

DEPARTMENT OF PUBLIC LANDS  
(A GOVERNMENTAL FUND OF THE COMMONWEALTH  
OF THE NORTHERN MARIANA ISLANDS)

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2013

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*

Mr. Pedro A. Tenorio  
Secretary  
Department of Public Lands:

We have audited, 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, the financial statements of the Department of Public Lands (DPL) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise DPL's basic financial statements, and have issued our report thereon dated May 15, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered DPL's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DPL's internal control. Accordingly, we do not express an opinion on the effectiveness of DPL's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses (pages 3 through 6), we identified certain deficiencies in internal control that we consider to be material weaknesses.

*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 Responses as items 2013-01 through 2013-03 to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether DPL's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2013-01 through 2013-03.

## **DPL's Response to Findings**

DPL's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. DPL's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Deloitte & Touche LLC*

May 15, 2014

DEPARTMENT OF PUBLIC LANDS

Schedule of Findings and Responses  
Year Ended September 30, 2013

Revenue/Receipts

Finding No. 2013-01

Criteria: Management is responsible to enforce its policies for leasing public lands. Long-term lease contracts and temporary permits require that the lessee, not later than forty-five (45) or thirty (30) days after the end of each calendar year of the lease or permit, submit audited financial statements and a schedule of gross receipts indicating sources and deductions. Some leases and permits require that the financial statements be audited by certified public accountants. Additional requirements include the lessee to perform an appraisal of the fair market value of the unimproved land after each succeeding five or ten-year term to determine the new annual base rental.

Condition: Tests of eighty-five cash receipts noted ten, or 12%, pertaining to long-term lease contracts and temporary permits that require the lessee to submit financial statements audited by accountants or by certified public accountants and to submit a schedule of gross receipts; however, such audited financial statements or schedule of gross receipts were not in file. Further, requirements to obtain appraisals on the lease property after its term ended were not performed. The lessee and cash receipt numbers are as follows:

<u>Lessee No.</u>	<u>Receipt No.</u>	<u>Description of Discrepancy</u>
L9712S	13-0344	No schedule of BGRT provided
L07002S	13-0289	No appraisal performed
T0212S	13-0007	Permit expired
T0308S	13-1013	Permit expired and no financial statements
L9404S	13-0416	No audited financial statements
L8902S	13-0563	No certified financial statements or schedule of BGRT
A12001S	13-0007	Untimely issuance of permit renewal
A06-14T	13-0200	Temporary permit expired since 2008
L07002S	13-1062	No appraisal performed
L9015S	13-1061	No appraisal performed

Cause: The cause of the above condition is the lack of monitoring procedures to determine which contracts and/or permits require financial statements or audited financial statements and a schedule of gross receipts, and the lack of valid and authorized permits and required appraisals on file.

Effect: The effect of the above condition is the potential loss of revenues when contracts and/or permits are up for renewal and lease amounts are to be determined.

Recommendation: We recommend that management endeavor to update the lease contracts and permits and propose a standard threshold which would differentiate those lessees to be audited by certified public accountants from those by regular accountants, or by none at all.

Prior Year Status: The lack of monitoring procedures in place to determine which contracts and/or permits require financial statements or audited financial statements and a schedule of gross receipts, and the lack of valid and authorized permits and required appraisals on file was reported as a finding in the audits of DPL for fiscal years 2010 through 2012.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Ms. Evelyn J. Sablan, Finance Manager and Ms. Rachel Roque, Real Estate Division

**Corrective Action:** DPL will ensure that permittees and lessees comply with the submission of financial statements and BGR, including the renewal of agreements, in a timely manner.

**Proposed Completion Date:** Closing date of the audit report.

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Schedule of Findings and Responses, Continued  
Year Ended September 30, 2013

General Ledger System

Finding No. 2013-02

Criteria: An effective system of internal control over financial reporting includes maintenance of a separate general ledger system that will record transactions and timely generate reliable and relevant financial information.

Condition: DPL has not maintained a separate general ledger system since fiscal year 2007. Specifically:

- Pursuant to Public Law 15-02, effective October 1, 2007, disbursement of DPL expenses, including land compensation claims, was centralized at the CNMI Department of Finance (DOF). DPL reimburses DOF for expenses paid on behalf of DPL;
- A general ledger for DPL transactions is maintained by DOF but it is not reconciled or monitored by DOF or DPL;
- Cash transactions, received and disbursed at DPL, are summarized in cash receipt and cash disbursement journals, which are not recorded in the DOF general ledger;
- Journal vouchers posted to the DOF general ledger by DOF personnel are not approved by DPL management or evidenced as being reviewed by DOF management; and
- Accounts payable of the DOF general ledger do not reflect accounts payable of DPL, are not reconciled, and do not reflect prior year adjustments.

Adjustments to record DPL transactions within the DOF general ledger were recorded by DPL, through proposed audit adjustments.

Cause: The cause of the above condition is the lack of monitoring and timely reconciliation of transactions with DOF, the failure to implement available system controls over the financial reporting process and the lack of established monitoring control procedures to determine the accuracy and completeness of disbursements processed at DOF.

Effect: The effect of the above condition is the lack of reliable and relevant financial information and the inability to timely detect errors and inaccuracies.

Recommendation: We recommend DPL monitor and reconcile transactions with DOF in a timely manner, establish monitoring control procedures over disbursements, perform periodic reconciliations with DOF to verify the accuracy and completeness of disbursements processed, approve all journal vouchers posted to the general ledger maintained by DOF and reconcile accounts payable maintained in the DOF general ledger.

Prior Year Status: The lack of reliable and relevant financial information and the inability to timely detect errors and inaccuracies was reported as a finding in the audits of DPL for fiscal years 2010 through 2012.

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Schedule of Findings and Responses, Continued  
Year Ended September 30, 2013

Finding No. 2013-02, Continued

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Ms. Evelyn J. Sablan, Finance Manager

**Corrective Action:** DPL is working with DOF in reconciling accounts payable, payroll disbursements and other journal entries recorded by DOF to determine errors.

**Proposed Completion Date:** Closing date of the audit report.

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Schedule of Findings and Responses, Continued  
Year Ended September 30, 2013

Local Noncompliance

Finding No. 2013-03

**Criteria:** The CNMI Constitution requires that all revenues received by DPL in excess of the amount necessary to meet reasonable expenses of administration and management, land surveying, homestead development, and any other expenses reasonably necessary for the accomplishment of its functions, must be transferred to the Marianas Public Land Trust (MPLT).

Public Law 15-02 required the establishment of the DPL Operations Fund which shall be maintained by DOF and required, 1) all revenues received by DPL be deposited in the DPL Operations Fund, and 2) all operational expenses of DPL be paid from the DPL Operations Fund.

**Conditions:** DPL has not obtained concurrence from MPLT regarding its method for determining amounts owed.

Revenues received by DPL are not deposited in the DPL Operations Fund. Additionally, not all operational expenses of DPL are paid from the DPL Operations Fund. Specifically, during the year ended September 30, 2013, DPL paid \$38,307 directly to the Northern Mariana Islands Retirement Fund. The payments may have duplicated payments by DOF and DPL has recorded the payments as fully reserved receivables.

**Cause:** The cause of the above condition is the lack of agreement with MPLT and the lack of compliance with Public Law 15-02.

**Effect:** The effect of the above condition is potential noncompliance with DPL's constitutional mandate to transfer net revenues received to MPLT and with Public Law 15-02.

**Recommendation:** We recommend that DPL obtain a legal determination on the merits of transfers to MPLT and comply with Public Law 15-02.

**Prior Year Status:** The lack of agreement with MPLT and compliance with Public Law 15-02 was reported as a finding in the audits of DPL for fiscal years 2010 through 2012.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Ms. Evelyn J. Sablan, Finance Manager

**Corrective Action:** DPL will comply with its constitutional mandate to remit net operation proceeds to MPLT.

**Proposed Completion Date:** Closing date of the audit report.

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Unresolved Prior Year Comments  
Year Ended September 30, 2013

The status of unresolved prior year findings is discussed in the Schedule of Findings and Responses section of this report (pages 3 through 6).