the social security income statement was only updated through 10/24/10. Documentation that this document was further updated during the eligibility review is not evident. No questioned costs result as the potential income from social security would still be within the income limit.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
505	HR-2012-505	\$ 40,000

2. For two loan files (or 10%), the home eligibility release forms were not updated. No questioned costs result as the applicants' household income were within the income limit.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
475	HR-2011-475	\$ 40,000
499	HR-2010-356-11	\$ 40,000

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-24, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

3. For one loan file (or 5%), the updated use of funds certification form was not signed by the co-applicant. No questioned costs result as the initial use of funds certification form was signed by the applicant during the initial application process.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
499	HR-2010-356-11	\$ 40,000

4. For one loan file (or 5%), the home eligibility release form and the statement of unemployment were not signed by one adult household member (member #3). No questioned costs result as the adult household member was a student and unemployed at the time of application as declared by the applicant on the loan application form.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
506	HNC-2012-506	\$ 57,000

5. For ten loan files (or 48%), HOME assistance was provided (i.e. loan agreement signature date) after six months from the date of eligibility review and determination. No questioned costs result as the applicants' household income were within the income limit.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date Eligibility Review was Performed</u>	<u>Loan Agreement Date</u>	<u>No. of Months Lapsed</u>
495	HNC-2011-460	\$ 54,400	07/07/11	01/27/12	7
500	HNC-2012-500	\$ 54,400	07/08/11	03/27/12	9
519	HP-2012-519	\$ 57,000	07/14/11	04/04/12	9
505	HR-2012-505	\$ 40,000	06/20/11	02/17/12	8
517	HP-2012-517	\$ 56,000	06/20/11	02/17/12	8
529	HNC-2012-529	\$ 47,830	07/14/11	06/05/12	11
506	HNC-2012-506	\$ 57,000	06/20/11	01/17/12	7
513	HR-2012-513	\$ 40,000	06/20/11	02/17/12	8
439	HNC-2011-439-29	\$ 57,000	07/11/10	03/14/11	8
524	HR-2012-524	\$ 57,000	02/17/11	05/30/12	16

Cause: The cause of the above condition is the lack of adequate control procedures to obtain, update and file third party verifications and failure to timely complete income eligibility determination.

Effect: The effect of the above condition is noncompliance with eligibility requirements.

Recommendation: We recommend that control procedures be strengthened to obtain, file and timely complete HOME income eligibility determinations and third party verifications.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-24, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Eligibility
Questioned Costs: \$-0-

Prior Year Status: The lack of adequate control procedures to obtain, update and file third party verifications and failure to timely complete income eligibility determination was reported as a finding in the Single Audits of NMHC for fiscal years 2011 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Christopher B. Pangelinan, Mortgage & Credit Division Manager

Corrective Action:

- Condition 1: We have reviewed the client's file and have determined that this is a finding. There is nothing in the client file of an updated social security income statement after the 10/24/10 statement date and prior to the eligibility verification on 06/20/11.
- Condition 2: For both activities, an updated eligibility form was in fact not updated. This was an oversight by the Loan Specialist.
- Condition 3: The co-applicant did not sign the document.
- Condition 4: This was an oversight by the Loan Officer as an updated Home Eligibility Release form was filed on 08/08/11; however, adult household member #3 turned 18 on the same month (08/01/11) and did not sign the form as well.
- Condition 5: Several factors which prevented the Loan Officers from extending the assistance sooner included, but was not limited to, defects in property descriptions that needed to be verified and clarified for accuracy, subdivision of the property, submission of title and appraisal reports (purchase loans only), clients not being able to identify a property to purchase, environmental assessment issues and contractors not submitting required construction documents on time.

The Mortgage Division has created a detailed tracking sheet for eligibility documentation purposes, which will enable Loan Specialists to strengthen their control procedures as far as eligibility determination is concerned.

Proposed Completion Date: Currently in effect.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-25
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
 Area: Program Income
 Questioned Costs: \$-0-

Criteria: An effective system of internal control includes timely reporting, use and monitoring of program income and an independent review of program income reported.

Condition: Tests of program income noted NMHC does not have established policies and procedures over reporting, use and monitoring program income. Specifically, instances of late reporting of program income to the Integrated Disbursement and Information System (IDIS) were noted as follows:

<u>Reference Number</u>	<u>Amount</u>	<u>Month Collected</u>	<u>Date Reported to IDIS</u>
5059826	\$ 11,472	October 2011	12/06/11

Further, review and approval by a person independent of the Fiscal Division (Loan Manager or Corporate Director) for the following program income is not evident:

<u>Receive Date</u>	<u>Reference Number</u>	<u>Amount</u>
10/03/11	18269	\$ 1,365
12/28/11	19105	\$ 1,170
01/26/12	19438	\$ 5,547
02/21/12	HL-207	\$ 300
03/09/12	PIHL-32	\$ 44,245
03/07/12	MT	\$ 639
04/20/12	20501	\$ 1,557
05/03/12	20713	\$ 1,277

Cause: The cause of the above condition is failure to establish policies and procedures and oversight over program income at the start of the fiscal year. It appears corrective action occurred after May 2012.

Effect: The effect of the above condition is potential incorrect reporting and use of program income funds. No questioned costs result as there are no remaining program income funds as of September 30, 2012.

Recommendation: NMHC should continue to implement appropriate policies and procedures established in latter FY 2012 to timely report, use and monitor program income funds.

Prior Year Status: The lack of adequate policies and procedures to timely report, use and monitor program income funds was reported as a finding in the Single Audit of NMHC for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-25, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Program Income
Questioned Costs: \$-0-

Corrective Action: NMHC established and implemented the timely reporting into IDIS before the 15th of the following month in reference to the HOME program income reported from the previous month. The Fiscal Division Accountant II is responsible in monitoring the HOME program income and is being reviewed and verified by the Chief Accountant and concurred by the Corporate Director.

Proposed Completion Date: Implemented in the middle part of fiscal year 2012, fully monitored and implemented in the current fiscal year 2013.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-26
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, for grants in excess of \$200,000 that involve housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons* (Form HUD 60002). When the program providing Section 3 assistance requires submission of an annual performance report, the HUD 60002 report will be submitted with the annual performance report.

Condition: The Form HUD 60002 and related evidence of submission for fiscal year 2012 was not provided.

Cause: The cause of the above condition is management's oversight of reporting requirements.

Effect: The effect of the above is noncompliance with grant reporting requirements.

Recommendation: We recommend NMHC adhere to grant reporting requirements.

Prior Year Status: Lack of monitoring of grant reporting requirements was reported as a finding in the Single Audit of NMHC for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jocelyn C. Seman, Office Manager/Procurement Officer and Christopher B. Pangelinan, Mortgage & Credit Division Manager

Corrective Action: The Administration Department acknowledges oversight of reporting HUD 60002. The Administration Department will ensure that reporting requirements are reported as required and adhere to federal regulations in reporting HOME Investment Partnerships Program HUD 60002 requirements.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-27
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: An effective system of internal control includes timely recording and monitoring of deferred loans.

Condition: Beginning in fiscal year 2006, NMHC established general ledger loan receivable accounts for HOME loans under a deferment agreement. Prior to fiscal year 2006, NMHC did not establish such accounts. At September 30, 2012, NMHC is in the process of determining the cumulative amount of loans under deferment agreements prior to fiscal year 2006.

Cause: The cause of the above condition is that NMHC understood that loans under deferment agreements should not be recorded since repayment of these deferred loans is not expected.

Effect: The effect of the above condition is the possibility that loans under deferment agreements are not properly accounted for and presented in the financial reports.

Recommendation: We recommend NMHC determine with the grantor agency whether NMHC should be recording deferred HOME loans receivable and monitoring HOME loans under deferment agreements.

Prior Year Status: Lack of monitoring of loans under deferment agreements was reported as a finding in the Single Audits of NMHC for fiscal years 2010 and 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC has taken reasonable steps to record and monitor deferred HOME loans receivable by recording such loans at the end of each month. The responsible Loan Accountant will reconcile with the Loan Specialist.

Proposed Completion Date: Currently in effect.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-28
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: Under NMHC's policies and procedures for Homeowner Rehabilitation, HOME loan applicants that have been determined to be eligible for financial assistance and have proven lack of financial resources for repayment of their direct loan may have their monthly loan payments deferred for a period up to fifteen years. Further, borrowers with a deferment agreement shall be required to be annually re-certified as eligible to continue receiving a deferment during any potential deferment period.

Condition: Of seventeen items tested totaling \$597,935 of a total population of \$2,807,125 deferred loans receivable as of September 30, 2012, documentation of annual re-certifications performed in fiscal year 2012 could not be provided for nine items as follows:

<u>Loan No.</u>	<u>Loan Principal</u>
DHL-241	\$ 30,000
DHL-249	\$ 60,358
DHNC-385	\$ 57,000
DHNC-460	\$ 56,000
DHP-428	\$ 57,000
DHR-359	\$ 40,000
DHR-368	\$ 20,000
DHR-461	\$ 20,000
PHL-42	\$ 26,535

Cause: The cause of the above condition is an oversight by NMHC management in complying with established policies and procedures for Homeowner Rehabilitation.

Effect: The effect of the above condition is noncompliance with established policies and procedures for Homeowner Rehabilitation.

Recommendation: We recommend NMHC management perform annual recertifications of borrowers with deferment agreements.

Prior Year Status: Failure to perform annual re-certifications of borrowers with deferment agreements was reported as a finding in the Single Audit of NMHC for fiscal years 2010 and 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Christopher B. Pangelinan, Mortgage & Credit Division Manager

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-28, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-07-ST-690203, M-08-ST-690203, M-09-ST-690203, M-10-ST-690203 and M-11-ST-69023
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

DHL-241 Pending status due to finalization of probate (borrower is deceased). Field visit was conducted to ensure that the property is not abandoned.
DHL-249 Field visits were conducted; however documents are pending from the borrower.
DHNC-385 Field visits were conducted; however documents are pending from the borrower.
DHNC-460 Field visits were conducted; however documents are pending from the borrower.
DHP-428 Field visits were conducted; however documents are pending from the borrower.
DHR-359 Field visits were conducted; however documents are pending from the borrower.
DHR-368 Field visits were conducted; however documents are pending from the borrower.
DHR-461 Field visits were conducted; however documents are pending from the borrower.
PIHL-42 Field visits were not in file (Tinian client).

NMHC has been actively conducting annual re-certification for deferment agreements by conducting field visits that include pictures of homes, obtaining signatures and other applicable documents from the respective borrower. In addition to the initial field visit being conducted, we have implemented an official notification letter to remind clients of the annual re-certification and provide a sample affidavit (requiring notary) to affirm that the property is serving as their primary residence.

The Mortgage Division has created a monthly tracking sheet of all HOME deferred and direct loans to ensure proper annual recertification is conducted.

Proposed Completion Date: Currently in effect.

Auditor Response: Documentation of re-certifications performed in FY 2012 was not provided.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-29
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.254 ARRA - Community Development Block Grants/Special Purpose Grants/Insular Areas
Federal Award No.: B-09-SY-690001
Area: Davis-Bacon Act
Questioned Costs: \$-0-

Criteria: NMHC includes requirements of the Davis-Bacon Act in contractor and subcontractor construction contracts and discusses Davis-Bacon Act requirements in pre-construction conferences. Further, certified payroll reports are required to be submitted and interviews with contractor workers at the job sites are required to be performed.

Condition: Of twenty disbursements tested totaling \$531,736 of a total population of \$562,990, for three disbursements (or 15%), although the Invitation-to-Bid and pre-construction conference stated that the project was subject to compliance with the Davis-Bacon Act and the Labor Standards Provisions for Wage Rate Determination of the Commonwealth, the contract itself did not include a clause with compliance with the Davis-Bacon Act requirement.

<u>Check Number</u>	<u>Contract Number</u>
12944	NMHC 2012-R-003
13052	NMHC 2012-R-003
13095	NMHC 2012-R-003

Cause: The cause of the above condition is lack of evidence of compliance with Davis-Bacon Act requirements.

Effect: The effect of the above condition is noncompliance with Davis-Bacon Act requirements. No questioned costs result as payroll was paid under prevailing wage rates based on our tests of certified payroll reports.

Recommendation: We recommend NMHC document compliance with Davis-Bacon Act requirements and include a clause in the original contract to comply with Davis-Bacon Act requirements.

Prior Year Status: The lack of evidence of compliance with Davis-Bacon Act requirements was reported as a finding in the Single Audit of NMHC for fiscal year 2011.

Name of Contact Person: Jocelyn C. Seman, Office Manager/Procurement Officer

Corrective Action: The Administration Department includes in the IFB, Pre-Bid Conference, Pre-Construction, agenda/minutes the discussion of Davis-Bacon and Related Act requirements but not in the contract itself. All correspondences/documents from IFB, Pre-Bid Conference, Pre-Construction, agenda/minutes are included with the contract. The Administration Department will include the following provision in all contracts "Compliance with Davis-Bacon and Related Act requirements. All rulings and interpretations of the Davis-Bacon and Related Acts contained in 29 CFR parts 1, 3 and 5 are herein incorporated by reference in this Contract" and adhere to federal regulations of Davis-Bacon Act requirements.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-30
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$-0-

Criteria: Applicable regulations state that the PHA must pay monthly housing assistance payments (HAP) on behalf of the family that corresponds with the amount on line 12u of the Form HUD 50058, Family Report. This HAP amount must be reflected on the HAP contract and HAP register.

Condition: Of \$3,226,626 and \$370,504 rental and utilities expenses, respectively, twenty-six HAP rental disbursements totaling \$20,404 and six utilities disbursements totaling \$1,101 were tested. We noted that for two HAP disbursements (or 7%), the HAP amount per the general ledger did not agree with the amount per Form HUD 50058. No questioned costs result as the HAP disbursement per the general ledger is lower than the amount reported in Form HUD 50058.

<u>Period Tested</u>	<u>Household No.</u>	<u>HAP Amount Per General Ledger</u>	<u>HAP Amount Per Form HUD 50058</u>	<u>Variance</u>
01/04/12	HO1330	\$ 970	\$ 991	\$ 21
04/04/12	HO1026A	\$ 330	\$ 520	\$ 190

Cause: The cause of the above condition is weak controls to verify that HAP corresponds with the amount on line 12u of Form HUD 50058.

Effect: The effect of the above condition is the misstatement of HAP payments.

Recommendation: We recommend NMHC strengthen controls to verify that HAP corresponds with the amount on line 12u of Form HUD 50058.

Prior Year Status: Weak controls to verify that HAP corresponds with the amount on line 12u of Form HUD 50058 was reported as a finding in the Single Audit of NMHC for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager; Roger Dris, Chief Accountant; Nanette Palacios and Sisi Alvarez, Housing Specialists; Frances Diaz, Tinian Field Office Representative and Barrie Toves, Rota Field Office Representative

Corrective Action: 1) Strengthen the line of communication between the Program and Housing and Accounting Divisions; and 2) Recommend Accounting Division to establish formal standard operating procedures on monitoring HAP disbursements, verifying updated HAP changes and procuring reliable software that links the two affected divisions.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-31
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$3,200

Criteria: Owners must include verification documentation in file. Further, NMHC accepts the following notarized statement or signed affidavits from the tenant/applicant as support of income and assets for all adult members of the household.

1. Affidavit as to assets and verification of income from assets
2. Certification of asset disposition
3. Statement of unemployment
4. Affidavit of zero income of adult member
5. Affidavit of child support
6. Zero income in-kind contribution checklist

Condition: Tests of seventy-five tenant files determined that documents supporting income and/or assets for adult members of the household could not be located in file for four tenants or 5%. Specific documents that could not be located are as follows:

Household No.	Period Tested	Certification Effective	Household Member Ref. No.	Documents Not Found in Tenant File	HAP Amount
HO1526	05/03/12	12/01/11	Head	Certification of asset disposition not dated	\$ 750
HO1246	12/02/11	06/01/11	Head	Zero income in-kind checklist not filled out completely	750
HO1262	02/03/12	06/01/11	Head	Zero income in-kind checklist completely blank	950
HO1324	05/03/12	09/01/11	Head	Zero income in-kind checklist	<u>750</u>
					\$ <u>3,200</u>

Cause: The cause of the above condition is a lack of adequate policies and procedures to prepare and maintain documentation supporting income and assets in the tenant file.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$3,200. This matter is reportable as the projected questioned costs exceed \$10,000.

Recommendation: We recommend that all relevant documentation supporting eligibility determinations are obtained and included in file.

Prior Year Status: The lack of adequate policies and procedures to prepare and maintain documentation supporting income and assets in the tenant file was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Bryan Bocago, Special Assistant to Housing and Sisi Alvarez and Nanette Palacios, Housing Specialists

Corrective Action: NMHC will improve quality assurance and quality control.

Proposed Completion Date: By the affected individual tenant's next annual reexaminations.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-32
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$4,218

Criteria: To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirements, among others:

1. Applicants must provide documentation of social security numbers (SSN) for family members at least 6 years of age and older. Adequate documentation includes a social security card issued by the Social Security Administration or other acceptable evidence of the SSN.
2. Only U.S. citizens or eligible noncitizens may receive assistance under Section 8 programs. All family members, regardless of age, must declare their citizenship or immigration status. Owners must obtain proof of citizenship. NMHC's policy is to require all family members to complete and sign a *Declaration of Section 214 Status* form and obtain copies of birth certificates or other acceptable evidence of citizenship and include such in file.

Condition: Tests of seventy-five tenant files noted the following:

1. The completed and signed *Declaration of Section 214 Status* form for two household members (or 3%) could not be located. No questioned costs result as the citizenship status was verified.

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member No.</u>	<u>HAP Amount</u>
HO1255	04/01/12	1, 2	\$ 750
HO1315	04/01/12	3	\$ 1,000

2. A birth certificate or other acceptable evidence of citizenship could not be located for one tenant or 1% for the following:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member No.</u>	<u>HAP Amount</u>
HR0019A	07/01/11	4	\$ 763

3. Name, SSN, and other identification of household members per Form HUD 50058 for four tenants or 5% do not agree with the supporting documentation as follows:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member No.</u>	<u>Deficiencies Noted</u>	<u>HAP Amount</u>
HO1548	11/10/11	6	First name in birth certificate does not agree	\$ 719
HO1285	08/01/11	3	First name in birth certificate does not agree	886
HO1048A	04/01/11	1	First name in birth certificate does not agree with social security	1,100
HO1255	04/01/12	1	First name in birth certificate does not agree	750
				<u>\$ 3,455</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-32, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$4,218

Cause: The cause of the above condition is the lack of adequate procedures to require that tenant citizenship and social security numbers are verified, reconciled and maintained.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$4,218. This matter is reportable as the projected questioned costs exceed \$10,000.

Recommendation: We recommend that NMHC strengthen procedures in the verification of tenants' citizenship and social security numbers and improve file maintenance.

Prior Year Status: The lack of adequate procedures to ensure tenant citizenship and social security number are verified, reconciled and maintained was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Bryan Bocago, Special Assistant to Housing and Sisi Alvarez and Nanette Palacios, Housing Specialists

Corrective Action: NMHC will terminate families who are not in compliance with program requirements, conduct formal staff training on program regulations, policies and best practices, develop effective enforcement strategies and improve quality assurance and quality control of tenant records.

Proposed Completion Date: February 26, 2014.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-33
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Area: Eligibility
 Questioned Costs: \$-0-

Criteria: Owners must conduct a certification/re-certification of family income and composition (a) prior to move-in; (b) at least annually; and (c) if there are changes in income, allowances or family characteristics reported between annual re-certifications. Owners must then recalculate the tenant rents and assistance payments, if applicable, based on information gathered.

A full *Application Form* must be submitted and signed by all adult members and NMHC for new admissions. NMHC uses a *Certification/Re-certification Interview Sheet* to document certifications and re-certifications performed. NMHC also uses a *Tenant Obligation to Report Interim Change* form to be signed by tenants. A HAP contract and lease agreement is signed by the tenant and NMHC.

Condition: Tests of seventy-five tenant files noted the following:

1. For one tenant or 1%, the re-certification interview sheets were either (a) not signed by the NMHC Housing Manager, the tenant/interviewee or both; or (b) sections of the interview sheet were either not completed or not properly filled out. No questioned costs result as re-certifications were performed for the year.

<u>Household No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification per Certification/ Re-certification Interview Sheet</u>	<u>Deficiencies Noted</u>
HO1254	12/02/11	06/01/11	Sections 1, 2, 3, 5 and 6 not completed; date left blank; not signed by tenant/interviewee and NMHC

2. For twenty-three tenants or 31%, Form HUD 50058 was not signed by tenant and/or NMHC or was signed after the certification effective date. No questioned costs result since the error was a timing issue.

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>HAP Amount</u>
HO1074A	12/01/11	\$ 1,000
HO1026A	04/01/12	\$ 520
HO1512	04/01/12	\$ 650
HO1188	04/01/12	\$ 1,100
HO1027A	04/01/12	\$ 1,100
HR0019A	07/01/11	\$ 763
HO1238	07/01/11	\$ 750
HO1048A	04/01/11	\$ 1,100
HO1201	11/01/11	\$ 650
HO1255	04/01/12	\$ 750

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-33, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$-0-

Condition, Continued:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>HAP Amount</u>
HO1238	04/01/12	\$ 750
HO1349	04/01/12	\$ 1,203
HO1038	04/01/12	\$ 500
HO1168	04/01/12	\$ 1,100
HO1351	04/01/12	\$ 894
HO1315	04/01/12	\$ 1,000
HO1324	04/01/12	\$ 750
HO1321	02/01/12	\$ 1,100
HO1513	04/01/12	\$ 471
HO1168	04/01/12	\$ 1,100
HO1002A	04/01/12	\$ 1,100
HO1339	04/01/12	\$ 750
HO1100A	04/01/12	\$ 1,100

3. For five tenants or 7%, the quality control worksheet was either (a) not completed; (b) incomplete; (c) not properly filled out; or (d) not signed or dated. No questioned costs result since re-certifications were performed.

<u>Household No.</u>	<u>Period Tested</u>	<u>Form HUD 50058 Effective Date</u>	<u>Sections that are Incomplete or other Deficiencies Noted</u>
HO1012	07/03/12	10/01/11	All sections not signed by NMHC
HO1167	10/31/11	09/01/11	Not signed or dated by NMHC
HO1254	12/02/11	06/01/11	Not signed or dated by NMHC
HO1201	02/03/12	11/01/11	Not signed or dated by NMHC
HO1528	02/03/12	06/07/11	Not signed or dated by NMHC

Cause: The cause of the above condition is lack of adequate monitoring procedures to perform, review, document and file required certifications/re-certifications and related forms in a timely manner.

Effect: The effect of the above condition is noncompliance with program eligibility requirements.

Recommendation: We recommend that NMHC establish adequate monitoring procedures to perform, review, document and file required certifications/re-certifications and related forms in a timely manner.

Prior Year Status: The lack of adequate monitoring procedures to perform, review, document and file required certification/ re-certifications and related forms in a timely manner was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2011.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-33, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Bryan Bocago, Special Assistant to Housing and Sisi Alvarez and Nanette Palacios, Housing Specialists

Corrective Action: NMHC will terminate families who are not in compliance with program requirements, conduct formal staff training on program regulations, policies and best practices, develop effective enforcement strategies and improve quality assurance and quality control of tenant records.

Proposed Completion Date: February 26, 2014.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-34
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$-0-

Criteria: Adult members of a family must sign consent forms as required verification documents, so the owner can verify sources of family income and family size. Consent forms must be signed by:

1. The head of household (regardless of age);
2. The spouse or co-head of household (regardless of age); and
3. Any other family member who is 18 years old or older.

NMHC uses the *Authorization for the Release of Information - Privacy Act Notice* form to document compliance with this requirement.

Condition: Of seventy-five tenant files tested, the *Authorization for the Release of Information - Privacy Act Notice* form was not in the file for one tenant or 1% as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
H01351	05/03/12	02/01/12	\$ 894

Cause: The cause of the above condition is the lack of policies and procedures to require signed consent forms.

Effect: The effect of the above condition is noncompliance with eligibility requirements. No questioned costs arise as the participant was determined to be eligible.

Recommendation: We recommend that NMHC strengthen and implement compliance with the above requirement.

Prior Year Status: The lack of policies and procedures to require signed consent forms was reported as a finding in the Single Audits of NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Bryan Bocago, Special Assistant to Housing and Sisi Alvarez and Nanette Palacios, Housing Specialists

Corrective Action: NMHC will conduct formal staff training on program regulations, policies and best practices and improve quality assurance and quality control of tenant records.

Proposed Completion Date: February 26, 2014.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-35
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Area: Eligibility
 Questioned Costs: \$2,200

Criteria: The amount of federal assistance paid on behalf of a family is calculated using the family's annual income less allowable deductions. Owners must verify all deductions claimed by the tenant/applicant to determine the level of federal assistance.

Condition: Our tests of seventy-one tenant files noted two tenants for which deductions claimed include allowances for dependents which are not the legal children of the household head/co-head. There was no court order (court appointed legal adoption by the court) on file approving such legal guardianship for the minors only a general power of attorney from the biological parents.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not Legal Children (Household Member Ref. No.)</u>	<u>Allowance Claimed</u>	<u>Housing Assistance Payment (HAP) Amount</u>
HO1232	11/02/11	05/01/11	4	\$ 480	\$ 1,100
HO1027A	09/04/12	04/01/12	3	\$ 480	<u>1,100</u>
Total					\$ <u>2,200</u>

Cause: The cause of the above condition is the lack of adequate policies and procedures to require that deductions claimed by the tenant/applicant are verified.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$2,200. This matter is reportable as the projected questioned costs exceed \$10,000.

Recommendation: We recommend the NMHC verify that deductions claimed are valid and agree to relevant supporting documentation.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Bryan Bocago, Special Assistant to Housing and Sisi Alvarez and Nanette Palacios, Housing Specialists

Corrective Action: These were a Housing Specialist oversight. NMHC will terminate families who are not in compliance with program requirements, conduct formal staff training on program regulations, policies and best practices, develop effective enforcement strategies and improve quality assurance and quality control of tenant records.

Proposed Completion Date: February 26, 2014.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-36
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$-0-

Criteria: Owners must use verification methods that are acceptable to HUD. The owner is responsible for determining if the verification documentation is adequate and credible. HUD accepts three methods of verification; in order of acceptability, third party verification, review of documents, and family certification. When third party verification is not available, owners must document efforts made to obtain the required verification and the reason if the verification was not obtained by including the following documents in the applicant's or tenant's file:

1. A written note to file explaining why third party verification is not possible; or
2. A copy of the date-stamped original request that was sent to the third party including:
 - a. Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
 - b. A written note to file indicating that the request has been outstanding without a response from the third party.

Condition: Tests of seventy-five tenant files noted the following:

1. The following tenant/applicants reported other income. No third party verification documentation was in file; however, we did observe affidavit/notarized statements signed by the tenant/applicant. Further, documentation why a third-party verification is not possible or documentation indicating that efforts were made to obtain third-party verifications was not evident in the file as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member No.</u>	<u>Other Income Reported (Monthly Income)</u>
HO1348	08/03/12	01/01/12	Head	\$ 120
HO1027A	09/04/12	04/01/12	Head	\$ 50
HO1074A	03/02/12	12/01/11	Head	\$ 504

2. Income reported in the Form HUD 50059 did not agree with the income noted in the third party verification obtained. There was no documentation on file supporting the variance. Details as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Type</u>	<u>Income Per Form HUD 50059</u>	<u>Income per Third Party Verification</u>
HROO19A	03/02/12	07/01/11	Food stamp	\$ 414	\$ 566
HO1167	10/31/11	09/01/11	Social security	\$ 674	\$ 606
HO1254	12/02/11	06/01/11	Wages	\$ 11,731	\$ 11,722

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-36, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$-0-

Condition, Continued:

3. Income reported by the applicant/tenant was not included in the Form HUD 50059 as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Type</u>	<u>Income Per Form HUD 50059</u>	<u>Income Per Third Party Verification</u>
HO1285	01/04/12	08/01/11	Food Stamp	\$ 15,959	\$ 417

Cause: The cause of the above condition is failure to obtain third party verifications and failure to document instances when third party verifications cannot be obtained.

Effect: The effect of the above condition is noncompliance with eligibility requirements. No questioned costs result as the tenants did not exceed the income limit threshold.

Recommendation: We recommend that adequate third party verification be obtained. When third party verification cannot be obtained, NMHC should obtain required documentation and the reason the verification was not obtained and this should be documented in the tenant file or equivalent.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Bryan Bocago, Special Assistant to Housing and Sisi Alvarez and Nanette Palacios, Housing Specialists

Corrective Action: NMHC will conduct formal staff training on program regulations, policies and best practices and improve quality assurance and quality control of tenant records.

Proposed Completion Date: February 26, 2014.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-37
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Area: Special Tests and Provisions
 Questioned Costs: \$4,139

Criteria: Applicable regulations state that the PHA must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the Housing Quality Standards (HQS). Further, the PHA must prepare a unit inspection report.

Condition: Of seventy-five items tested for HQS inspections, the following were noted:

- For one tenant or 1%, the completed unit inspection form evidencing unit inspections performed during fiscal year 2012 was not provided. We are unable to determine if the required housing quality inspections were performed as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>Questioned Costs</u>
HR0019A	03/02/12	\$ 763
Less costs already questioned in Finding No. 2012-32		<u>(763)</u>
	Questioned costs this finding	\$ <u>-----</u>

- For three tenants or 4%, the NMHC inspector did not complete the inspection results section in the inspection checklist form or in the deficiency report for the following:

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspection Performed During FY 2012</u>	<u>Total Questioned Costs</u>
HO1513	06/04/12	11/22/11	\$ 471
HO1149	03/01/12	03/06/12	909
HO1530	04/01/12	04/10/12	<u>922</u>
	Questioned costs this finding		\$ <u>2,302</u>

- For two tenants or 3%, the deficiency report did not indicate whether one or more deficiencies were corrected. No other supporting evidence was attached.

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspection Performed During FY 2012</u>	<u>Total Questioned Costs</u>
H01339	07/03/12	12/07/11	\$ 750
HO1050	02/01/12	02/02/12	<u>1,087</u>
	Questioned costs this finding		\$ <u>1,837</u>

Cause: The cause of the above condition is the lack of systematic filing of HQS inspection reports and the lack of monitoring that all HQS inspections are timely performed.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-37, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Special Tests and Provisions
Questioned Costs: \$4,139

Condition, Continued:

Effect: The effect of the above condition is possible noncompliance with the HQS inspection requirements and questioned costs of \$4,139, which resulted from Conditions 2 and 3. This matter is reportable as the projected questioned costs exceed \$10,000.

Recommendation: We recommend that all HQS inspections are supported with HQS inspection reports and are at least performed annually. Additionally, we recommend that all HQS inspection reports are maintained in the tenant files.

Prior Year Status: The lack of systematic filing of HQS inspection reports and the lack of monitoring to timely perform all HQS inspections was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008 and NMHC for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Kimo M. Rosario, Program and Housing Division Manager, Bryan Bocago, Special Assistant to Housing and Sisi Alvarez and Nanette Palacios, Housing Specialists

Corrective Action: NMHC will conduct formal staff training on program regulations, policies and best practices and improve quality assurance and quality control of tenant records.

Proposed Completion Date: May 1, 2013.

NORTHERN MARIANAS HOUSING CORPORATION

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2012

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2012:

Questioned costs as previously reported:

Fiscal year 2011	\$ 215,907
Fiscal year 2010	571,388
Fiscal years 2009 and prior	<u>981,977</u>
	1,769,272
Less questioned costs resolved in fiscal year 2011	<u>(156,610)</u>
	1,612,662
Questioned costs of fiscal year 2012 Single Audit	<u>144,006</u>
Unresolved questioned costs at September 30, 2012	\$ <u>1,756,668</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 10 through 77).



NORTHERN MARIANAS HOUSING CORPORATION

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Summary of Schedule of Prior Audit Findings

Status of audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2011:

FINANCIAL STATEMENT FINDINGS

- Finding No. 2011-01 - Not corrected. See corrective action plan to Finding No. 2012-01.
- Finding No. 2011-02 - Corrective action was taken.
- Finding No. 2011-03 - Not corrected. See corrective action plan to Finding No. 2012-02.
- Finding No. 2011-04 - Not corrected. See corrective action plan to Finding No. 2012-03.
- Finding No. 2011-05 - Not corrected. See corrective action plan to Finding No. 2012-25.
- Finding No. 2011-06 - Not corrected. See corrective action plan to Finding No. 2012-04.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- Finding No. 2011-07 - Not corrected. See corrective action plan to Finding No. 2012-14.
- Finding No. 2011-08 - Not corrected. See corrective action plan to Finding No. 2012-05.
- Finding No. 2011-09 - Not corrected. See corrective action plan to Finding No. 2012-06.
- Finding No. 2011-10 - Not corrected. See corrective action plan to Finding No. 2012-07.
- Finding No. 2011-11 - Not corrected. See corrective action plan to Finding No. 2012-08.
- Finding No. 2011-12 - Not corrected. See corrective action plan to Finding No. 2012-09.
- Finding No. 2011-13 - Not corrected. See corrective action plan to Finding No. 2012-10.
- Finding No. 2011-14 - Not corrected. See corrective action plan to Finding No. 2012-11.
- Finding No. 2011-15 - Not corrected. See corrective action plan to Finding No. 2012-13.
- Finding No. 2011-16 - Not corrected. See corrective action plan to Finding No. 2012-15.
- Finding No. 2011-17 - Corrective action was taken.
- Finding No. 2011-18 - Not corrected. See corrective action plan to Finding No. 2012-16.

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Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2011, Continued:

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

- Finding No. 2011-19 - Corrective action was taken.
- Finding No. 2011-20 - Not corrected. See corrective action plan to Finding No. 2012-18.
- Finding No. 2011-21 - Not corrected. See corrective action plan to Finding No. 2012-19.
- Finding No. 2011-22 - Not corrected. See corrective action plan to Finding No. 2012-20.
- Finding No. 2011-23 - Not corrected. See corrective action plan to Finding No. 2012-21.
- Finding No. 2011-24 - Corrective action was taken.
- Finding No. 2011-25 - Not corrected. See corrective action plan to Finding No. 2012-22.
- Finding No. 2011-26 - Not corrected. See corrective action plan to Finding No. 2012-23.
- Finding No. 2011-27 - Not corrected. See corrective action plan to Finding No. 2012-24.
- Finding No. 2011-28 - Not corrected. See corrective action plan to Finding No. 2012-26.
- Finding No. 2011-29 - Not corrected. See corrective action plan to Finding No. 2012-27.
- Finding No. 2011-30 - Not corrected. See corrective action plan to Finding No. 2012-28.
- Finding No. 2011-31 - Not corrected. See corrective action plan to Finding No. 2012-29.
- Finding No. 2011-32 - Corrective action was taken.
- Finding No. 2011-33 - Corrective action was taken.
- Finding No. 2011-34 - Corrective action was taken.
- Finding No. 2011-35 - Corrective action was taken.
- Finding No. 2011-36 - Not corrected. See corrective action plan to Finding No. 2012-30.
- Finding No. 2011-37 - Not corrected. See corrective action plan to Finding No. 2012-31.
- Finding No. 2011-38 - Not corrected. See corrective action plan to Finding No. 2012-32.
- Finding No. 2011-39 - Not corrected. See corrective action plan to Finding No. 2012-33.
- Finding No. 2011-40 - Not corrected. See corrective action plan to Finding No. 2012-34.
- Finding No. 2011-41 - Corrective action was taken.
- Finding No. 2011-42 - Not corrected. See corrective action plan to Finding No. 2012-37.
- Finding No. 2011-43 - Corrective action was taken.