

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A COMPONENT UNIT OF COMMONWEALTH
OF NORTHERN MARIANA ISLANDS)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2014

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

Ms. Larrisa Larson
Acting Administrator
Northern Mariana Islands Retirement Fund:

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 Northern Mariana Islands Retirement Fund (NMIRF), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statement of fiduciary net position as of September 30, 2014, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 4, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NMIRF'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMIRF's internal control. Accordingly, we do not express an opinion on the effectiveness of NMIRF'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 8), 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 2014-001 through 2014-005 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NMIRF'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 2014-001 and 2014-004.

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

February 4, 2016

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Schedule of Findings and Responses Year Ended September 30, 2014

Settlement Agreement

Finding No. 2014-001

Criteria: On September 30, 2013, the United States District Court for the Northern Mariana Islands (District Court) approved a Settlement Agreement between retirees, the Commonwealth of the Northern Mariana Islands (CNMI), the Northern Mariana Islands Retirement Fund (NMIRF) and others for Civil Case No. 09-00023. The Settlement Agreement created a Settlement Fund and transferred all assets of NMIRF to the Settlement Fund except assets held exclusively for the Defined Contribution Plan (DCP), the CNMI Group Health and Life Insurance Trust Fund (GHLITF), receivables from the Commonwealth Government Employees' Credit Union (CGECU) and Member Home Loan Program receivables. In addition, the Settlement Agreement stipulated the following:

- Section 8.0 states that to the extent the assets of NMIRF are in the form of real property, NMIRF will transfer to the Settlement Fund only a leasehold interest in that real property for the maximum period allowed by law and for an annual lease payment not to exceed one dollar per year;
- Section 8.1 assigns to the CNMI all rights to collect employer contributions deficient as of August 6, 2013, and related costs, from autonomous agencies or any other CNMI instrumentalities;
- Section 12.0 requires NMIRF to distribute \$10,000,000 to members who timely filed Elections to Terminate Membership in the Defined Benefit Plan and that this money is to pay for the withdrawal of employee contributions to NMIRF and that NMIRF shall have the right to require each individual to whom it distributes money to sign a waiver and release before the receipt of money; and
- Section 10.3 allows NMIRF to second its employees to the Settlement Fund to assist in administering the Settlement Fund and the Settlement Fund shall reimburse NMIRF for actual costs to employ these seconded employees.

Additionally, it is our understanding that contributions from employees who elect to opt out of the Settlement Agreement should be collected by their employer.

Condition: Tests of NMIRF adjustments related to the Settlement Agreement noted the following:

- NMIRF's transfer of assets to the Settlement Fund included capital assets and real property deeded for CGECU loans of \$2,435,154 and \$822,163, respectively. This condition was corrected through a proposed audit adjustment;
- NMIRF liquidated \$46,051,656 of deficient employer contributions receivable from autonomous agencies and assigned to the CNMI all rights to collect. No supporting details of the receivables were submitted to the CNMI. Additionally, NMIRF collected \$356,429 of such receivables during the year ended September 30, 2014;
- NMIRF recorded \$272,636 of withdrawal and refund deductions without obtaining a waiver and release and NMIRF has not coordinated this matter with the CNMI;

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Finding No. 2014-001, Continued

Condition, Continued:

- NMIRF recorded salary expense of \$369,289 and billed the Settlement Fund \$477,298 for seconded employees. NMIRF was unable to provide support for the basis of shared salary costs;
- NMIRF had four active employees, who opted out of the Settlement Agreement, from who contributions of \$80,955 were collected by the Settlement Fund. This condition was corrected through a proposed audit adjustment; and
- Authority to sign for three of NMIRF's bank accounts has not been transferred to the acting administrator subsequent to September 30, 2014.

Cause: The cause is the lack of compliance with the Settlement Agreement.

Effect: The effect is the misstatement of assets, liabilities and loss on settlement.

Recommendation: We recommended that NMIRF determine the detail of autonomous agency receivables transferred to the CNMI and that the transfer of assets to the Settlement Fund and the CNMI be documented in writing.

Auditee Response and Corrective Action Plan:

Management has not responded to this finding. Our finding is not affected by this missing information.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Receivables

Finding No. 2014-002

Criteria: An effective system of internal control includes procedures to determine that loan payments are received on a timely basis and that delinquent accounts are addressed.

Condition: Tests of receivables noted the following:

1. An analysis of NMIRF's past due receivables was performed to determine the propriety of the allowance for doubtful receivables as of September 30, 2014. The analysis revealed that loans, including interest, which are over ninety days past due amounted to \$7,232,036 or 64.6% of total loans and interest outstanding as of September 30, 2014.

<u>Receivables</u>	<u>Receivables Per Schedule</u>	<u>Over Ninety Days Past Due</u>
Agency	\$ 5,510,330	\$ 5,510,330
Mortgage home loans	4,154,718	197,300
Credit Union	<u>1,524,406</u>	<u>1,524,406</u>
	\$ <u>11,189,454</u>	\$ <u>7,232,036</u>

Audit adjustments of \$2,346,569 were proposed to increase the allowance for doubtful accounts.

2. As of September 30, 2014, mortgaged properties for three loans (or 6%) (#s 95, 98 and 314), aggregating \$166,747, were foreclosed but not reclassified as foreclosed real estate. Additionally, the net gain on foreclosure of \$7,348 was not recorded. These matters were corrected through proposed audit adjustments. In addition, NMIRF was unable to provide appraisal reports for foreclosed properties.

Cause: The cause is NMIRF failed to implement collection efforts over delinquent loans and did not establish policies and procedures on the foreclosure of mortgaged properties.

Effect: The effect is an increased potential for loan losses due to nonpayment and the misstatement of loans and foreclosed real estate.

Recommendation: We recommend NMIRF perform follow-up procedures, evaluate loan collectability, and develop and document corrective action. Legal action should be considered for loans unlikely to be collected. Further, we recommend that management establish policies and procedures for the foreclosure of mortgaged properties.

Auditee Response and Corrective Action Plan:

Management has not responded to this finding. Our finding is not affected by this missing information.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Other Assets

Finding No. 2014-003

Criteria: An effective system of internal control includes procedures to periodically assess recoverability of long-lived assets.

Condition: Public Law 9-52 created CGECU and authorized it to enter into a financing agreement with NMIRF. To secure the loan, the CNMI deeded two parcels of land in Tinian and Rota. On May 27, 1998, NMIRF began design phases for the construction of offices on the deeded land. The project subsequently ceased due to lack of funding. As of September 30, 2014, NMIRF had capitalized costs of \$822,163 for architectural and engineering services. NMIRF ceased to monitor the projects and no future construction is expected. An audit adjustment to record an impairment of these costs was proposed as of September 30, 2014.

Cause: The cause is the lack of NMIRF's policies and procedures to assess the recoverability of assets.

Effect: The effect is the misstatement of other assets.

Recommendation: We recommend that NMIRF establish policies and procedures to assess the recoverability of assets.

Auditee Response and Corrective Action Plan:

Management has not responded to this finding. Our finding is not affected by this missing information.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2014

Medical Claims

Finding No. 2014-004

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

Condition: Public Law 10-19 transferred to the CNMI obligations of the Government Health and Life Insurance Trust Fund (GHLITF). As of September 30, 2014, NMIRF recorded \$16,458,389 of medical claims payable to certain healthcare providers. Of this amount, \$14,597,165 payable to the Commonwealth Healthcare Corporation, the Rota Health Center and the Tinian Health Center should have been transferred to the CNMI in accordance with Public Law 10-19. The remaining balance of \$1,861,224 has been determined by management to be invalid. A restatement of \$16,458,389 was recorded by NMIRF as of October 1, 2013 through a proposed audit adjustment.

Cause: NMIRF lacks established policies and procedures to assess the validity of liabilities and lacks sufficient information from healthcare providers to determine claims.

Effect: The effect is the possible misstatement of medical claims payable.

Recommendation: We recommend that NMIRF establish policies and procedures to assess the validity of liabilities and obtain sufficient information from creditors to determine the propriety of medical claims payable.

Auditee Response and Corrective Action Plan:

Management has not responded to this finding. Our finding is not affected by this missing information.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Net Position

Finding No. 2014-005

Criteria: Net position should be periodically reconciled to audited financial statements.

Condition: GHLITF's audited net position as of September 30, 2013 did not agree with NMIRF balances by \$599,317. DCP audited investment balances as of September 30, 2013 did not agree to trustee investment statements by \$(20,057). DCP determined previously unrecorded contribution receivables of \$412,561 as of September 30, 2013. NMIRF was unable to explain the difference, represented they were unable to determine the basis for the audited amount, and requested restatements through proposed audit adjustments.

	<u>FY2013</u> <u>Audited Balances</u>	<u>10/01/13</u> <u>General Ledger Balances</u>	<u>Variance</u>
GHLITF net position	\$ (15,923,273)	\$ (15,323,956)	\$ (599,317)
DCP investments	\$ 28,998,414	\$ 28,978,357	\$ 20,057
DCP receivables	\$ -	\$ 412,561	\$ (412,561)

Cause: The cause is the lack of NMIRF policies and procedures to reconcile net position.

Effect: The effect is the misstatement of net position.

Recommendation: We recommend that NMIRF establish policies and procedures to reconcile net position.

Auditee Response and Corrective Action Plan:

Management has not responded to this finding. Our finding is not affected by this missing information.

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Unresolved Prior Year Comments
Year Ended September 30, 2014

There are no unresolved findings from prior year audits of NMIRF.