

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, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise DPL's basic financial statements, and have issued our report thereon dated June 10, 2019.

### **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 2018-001 and 2018-002 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 2018-001 and 2018-002.

## **DPL's Responses to Findings**

DPL's response to the findings identified in our audit is 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 results 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*

June 10, 2019

DEPARTMENT OF PUBLIC LANDS  
Schedule of Findings and Responses  
Year Ended September 30, 2018

Local Noncompliance and General Ledger System

Finding No. 2018-001

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 2017.

DEPARTMENT OF PUBLIC LANDS

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No. 2018-001, Continued

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Marianne Concepcion-Teregeyo, Secretary

**Corrective Action:**

Conditions 1, 3, 5, and 6

The Department of Public Lands (DPL) and CNMI Department of Finance (DOF) are collaboratively addressing the above conditions. DPL has obtained Office of the Attorney General's (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 shall have to discuss it with the newly appointed Secretary of Finance in the effort of transitioning. DPL is in the process of devising a transition plan that ensures an orderly transfer.

Condition 2

It is a standard procedure of DPL to reconcile the general ledger maintained by DOF against. Payroll expenditures and cash disbursements to vendors are reconciled monthly to ensure that they are all legitimate and belong to DPL.

Condition 4

Standard Operation Procedure (SOP) has been established to ensure it is strictly implemented in order that all financial transactions are processed effectively and efficiently. All payroll timesheets and payment vouchers submitted to CNMI Finance for payment processing are certified by the DPL Finance Director, approved by DPL Secretary and approved by the CNMI Finance and Accounting Director prior to processing payments by the Treasury office. Payments to vendors made by the CNMI Finance are reconciled and reimbursed every 15<sup>th</sup> and at the end of each month and thereafter. Checks received from Treasury office are also reconciled against DPL's APVs to ensure they are accurate. Furthermore, payroll expenditures are reimbursed bi-weekly based on the report provided by the CNMI payroll and is reconciled against DPL schedule. All payroll adjustments and supplemental check requests are verified by DPL Finance Director and approved by DPL Secretary with all corresponding supporting documents.

**Proposed Completion Date:** September 30, 2019

DEPARTMENT OF PUBLIC LANDS

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Revenue/Receipts

Finding No. 2018-002

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 eighty-eight cash receipts for long-term lease contracts and temporary permits noted the following:

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

<u>Lessee No.</u>	<u>Receipt No.</u>
L9403S	2018-0191
L9404S	2018-0400
L9712S	2018-0420
L9104S	2018-0766
L9104S	2018-0792
L9404S	2018-0793
L9403S	2018-0794
LA17003S	2018-0806
L9107S	2018-1007

2. Financial statements were not provided for five receipts related to contracts and permits requiring such documents.

<u>Lessee No.</u>	<u>Receipt No.</u>
L8903S	2018-0093
LB8648S	2018-0366
LB8648S	2018-0593
LB8903S	2018-0649
L07003S	2018-0779

3. Business gross receipt tax returns were not provided for seven receipts related to contracts and permits requiring such documents.

<u>Lessee No.</u>	<u>Receipt No.</u>
L8626S	2018-0140
L8626S	2018-0287
L8626S	2018-0293
L8626S	2018-0572
L8626S	2018-0703
L8626S	2018-1181
T0221S	2018-1133

Cause: The cause of the above condition is the lack of monitoring procedures to determine which contracts and/or permits require audited financial statements, financial statements and business gross receipt tax returns.

DEPARTMENT OF PUBLIC LANDS

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No. 2018-002, Continued

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 2017.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Marianne Concepcion-Teregeyo, Secretary

**Corrective Action:**

Condition:

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

<u>Lessee No.</u>	<u>Receipt No.</u>	<u>Comment</u>
L9403S	2018-0191	The company's audit is not yet done, will submit once it's done. Received statement but not certified by US CPA. Submitted FS certified only by their accountant. US CPA audit is not required, but did not submit FS. Per the company, it has not been audited. Audit is ongoing, asked for extension until end of June 2019.
L9404S	2018-0400/0792/0793	
L9712S	2018-0420	
L9104S	2018-0766/0792	
LA17003S	2018-0806	
L9107S	2018-1007	

Recommendation:

- A. Upon the extension or renewal of the lease for those Lessees that Assets are less than \$500,000 should not be required to submit financial statement audited by US certified public accountant (CPA).
  - B. It is recommended that the 45 days term for submission of the audited financial statement must be changed to 90 days to give ample time for the company to perform its audit and submit it on a timely manner to avoid audit citation for DPL.
2. Financial statements were not provided for five receipts related to contracts and permits requiring such documents.

<u>Lessee No.</u>	<u>Receipt No.</u>	<u>Comment</u>
L8903S	2018-0093/0649	Per the company audit is delayed due to Typhoon Yutu. The company's audit is not yet done, will submit once it's done. The company's audit is not yet done, will submit once it's done.
L8648S	2018-0366/0593	
L07003S	2018-0779	

3. Business gross receipt tax returns were not provided for seven receipts related to contracts and permits and requiring such documents.

<u>Lessee No.</u>	<u>Receipt No.</u>	<u>Comment</u>
L8626S	2018-0140/0287/0293	The company has closed its business. The company has closed its business. Submitted its BGR returns late.
T0221S	2018-0572/0703/1181	
	2018-1133	

**Proposed Completion Date:** September 30, 2019

DEPARTMENT OF PUBLIC LANDS

Unresolved Prior Year Comments  
Year Ended September 30, 2018

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