

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, 2017

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. Marianne Concepcion-Teregeyo
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, 2017, and the related notes to the financial statements, which collectively comprise DPL's basic financial statements, and have issued our report thereon dated July 27, 2018.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 that we consider 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 2017-001 and 2017-002.

DPL's Responses to Findings

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

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

July 27, 2018

DEPARTMENT OF PUBLIC LANDS
Schedule of Findings and Responses
Year Ended September 30, 2017

Local Noncompliance and General Ledger System

Finding No. 2017-001

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. Public Law 15-02 required the establishment of the DPL Operations Fund which shall be maintained by the CNMI Department of Finance (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.

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

1. Revenues received by DPL are not deposited in the DPL Operations Fund;
2. A general ledger for DPL transactions is maintained by DOF but it is not reconciled or monitored by DOF or DPL;
3. 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;
4. Journal vouchers posted to DOF's general ledger by DOF personnel are not approved by DPL management;
5. Receivables, accounts payable, accruals and unearned revenues are not reconciled in DOF's general ledger; and
6. Adjustments to record DPL transactions in DOF's general ledger were recorded by DPL through proposed audit adjustments.

Cause: Compliance with Public Law 15-02 is not enforced. Monitoring and timely reconciliation of transactions with DOF is not performed. DPL did not implement available system controls over the financial reporting process and there is no established monitoring control procedures to determine the accuracy and completeness of disbursements processed at DOF.

Effect: DPL is in noncompliance with Public Law 15-02. DPL is unable to produce reliable and relevant financial information.

Recommendation: We recommend DPL comply with Public Law 15-02 and 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 and reconcile account balances maintained in the DOF general ledger.

Prior Year Status: The lack of compliance with Public Law 15-02, 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 2016.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No. 2017-001, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Marianne Concepcion-Teregeyo, Secretary

Corrective Action:

Condition: 1, 2, 3 and 6

The Department of Public Land (DPL) and CNMI Department of Finance (DOF) are collaboratively addressing the above conditions. DPL has obtained OAG's advice regarding compliance of DPL's accounting functions with Public Law 15-02. According to OAG, compliance with PL 15-02 entails DOF assuming all the accounting functions of DPL which we have discussed it with the Secretary of Finance in the effort of transitioning. DPL is in the process of devising a transition plan that ensures an orderly transfer while simultaneously addressing reconciliation, approval and context adjustment processes.

Condition 4

All payment vouchers submitted to CNMI Finance were approved and signed by the Secretary of DPL and approved by the CNMI Finance Director. Regarding Fund Transfers, the reimbursement of paid expenses (payroll and accounts payables) all funds transferred to CNMI were approved by DPL Secretary and Bank of Guam issued voucher to CNMI Finance notifying them that funds were deposited to their account. Treasury office then makes entry to their book debiting the account of DPL which is the Due to CNMI. This is internal entries of CNMI Finance that DPL does not need to counter sign. We therefore request that this finding will be removed from the report.

Condition 5

Payments made by the CNMI Finance are monitored and reimbursed every middle and at the end of each month and thereafter. Checks received from Treasury office are reconciled against DPL's records (APVs) to ensure submitted invoices are paid accurately and efficiently. It also applies to payroll checks are reconciled against DPL's records. DPL is in the process of finalizing its Standard Operating Procedures (SOP) and to ensure it is strictly implemented in order to process transactions effectively and efficiently.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Revenue/Receipts

Finding No. 2017-002

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 one hundred-eighty (180), ninety (90), forty-five (45) or thirty (30) days after the end of each calendar year of the lease or permit, submit 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 forty-five cash receipts for long-term lease contracts and temporary permits noted the following:

1. Audited financial statements were not provided for six receipts related to contracts and permits requiring such documents.

<u>Lessee No.</u>	<u>Receipt No.</u>
L9003R	PLR 03629
LB08005S	2017-0485
L9003R	PLR 03633
L9712S	2017-0705
L9003R	PLR03639
L15003S	2017-0893

2. Guaranteed annual rental (GAR) is based on the higher of eight percent (8%) of the property's appraised fair value or the agreed rental per the lease agreement. We noted that an appraisal was not performed after the end of the appraisal period for lessee no. L9801S.
3. Financial statements were not provided for one receipt (lessee no. L9016S, receipt no. 2017-0514) related to contracts and permits requiring such documents.

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 appraisals.

Effect: The effect of the above condition is the potential underpayment of lease revenues and collections on invalid permits and leases.

Recommendation: We recommend that management update lease contracts and permits and enforce lease provisions.

Prior Year Status: Monitoring procedures for contracts and/or permits that require financial statements or audited financial statements, a schedule of gross receipts, and the filing of authorized permits was reported as a finding in the audits of DPL for fiscal years 2010 through 2016.

DEPARTMENT OF PUBLIC LANDS

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No. 2017-002, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Marianne Concepcion-Teregeyo, Secretary

Corrective Action:

Audited financial statements were not provided for six receipts related to contracts and permits requiring such documents.

<u>Lessee No.</u>	<u>Receipt No.</u>	<u>Company Name</u>	<u>Comment</u>
L9003R	PLR03629	SNM Corp.	Received, not audited by CPA
L9003R	PLR03633	SNM Corp.	Issued NOV on 08/15/18
L9003R	PLR03639	SNM Corp.	
LB08005S	2017-0485	Art Man Corp.	Pending, owner off-island
L9712S	2017-0705	L & T Corp.	Received, certified by SVP, Tan Holdings
L15003S	2017-0893	HS Lee Construction	Received, not audited by CPA
L9801S	Appraisal	Saipan Cellular & Paging	Next appraisal is due 08/01/18

Financial statements were not provided.

<u>Lessee No.</u>	<u>Receipt No.</u>	<u>Company Name</u>	<u>Comment</u>
L9016S	2017-0514	Bank of Guam	Based on the agreement, FS is not required.

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Unresolved Prior Year Comments
Year Ended September 30, 2017

The status of unresolved prior year findings is discussed in the Schedule of Findings and Responses section of this report.