

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

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2011

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, 2011, and have issued our report thereon dated September 11, 2012. 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 97), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 2011-01 through 2011-03 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2011-04 and 2011-05 to be significant deficiencies.

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 2011-06.

We noted certain matters that we reported to management of NMHC in a separate letter dated September 11, 2012.

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

This report is intended solely for the information and use of management, the Board of Directors, 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

September 11, 2012

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, 2011. 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 97). 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 on NMHC's compliance with those requirements.

As described in items 2011-07 through 2011-43 in the accompanying Schedule of Findings and Questioned Costs, NMHC did not comply with requirements regarding cash management, 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, reporting and subrecipient monitoring that are applicable to its Community Development Block Grants/Special Purpose Grants/Insular Area major program (CFDA 14.225), eligibility, reporting and special tests and provisions that are applicable to its HOME Investment Partnerships Program major program (CFDA 14.239), Davis-Bacon Act, procurement and suspension and debarment, reporting and subrecipient monitoring that are applicable to its Community Development Block Grants/Special Purpose Grants/Insular Areas (Recovery Act Funded) 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, 2011.

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 a certain deficiency in internal control over compliance that we consider to be a material weakness 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-25 to be a material weakness.

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 2011-07 through 2011-24, 2011-26 through 2011-43 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, 2011, and have issued our report thereon dated September 11, 2012. Our audit was performed for the purpose of forming our opinion on NMHC's basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

This report is intended solely for the information and use of management, the Board of Directors, 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

September 11, 2012

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

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	\$ 597,238
TQ11-0016-004 Koblerville	14.195	344,864
TQ11-0006-004 Rota	14.195	132,355
TQ11-0011-001 Tinian	14.195	<u>237,170</u>
Subtotal CFDA #14.195		<u>1,311,627</u>
Community Development Block Grants/Special Purpose Grants/Insular Area:		
Major Rehabilitation of the Susupe Sports Complex	14.225	113,962
Koblerville Property Acquisition	14.225	1,289,623
Valley Inn Property Acquisition	14.225	398,786
A&E Design Services for Saipan Southern High Swim	14.225	13,770
Demolition of Existing Tank and Design/Acquisition	14.225	629,302
A&E Design for the GTC Library Expansion	14.225	9,800
Rehabilitation of the Susupe Sports Complex Fencing	14.225	23,425
Rehabilitation of the Sinapalo Children's Park	14.225	285,313
Rehabilitation of the DanDan Children's Park	14.225	33,602
Purchase of Life Saving and Fire Protection Equipment	14.225	98,622
Administrative Fee	14.225	<u>306,703</u>
		<u>3,202,908</u>
Neighborhood Stabilization Program:		
Administrative Cost	14.225	1,676
Rehab and Resale of NMHC-Owned Foreclosed Properties	14.225	<u>130,945</u>
		<u>132,621</u>
Subtotal CFDA #14.225		<u>3,335,529</u>
Emergency Shelter Grants Program	14.231	<u>49,061</u>
HOME Investment Partnerships Program:		
HOME/Admin Program Year 2007	14.239	28,381
HOME Project Costs Program Year 2007	14.239	521,297
HOME Program Income	14.239	443,069
HOME Project Costs Program Year 2008	14.239	<u>88,603</u>
Subtotal CFDA #14.239		<u>1,081,350</u>
Community Development Block Grants/Special Purpose Grants/Insular Areas - (Recovery Act Funded):		
Sinapalo Elementary School Public Facility	14.254	349,371
Tinian Infrastructure Improvement	14.254	233,539
Chalan Kanoa Kios Ku Public Facility	14.254	48,600
Grotto Infrastructure Improvement	14.254	22,421
CDBG-R Planning and Administrative Costs	14.254	<u>7,710</u>
Subtotal CFDA #14.254		<u>661,641</u>
Homelessness Prevention and Rapid Re-Housing Program - (Recovery Act Funded):		
NMPASI Homeless Prevention	14.257	58,805
NMPASI Homeless Assistance	14.257	4,343
NMHC Data Collection and Reporting	14.257	4,293
NMPASI Administrative Cost	14.257	5,108
HPRP-HP-HR-NMHC	14.257	743
HPRP-HP-HR-NMPASI	14.257	11,176
HPRP-HA-FA-NMPASI	14.257	3,110
HPRP-AD-NMPASI	14.257	<u>950</u>
Subtotal CFDA #14.257		<u>88,528</u>
Section 8 Housing Choice Vouchers	14.871	<u>3,741,382</u>
U.S. Department of Treasury		
Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Grant	21.TDP2009GRMP55	<u>23,981,996</u>
		34,251,114
Less program not subject to OMB A-133 audit:		
LIHTC Grant	21.TDP2009GRMP55	<u>(23,981,996)</u>
		<u>\$ 10,269,118</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, 2011

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	\$ 3,741,382
Section 8 Housing Assistance Payments Program	<u>1,311,627</u>
	<u>\$ 5,053,009</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	\$ 3,324,558
Utilities	198,422
Salaries and wages	157,010
Employee benefits	27,318
Travel	17,670
Bad debts	3,918
Depreciation	1,734
Miscellaneous	<u>10,752</u>
	3,741,382
Section 8 Housing Assistance Payments Program:	
Repairs and maintenance	423,405
Salaries and wages	389,078
Professional fees	133,213
Employee benefits	113,716
Utilities	86,783
Travel	25,661
Rent	12,232
Other	<u>127,539</u>
	<u>1,311,627</u>
	<u>\$ 5,053,009</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, 2011

(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 2011 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 2011 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, 2011

(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, 2011, \$1,022,106 (net of the related allowance for doubtful accounts of \$2,901,074 and out of total NMHC net loans receivable of \$3,317,209) of loans originating from this revolving fund were outstanding.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

A. SUMMARY OF AUDITORS' 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: | | | | | | | | | | | | | | | |
| | <table border="0"> <tr> <td>CFDA</td> <td></td> </tr> <tr> <td><u>Number</u></td> <td><u>Federal Program</u></td> </tr> <tr> <td>14.195</td> <td>Section 8 Housing Assistance Payments Program</td> </tr> <tr> <td>14.225</td> <td>Community Development Block Grants/Special Purpose Grants/Insular Area</td> </tr> <tr> <td>14.239</td> <td>HOME Investment Partnerships Program</td> </tr> <tr> <td>14.254</td> <td>Community Development Block Grants/Special Purpose Grants/Insular Areas (Recovery Act Funded)</td> </tr> <tr> <td>14.871</td> <td>Section 8 Housing Choice Vouchers</td> </tr> </table> | 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 | Community Development Block Grants/Special Purpose Grants/Insular Areas (Recovery Act Funded) | 14.871 | Section 8 Housing Choice Vouchers | |
| 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 | Community Development Block Grants/Special Purpose Grants/Insular Areas (Recovery Act Funded) | | | | | | | | | | | | | | | |
| 14.871 | Section 8 Housing Choice Vouchers | | | | | | | | | | | | | | | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$308,074 | | | | | | | | | | | | | | |
| 11. | NMHC qualified as a low-risk auditee? | No | | | | | | | | | | | | | | |

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

B. FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2011-01	Loans Receivable	12
2011-02	Capital Assets Valuation	13
2011-03	Loan Guarantee Agreements	14
2011-04	Interfund Balances and Transactions	15
2011-05	Program Income	16
2011-06	Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Grant	17 - 21

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>
2011-07	14.195	Cash Management	\$ 107	22
2011-08 - 14	14.195	Eligibility	\$ 30,104	23 - 34
2011-15	14.195	Reporting	\$ -	35 - 37
2011-16 - 18	14.195	Special Tests and Provisions	\$ -	38 - 43
2011-19	14.225	Allowable Costs/Cost Principles	\$ 4,227	44 - 45
2011-20	14.225	Davis-Bacon Act	\$ -	46
2011-21	14.225	Equipment and Real Property Management	\$ -	47 - 48
2011-22	14.225	Real Property Acquisition and Relocation Assistance	\$ 17,562	49 - 51
2011-23	14.225	Reporting	\$ -	52
2011-24	14.225	Subrecipient Monitoring	\$ -	53 - 55
2011-25 - 27	14.239	Eligibility	\$ 114,000	56 - 67
2011-28	14.239	Reporting	\$ -	68
2011-29 - 30	14.239	Special Tests and Provisions	\$ -	69 - 71
2011-31	14.254	Davis-Bacon Act	\$ -	72
2011-32	14.254	Procurement and Suspension and Debarment	\$ 20,821	73 - 74
2011-33	14.254	Reporting	\$ -	75
2011-34	14.254	Subrecipient Monitoring	\$ -	76 - 77
2011-35 - 36	14.871	Allowable Costs/Cost Principles	\$ 2,655	78 - 81
2011-37 - 40	14.871	Eligibility	\$ 26,431	82 - 90
2011-41 - 43	14.871	Special Tests and Provisions	\$ -	91 - 97

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

B. FINANCIAL STATEMENT FINDINGS

Loans Receivable

Finding No. 2011-01

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, 2011. This analysis revealed that loans, including interest, which are over one hundred twenty days past due amounted to \$5,145,147 or 55.30% of total loans and interest outstanding, excluding HOME deferred loans receivable, of \$9,303,791 as of September 30, 2011. An audit adjustment of \$765,792 was proposed to increase the allowance for loans receivable as of September 30, 2011.

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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger Dris, Chief Accountant and Jennifer Camacho, Acting Manager, Mortgage & Credit Division

Corrective Action: NMHC performed a detailed review of the adequacy of its reserve for seriously defaulted loans and guaranteed loans for these financial institutions and assessed the need to provide additional reserves for defaulted loans which are based on the appraisal value of the property and established a policy that supports reasonable allowance calculations. The Mortgage & Credit and Fiscal Divisions will continue to work together to address seriously delinquent accounts on a monthly basis.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Capital Assets Valuation

Finding No. 2011-02

Criteria: Capital assets are considered impaired when their service utility have declined significantly and unexpectedly. Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment has occurred. Assessments of the valuation of capital assets should be periodically performed by management and adjustments should be made to reflect capital assets at the lower of carrying amount or fair value. Further, generally accepted accounting principles (GAAP) do not allow for the recording of appreciation of capital assets. The established cost of the asset, less any recorded impairments, should be reflected in the accounting records until the capital asset is disposed of or sold.

Condition: As of September 30, 2011, NMHC had ten properties recorded at \$9,650,313 which were valued at \$4,880,000 in a broker's opinion. NMHC offset the impairment of properties against increases in values of housing units and buildings determined in the same broker's opinion. As GAAP does not allow for the recording of appreciation of capital assets, an audit adjustment was proposed to reverse the recorded appreciations and record the impairment of land values.

Cause: The cause of the above condition is the improper recording of appreciations of capital assets.

Effect: The effect of the above condition is the misstatement of capital assets.

Recommendation: We recommend that NMHC determine that capital assets are reported at the lower of carrying amount or fair value.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger Dris, Chief Accountant

Corrective Action: NMHC performed and solicited a brokers' opinion in which all NMHC's properties had basis adjustments based on the figures provided by the broker dated August 25, 2011. NMHC booked and adjusted land and property valuation from the brokers' opinion and evaluated the carrying value of all NMHC's assets.

Proposed Completion Date: Fiscal year 2012.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Loan Guarantee Agreements

Finding No. 2011-03

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, 2011, NMHC's related loan guarantees amounted to \$14,480,925. Of the total, approximately \$6,502,850 is delinquent and past due. NMHC has received demand notices of \$397,331; 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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger Dris, Chief Accountant and Jennifer Camacho, Acting Manager, Mortgage Credit Division

Corrective Action: NMHC will ensure that reserves for guaranteed loans is assessed and reviewed regularly for adequacy. These assessments and conclusions shall be documented and made readily available. NMHC will be asking financial institutions to notify NMHC of accounts that are ninety days past due.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Interfund Balances and Transactions

Finding No. 2011-04

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 \$273,448 at September 30, 2011. Of this amount, \$262,318 was subsequently corrected by NMHC through a proposed adjustment upon discovery of the unreconciled amount. The remaining balance of \$11,130 is unreconciled as of September 30, 2011.

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 Audit of NMHC for fiscal year 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger Dris, Chief Accountant

Corrective Action: NMHC performed a detailed review, monitored and reconciled interfund transactions and balances on a timely basis. The accounts payable system set-up was corrected for fiscal year 2011.

Proposed Completion Date: Fiscal year 2012.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Program Income

Finding No. 2011-05

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 of 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>
5036638	\$ 11,956	October 2010	02/09/11
5036635	\$ 13,787	November 2010	02/09/11
5036636	\$ 13,652	December 2010	02/09/11
5045488	\$ 16,562	March 2011	05/27/11
5046091	\$ 13,027	April 2011	06/07/11
5056871	\$ 16,197	September 2011	11/01/11

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

Cause: The cause of the above condition is failure to establish policies and procedures and oversight over program income.

Effect: The effect of the above condition is potential incorrect reporting and use of program income funds.

Recommendation: We recommend NMHC establish and implement appropriate policies and procedures to timely report, use and monitor program income funds.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger Dris, Chief Accountant

Corrective Action: NMHC will establish and implement appropriate policies and procedures over program income funds, and fiscal staff shall perform a detailed review, monitor, reconcile and then input into IDIS before the 15th of the following month. The Chief Accountant shall perform a secondary review and the Corporate Director will also approve for checks and balances.

Proposed Completion Date: Fiscal year 2012.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

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

Finding No. 2011-06

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.
- The Owner shall expend 30% of the total amount of Section 1602 Exchange Funds awarded for eligible costs by 12/31/10.

Further, the grant agreement provides the following terms and conditions:

- Federal funds cannot be drawn by the grantee from the U.S. Treasury in advance of need and the grantee shall not place in escrow or advance lump sums to project owners.
- The grantee shall minimize the time between the receipt of grant funds and the disbursement of funds to subawardees, which should be within three days.

Condition: Test of fifteen disbursements totaling \$23,066,558 noted the following:

1. For nine disbursements, the request for reimbursement for certain items were supported with purchase orders or pro-forma invoices and not with actual receipts, invoices and documentation of payment evidencing expenses sought for reimbursement:

<u>General Ledger Date</u>	<u>Reference No.</u>	<u>Amount</u>
11/24/10	14698	\$ 2,107,588
12/14/10	14894	1,045,734
12/15/10	14985	1,280,846
12/16/10	14955	1,561,831
12/23/10	14982	1,725,633
04/15/11	16396	1,675,610
06/02/11	16800	1,667,173
09/02/11	17820	1,973,783
09/28/11	18091	<u>1,344,509</u>
		\$ <u>14,382,707</u>

2. For all fifteen disbursements, no inspection report and *Jobs Reporting* form are included in the request for reimbursement.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-06, Continued

3. For one disbursement of \$1,280,846 (reference no. 14985), the request for reimbursement included an invalid item of \$500,000 which was erroneously included in the request. This advance payment was corrected though an offset in the next request for reimbursement.
4. The following ten disbursements to the Owner included payment of a 10% retainage from the contractor, which is due for payment only upon completion and acceptance of the project:

<u>General Ledger Date</u>	<u>Reference No.</u>	<u>Amount</u>
12/23/10	14982	\$ 1,725,633
12/30/10	15027	529,389
02/15/11	15852	830,952
03/25/11	16170	1,422,597
04/15/11	16396	1,675,610
06/02/11	16800	1,667,173
07/05/11	17181	1,587,737
08/26/11	17730	1,878,759
09/02/11	17820	1,973,783
09/28/11	18091	<u>1,344,509</u>
		<u>\$ 14,636,142</u>

5. Based on reimbursements made, 40% of the grant funds were paid or reimbursed to the Owner as of 12/31/2010; however, as noted in condition 1, requests for reimbursement were supported with purchase orders or pro-forma invoices only and not actual receipts, invoices and documentation of payment evidencing that expenses sought for reimbursement have been expended or paid.
6. 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.
7. For one disbursement (reference no. 14894), the reimbursement was not made within three days from the date of receipt of funds.

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.

Auditee Response and Corrective Action Plan:

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

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No. 2011-06, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: To date the Sandy Beach Homes project has been the only LIHTC project undertaken since NMHC started participating in the LIHTC program in 2010. US Treasury provided project funding for the 60 unit housing project through a Section 1602 exchange fund program which allowed the Owner to exchange tax credits received from NMHC with Section 1602 exchange funds. The terms and conditions relating to the exchange of tax credits for grant funds were spelled out in the Section 1602 Exchange Fund Agreement between NMHC and the Owner, the form and substance of which was patterned after similar exchanges that took place in various other states and territories. The Owner's project was successfully completed in December 2011 and was placed in service in the same month.

As NMHC was relatively new to the LIHTC and Section 1602 programs, the agency recognized the need to better understand the programs and enhance its capacity to monitor compliance with applicable program requirements. Toward this end, NMHC sought guidance and direction from HUD, US Treasury, legal counsel, specialized LIHTC consultants, and the Guam Housing and Urban Renewal Authority (GHURA). GHURA was particularly very helpful given their experience successfully administering LIHTC programs on Guam since 2007 and the identical applicability of LIHTC requirements in Guam as in the CNMI. In addition, the Owner also retained Novogradac & Company and Reznick Group - both national CPA firms highly specialized in the LIHTC program - to ensure their understanding of and compliance with program requirements.

Pursuant to program requirements, the Owner hired Reznick Group in late 2010 to examine all project expenditures and provide an independent determination as to whether the project met the 30% carryover test required of Section 1602 funded LIHTC projects. Reznick Group's audit procedures entailed analyzing project records, among which was the Section 1602 agreement between NMHC and the Owner. Reznick's report dated December 27, 2010 was addressed to NMHC and confirmed that the Owner met the minimum required 30% test. The report did not cite any violations of applicable requirements. More recently, in August 2012, Novogradac & Company also completed its audit of project expenses and issued its Final Cost Certification report to NMHC confirming that all project expenditures and cost eligibility met program requirements.

Conditions

1. NMHC relied on guidance provided by US Treasury, GHURA, Novogradac & Company and Reznick Group CPA in approving project payment requests based on purchase orders and proforma invoices submitted by the Owner. The question as to whether these documents were adequate support for payment requests was extensively discussed throughout the project, particularly given specific language provided in the Section 1602 agreement related to project expenses and reimbursement. In addition, the adequacy, validity and timing of purchase orders and proforma invoices to support project expenditures was examined by Reznick Group during their special agreed upon procedures engagement (December 2010 report) and by Novogradac and Company (their Final Cost Certification report is expected in August 2012). Novogradac & Company's Final Cost Certification will be forthcoming in the next week. Both firms found no violation of program requirements. However, NMHC will obtain actual receipts and invoices from the Owner.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No. 2011-06, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Conditions, Continued

2. NMHC held numerous meetings with the Owner and/or Owner representatives, conducted several site visits, and performed regular ocular inspections of the project prior to, during, and after the construction phase. Given the accelerated nature of the project and the strict deadlines imposed on it by LIHTC program requirements, it was not uncommon for NMHC to conduct inspections and visits multiple times a week during the construction phase. In addition to inspections and visits, NMHC was also privy to all inspection reports prepared by the project architect and these and all other project reports were made available when requested of the Owner.
3. On December 10, 2010, the Owner erroneously included \$500,000 for mobilization expenses in its Draw Request No. 4. NMHC approved the request and processed a funds drawdown from US Treasury that included the item. Four days later, after receiving the drawn funds but prior to remitting the funds to the Owner, the Owner advised NMHC that the mobilization item was an error and was inadvertently included in its Draw Request No. 4. The Owner also suggested to NMHC that it would correct the error by adjusting it out of the next Draw Request, No. 5, as opposed to revising its Draw Request No. 4. As NMHC had not yet remitted the funds drawn from US Treasury to the Owner, NMHC agreed with the proposed resolution. The adjustment was made and the error was corrected immediately.
4. NMHC is not aware of a 10% retainage requirement between the agency and the Owner. The agency is aware, however, of a 10% retainage provision in the construction agreement executed between the Owner and its prime contractor.
5. NMHC relied on guidance provided by US Treasury, GHURA, Novogradac & Company and Reznick Group in approving payments based on purchase orders and proforma invoices submitted by the Owner. This subject was extensively discussed during the early phases of the project, particularly given specific language provided in the Section 1602 agreement related to project expenses and reimbursement. In addition, the adequacy of purchase orders and proforma invoices as support for payments made by NMHC was examined by Reznick Group in December 2010 in their special engagement related to whether project expenses met the 30% carryover test and by Novogradac and Company in their August 2012 Final Cost Certification audit. Both firms examined the adequacy of documentation to support NMHC payments and found no violation of program requirements.
6. Given the accelerated nature and condensed timeline of the project, NMHC did not demand monthly reports from the Owner and compensated for this by relying on regular progress update meetings with the Owner, site visits to and ocular inspections of the project, and the detailed quarterly Section 1602 reports provided by the owner. NMHC determined that the quarterly reports provided sufficient information pertaining to project status, jobs creation, and project expenditures.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-06, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Conditions, Continued

7. NMHC fully understands the grant terms and conditions requiring disbursement of funds within three days of receipt. In fact, all disbursements related to the project were timely made with the exception of one disbursement in December 2010 (reference no. 14894), two months into the LIHTC project. This particular disbursement was made one day late but the delay was due to queries received unexpectedly from NMHC's legal counsel between the date funds were received on December 6, 2010 and their disbursement four days later on December 10. NMHC's response to the legal queries required an extra day of research and resolution, thus the one day delay in disbursement. NMHC apologizes if the circumstances surrounding this incident were not sufficiently explained to the auditors; the agency accepts full responsibility and will continue to make every effort to comply with all grant terms and conditions.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: 2011-07
 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: Cash Management
 Questioned Costs: \$107

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 \$3,929, we found four tenants or 7% 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>
M10	\$ 126	\$ 101	\$ 25
M32	\$ 105	\$ 76	29
K22A	\$ 90	\$ 62	28
T16	\$ 99	\$ 74	<u>25</u>
		Total	\$ <u>107</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 \$107 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.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Action: NMHC will ensure that the required utility reimbursement amount is the amount that is reimbursed to the tenant. The Housing Specialist will work with the Fiscal Division to make the adjustments in the system. Effective July 2012, NMHC has taken corrective measures to address this finding and has reimbursed the required utility reimbursement amount to the tenant.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-08
 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: \$240

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 fifty-eight tenant files noted that deductions claimed include allowances for dependents which are not the legal children of the household head/co-head. Either the household head and/or co-head are in a guardian/caretaker capacity based on a General/Special Power of Attorney (GPA/SPA) executed by the legal/biological parents of the dependent or the relationship of the household head/co-head with the dependent is not evident in the tenant file. We are unable to determine if NMHC performed further verification in addition to obtaining a GPA/SPA to determine that such are valid dependents as follows:

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	07/01/11	01/01/11	3	\$ 480	\$ 1,017	\$ 1,005	\$ 12 x 9	\$ 108
T15	08/01/11	09/01/10	3	\$ 480	\$ 1,028	\$ 1,016	\$ 12 x 11	<u>132</u>
								\$ <u>240</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 \$240 since the projected questioned cost is greater than \$10,000.

Recommendation: We recommend the 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 and 2010.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-08, 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: \$240

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Action: NMHC will ensure that deductions claimed for children who are not the legal children of the household head/co-head are supported by court validated documents or an appointment of legal guardianship granted by the court.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-09
 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: \$-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 fifty-eight 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>
M48	03/01/11	03/01/11	Head	\$ 50
M01	08/01/11	07/01/11	Head	\$ 1,690
K21	08/01/11	10/01/10	Head	\$ 50
T18	06/01/11	08/17/10	Head	Savings

2. Income reported in the Form HUD 50059 was not included in the recertification/interview sheet as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Per Form HUD 50059</u>
M03	12/01/10	11/01/10	\$ 600

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-09, 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: \$-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>
T08	06/01/11	03/01/11	Child Support	\$ 1,092	\$ 50
T18	06/01/11	08/17/10	Food Stamp	\$ 1,800	\$ 596

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 were determined to be eligible.

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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Actions:

1. NMHC will ensure that third party verifications are obtained and maintained in file. In addition, if third party verification is not obtained, NMHC will ensure that documentation of efforts made to obtain a third party verification is maintained in file.
2. NMHC will ensure that income reported in the Form HUD 50059 is included in the recertification/interview sheet. In addition, NMHC will ensure that documentation pertaining to the income reported in the Form HUD 50059 is maintained in file.
3. NMHC will ensure that income reported by the tenant is included in the Form HUD 50059 and that documentation pertaining to the income being reported is maintained in file.

NMHC will not entertain or complete the certification/re-certification until these documents have been completed and submitted.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-10
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: \$-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: Tests of fifty-eight tenant files noted the following:

<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>
T20	05/01/11	11/01/10	2	Affidavit as to asset

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 tenant was determined to be eligible.

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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Action: NMHC will ensure that documents such as an affidavit as to assets, a statement of unemployment, an affidavit of zero income of adult member, an affidavit of child support and/or a certification of asset disposition are obtained from tenants and maintained in file. In addition, the Program and Housing Division Manager will be conducting quarterly visits to field offices for quality control and to review files for completeness.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-11
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: \$5,454

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. 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 fifty-eight tenant files noted the following tenant file where the Document Package could not be located:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
T01	04/01/11	04/01/11	\$ 909 x 6	\$ 5,454

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 \$5,454.

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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Action: NHMC will ensure that the Document Package for Applicant's/Tenant's Consent to the Release of Information is signed and dated by the household head/co-head and any other adult member included in the household. In addition, the Program and Housing Division Manager will be conducting quarterly visits to field offices for quality control and to review files for completeness.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-12
 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: \$24,265

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-certification 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 fifty-eight tenant files noted the following:

1. For fourteen tenants 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>
M12	11/01/10
M35	01/01/11
M46	12/01/10
K04	10/01/10
K08	09/01/11
K10	11/01/10
K17	10/01/10
K21	08/01/11
K24	07/01/11
K26B	12/01/10
T01	04/01/11
T08	06/01/11
T11	06/01/11
T15	08/01/11

2. The following annual re-certification was not timely performed:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Previous Annual Certification</u>		<u>Current Annual Certification</u>	
		<u>Effective Date</u>	<u>Date Performed</u>	<u>Effective Date</u>	<u>Date Performed</u>
M28	04/01/11	not on file	not on file	11/01/10	08/27/10

3. The HUD 50059, certification/recertification interview sheets, verification documents supporting income, assets and allowances and other documents supporting eligibility could not be located in file:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-12, 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: \$24,265

Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
R29	01/01/11	\$ 934 x 9	\$ 8,406
R30	07/01/11	\$ 786 x 3	2,358
R05	09/01/11	\$ 960 x 1	960
R22	05/01/11	\$ 1,089 x 5	5,445
R26	02/01/11	\$ 887 x 8	<u>7,096</u>
			\$ <u>24,265</u>

4. The contract rent amount per the HUD contract/lease agreement does not agree to the HUD approved contract rent.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Contract Rent Amount Per HAP Contract/Lease Agreement</u>	<u>HUD Approved Contract Rent</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
T01	04/01/11	04/01/11	\$ 810	\$ 1,027	\$ 909 x 6	\$ 5,454
			Less costs already questioned in previous finding 2011-11			<u>(5,454)</u>
				Questioned costs this finding		\$ _____

5. The gross rent change form was not signed by the tenant for the following. No questioned costs result as the tenants were determined to be eligible.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>
K04	10/01/10	09/01/10
K26B	12/01/10	04/01/10
T18	06/01/11	08/17/10

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 \$24,265.

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 and 2010.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-12, 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: \$24,265

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Actions:

1. Although the quality control worksheet is used by the Housing Specialist to keep track of when and what documents are submitted by the tenant, it is not a HUD regulated form. NMHC will ensure that the quality control worksheet is reviewed and signed by the Program and Housing Division Manager.
2. NMHC will ensure that annual re-certifications are performed in a timely manner and 120 days on or before the tenant's re-certification date.
3. NMHC will ensure that the HUD 50059, certification/recertification interview sheet, verification documents supporting income, assets, and allowances, and other documents required to support eligibility is maintained in file.
4. NMHC will ensure that the contract rent amount per the HUD contract/lease agreement agrees with the HUD approved contract rent.
5. NMHC will ensure that the gross rent change form is signed by the tenant and maintained in file.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-13
 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: Eligibility
 Questioned Costs: \$145

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 fifty-eight tenant files noted that the assigned unit for the following does not appear reasonable based on the size of the household/family:

<u>Unit No.</u>	<u>Period Tested</u>	Form HUD 50059 <u>Effective Date</u>	<u>Unit Size</u>	<u>No. of Household</u>	HAP Amount Per General <u>Ledger</u>	HAP Amount <u>Expected</u>	<u>Variance</u>
K14	07/01/11	01/01/11	5	3	\$ 1,017	\$ 862	\$ 155
T08	06/01/11	03/01/11	3	2	\$ 1,126	\$ 1,028	<u>98</u>
						Total	253
						Less costs already questioned in previous finding 2011-08	<u>(108)</u>
						Questioned costs this finding	\$ <u>145</u>

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 \$145.

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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

- T08 No smaller unit was available on the waiting list and no other families were ready to move in.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-13, 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: Eligibility
Questioned Costs: \$145

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: NMHC will ensure that units assigned to tenants are reasonable based on the size of the household/family. In addition, NMHC will ensure that occupancy standards are reviewed and adhered to when assigning a unit to a household/family.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-14
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: Eligibility
Questioned Costs: \$-0-

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

- 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 fifty-eight tenant files noted that 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>
M01	07/01/11	1, 5
M46	09/01/10	7
K10	10/01/10	3
T11	06/01/11	1

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. No questioned costs result as we were able to verify citizenship through the birth certificate.

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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Action: NMHC will ensure that the Declaration of Section 214 Status form is signed, dated and maintained in file.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-15
 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: 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 HUD 50059 certifying to the information that is transmitted to HUD or the Contract Administrator, whether the 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 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 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 fifty-eight tenants noted the following:

1. For *Section C. Household Information* of Form HUD 50059, the following were noted wherein the household member's name did not agree to the name reflected on the social security card:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household No.</u>	<u>Inconsistent Information</u>
T12	10/01/10	1	Last name
T16	04/01/10	6	Last name

2. For *Section C. Household Information* of Form HUD 50059, the following were noted wherein the household member's name did not agree to name reflected on the birth certificate:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household No.</u>	<u>Inconsistent Information</u>
M35	09/01/10	8	First name
K08	09/01/11	8	First name

3. The HAP payment per Form HUD 52670 did not agree to Form HUD 50059 and a reconciliation of the variance was not provided. No questioned costs result as the HAP amount requested for reimbursement is lower than the HAP amount per Form HUD 50059 or is already questioned in previous findings.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-15, 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: Reporting
 Questioned Costs: \$-0-

Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP Requested Per Form HUD 52670</u>	<u>HAP Per Form HUD 50059</u>	<u>Variance</u>
T20	05/01/11	\$ 890	\$ 962	\$ (72)
K17	10/01/10	\$ 724	\$ 781	\$ (57)
T15	08/01/11	\$ 1,028	\$ 947	\$ 81

4. Copies of Form HUD 50059 for gross rent change effective for the selected period examined were not signed by the tenant.

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>
K04	10/01/10
K26B	10/01/10
T18	09/15/10

5. The Form HUD 50059 for the following could not be located in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP Requested Per Form HUD 52670</u>
R29	01/01/11	\$ 934
R30	07/01/11	\$ 786
R05	09/01/11	\$ 960
R22	05/01/11	\$ 1,089
R26	02/01/11	\$ 887

Cause: The cause of the above condition is a lack of 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 since the applicant was determined to be eligible.

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 and 2010.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-15, 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: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Actions:

1. NMHC will ensure that household members names indicated on the Form HUD 50059 coincide with the names indicated on the social security cards.
2. NMHC will ensure that household members names indicated on the Form HUD 50059 coincide with the names indicated on the birth certificate.
3. NMHC will ensure that the HAP payment per Form HUD 52670 coincides with the Form HUD 50059.
4. NMHC will ensure that copies of the Form HUD 50059 for gross rent change is signed and dated by the tenant.
5. NMHC will ensure that the Form HUD 50059 is signed, dated, and maintained in file.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-16
 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: 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. 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 (HQS) requirements for fifty-eight tenants noted the following:

1. The completed unit inspection form, if any, evidencing unit inspections performed during fiscal year 2011 could not be located for the following eight items:

<u>Unit No.</u>	<u>Period Tested</u>
R26	01/01/11
R30	12/01/10
T03	02/01/11
K24	07/01/11
R05	09/01/11
R22	05/01/11
R26	02/01/11

We are unable to determine if the required housing quality inspections were performed.

2. The housing quality inspections performed during fiscal year 2011 were not conducted within twelve months from the previous housing quality inspections for the following:

<u>Unit No.</u>	<u>HQS Inspections Performed During FY 2011</u>	<u>Prior HQS Inspection Date</u>
M16	September 2011	January 2010
M37	May 2011	April 2010
M39	May 2011	April 2010
M48	May 2011	April 2010
K13	May 2011	April 2010
T11	April 2011	February 2010

3. 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:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-16, 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: \$-0-

Condition, Continued:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>	<u>Overall Inspection Results</u>	<u>Unit No.</u>	<u>Date of HQS Inspection</u>	<u>Overall Inspection Results</u>
M19	February 2011	inconclusive	M16	September 2011	inconclusive
M10	July 2011	inconclusive	M19	February 2011	inconclusive
M15	April 2011	inconclusive	M22	February 2011	inconclusive
M16	September 2011	inconclusive	M25	May 2011	inconclusive
M20	July 2011	pass	M28	July 2011	inconclusive
M32	December 2010	inconclusive	M35	December 2010	inconclusive
M37	May 2011	inconclusive	M38	May 2011	inconclusive
M39	May 2011	inconclusive	M42	February 2011	inconclusive
M48	May 2011	inconclusive	M46	January 2011	inconclusive
K09A	July 2011	inconclusive	K02A	August 2011	fail
K13	May 2011	inconclusive	K04	May 2011	inconclusive
K17	February 2011	inconclusive	K08	February 2011	inconclusive
K19A	February 2011	inconclusive	K10	December 2010	inconclusive
K22A	December 2010	inconclusive	K14	September 2011	fail
K26A	March 2011	inconclusive	K17	February 2011	inconclusive
K27	May 2011	inconclusive	K21	June 2011	fail
T12	December 2010	pass	K26B	October 2010	inconclusive
T16	November 2010	pass	T01	April 2011	pass
T20	August 2011	pass	T04	January 2011	pass
M01	June 2011	inconclusive	T11	April 2011	pass
M12	May 2011	inconclusive	T18	May 2011	pass

4. 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:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>	<u>Overall Inspection Results</u>
M32	December 2010	inconclusive
K22A	December 2010	inconclusive
M46	January 2011	inconclusive
K10	December 2010	inconclusive
T04	January 2011	pass

5. The Technical Division personnel are not monitoring the status of the deficiencies noted per housing quality inspections so that repairs and maintenance are completed timely as we did not find any HQS monitoring report or equivalent in the file.

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

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

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-16, 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: \$-0-

Recommendation: We recommend adherence to existing policies and procedures relating to unit inspections. Additionally, we recommend that HQS 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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

- T03 Unit inspection is conducted annually prior to the anniversary date of the tenant, not by calendar or fiscal year; therefore, the prior inspection would have been the end of 2010 and the 2011 annual inspection would have been the end of 2011. The anniversary month is January.
- T11 The annual inspection was not conducted within twelve months; however, it was conducted prior to the anniversary date of the tenant which is June.
- T12, T16, T20, T01, T04, T11 and T18: The master file of work orders is kept at the Tinian Field Office. Copies of the work orders were provided.
- T04 Unit inspection was completed on February 8, 2010. Copy of inspection report was provided.

Corrective Actions:

1. NMHC will ensure that the unit inspection forms are completed and maintained in file.
2. NMHC will ensure that inspections are performed in a timely manner and within twelve months of the last inspection.
3. NMHC will ensure that inspector reports containing deficiencies are documented, addressed, and maintained in file.
4. NMHC will ensure that inspection reports from the prior year are maintained in file.
5. NMHC will ensure that inspector reports containing deficiencies are documented, addressed, and maintained in file.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-16, 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: \$-0-

Auditor Response: For T03 and T11, the HUD Handbook 4350.3 Rev-1, Section 6-29 states that move-in and move-out inspection forms should not be confused with annual unit inspections performed by owners and physical inspections performed by HUD and/or HUD contractors. Owners perform unit inspection on at least an annual basis to determine whether the appliances and equipment in the unit are functioning properly and to assess whether a component needs to be repaired or replaced. These requirements can also be found in the March 2011 compliance supplement, and it also states that housing inspections must be performed at least annually. Copies of work orders were not provided for T12, T16, T20, T01, T04, T11 and T18. A copy of the inspection report was not provided for T04.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-17
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, the PHA or owner must (a) establish or ensure tenant utility allowances based on utility consumption and rate data for various sized units, structure types, and fuel types, (b) make an annual review of tenant utility allowances to determine their reasonableness, and (c) adjust the allowances, when appropriate.

Condition: During fiscal year 2011, utility allowances were based on the 2005 utility allowance schedule. An annual review of the utility allowance schedule has not been performed.

Cause: The cause of the above condition is lack of monitoring procedures to determine that the required annual review of the utility allowance schedule is performed.

Effect: The effect of the above condition is noncompliance with federal regulations. Since an updated utility schedule is not available, the amount of questioned costs, if any, is not determinable.

Recommendation: We recommend that NMHC implement monitoring procedures to perform the required annual review of the utility allowance schedule.

Prior Year Status: The lack of monitoring procedures to determine that the required annual review of the utility allowance schedule is being performed was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Action: NMHC will ensure that a review of the utility allowance schedule is conducted annually. A utility analysis was conducted in 2012 and made effective as the contracts for the Section 8 New Construction Program was renewed.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-18
 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 the 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 2011	Average Actual Expenditures (from Fiscal Years 2008 thru 2010)	Total Rent Approved by Grantor	Excess of Approved Rent over Average Actual Expenditures	Estimated Project Occupancy Rate during Fiscal Year 2011	Estimated Variance
TQ100011005	04/01/11	\$ 417,741	\$ 575,160	\$ 589,297	\$ 523,968	\$ (65,329)	107.42%	\$ (70,180)
TQ100016004	04/01/11	\$ 535,357	\$ 323,820	\$ 313,204	\$ 348,012	\$ 34,808	92.75%	32,290
TQ100011001	04/01/11	\$ 233,302	\$ 233,976	\$ 228,823	\$ 233,148	\$ 4,325	95.77%	4,140
TQ100006004	04/01/11	\$ 232,657	\$ 112,560	\$ 114,475	\$ 333,000	\$ 218,525	36.76%	80,340
								\$ 46,590

Estimated project occupancy rate during fiscal year 2011 represents the percentage of actual housing assistance payments (excluding utility reimbursements) over total contract rent approved by the grantor.

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. No questioned costs result since the contract rents based on budget-based rent determination were approved by the federal grantor agency.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Action: NMHC will ensure that the amounts indicated on the budget worksheet coincide with the amounts indicated on the historical results of NMHC's actual expenditures from prior fiscal years and are consistent with established budgets for the related fiscal year.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-19
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 and B-10ST-69-0001
Area: Allowable Costs/Cost Principles
Questioned Costs: \$4,227

Criteria: In accordance with applicable allowable costs/cost principles requirements, when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary report will be required where employees work on more than one Federal award or a Federal award and a non-Federal award.

Condition: NMHC initially records salaries and benefits for all employees to a general account. On a quarterly basis, NMHC uses the employee timesheet for one payroll period to allocate salaries and benefits paid during the quarter to federal programs. Based on the selected timesheet, percentages of hours worked per program are calculated and are used to allocate salaries and benefits for the entire quarter. NMHC prepares journal entries to transfer calculated allocations from the general account to federal program expense accounts. Grantor approval of this allocation process was not provided.

Tests of administrative expenses totaling \$306,704 noted salaries expense and retirement benefits charged to the CDBG Program of \$218,651 and \$27,564 for the fiscal year ended September 30, 2011, were allocated based on a quarterly hours worked certification, and supporting timesheets signed by employees, and approved by the employees' immediate supervisor. Salaries expense and retirement charged to the grant are higher by \$2,922 and \$1,305, respectively, than the expected amounts based on quarterly allocation percentages.

Cause: The cause of the above condition is the lack of grantor approval of the allocation process.

Effect: The effect of the above condition is noncompliance with the allowable costs/cost principles and questioned costs of \$4,227. This matter is reportable as the projected questioned costs exceed \$10,000.

Recommendation: We recommend NMHC obtain necessary approval from the grantor agency for all expenses allocated to the program.

Prior Year Status: The lack of compliance with applicable allowable costs/cost principles requirements was reported as a finding in the Single Audit of NMHC for fiscal year 2010.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-19, 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 and B-10ST-69-
0001
Area: Allowable Costs/Cost Principles
Questioned Costs: \$4,227

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger Dris, Chief Accountant

Corrective Action: NMHC implemented quarterly timesheets which was agreed to during the grantor's on-site monitoring from March 12, 2007 through March 16, 2007 and from March 10, 2008 through March 14, 2008 and May 2011. For the FY 2011 calculation, NMHC will verify the average percentage within the four quarterly timesheet certifications for accuracy. NMHC implemented the HUD timesheet compliance for every pay period.

Proposed Completion Date: FY 2012.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-20
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 and B-10ST-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 performed.

Condition: Of forty-one disbursements tested totaling \$2,776,264 of a total population of \$3,335,530, we noted that for ten disbursements (or 24%), records of contractor employee interviews were not available. No questioned costs result as payroll was paid under prevailing wage rates based on tests of certified payroll reports.

<u>Check Number</u>	<u>Contract Number</u>
9907	NMHC-2011-003
10230	NMHC-2011-003
10973	NMHC-2011-003
10625	NMHC-2011-003
11117	NMHC-2011-003
11266	NMHC-2011-003
10534	NMHC-2011-004
11165	NMHC-2011-008
10959	NMHC-2011-009
10971	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.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jocelyn S. Kaipat, Procurement Officer and Clemente S. Sablan, Technical Maintenance Coordinator

Corrective Action: NMHC will ensure that proper documentation of Davis-Bacon requirements are adhered to.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-21
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 and B-10ST-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 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 represented that physical counts of fixed assets were conducted during fiscal year 2011; however, copies of count sheets, inventory instruction memos, dates of counts, reconciliations and other documentation evidencing that counts were conducted could not be provided. 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, 2011, 2010 and 2009 amounted to \$2,896,205, \$27,000 and \$1,312,828, 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.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-21, 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 and B-10ST-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 and 2010.

Auditee Response and Corrective Action Plan:

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

Corrective Action: NMHC will ensure that when performing inventory of CDBG-funded equipment, that the complete information required (as listed in criteria #1) is indicated in a master listing controlled by NMHC. NMHC will also ensure that equipment maintenance controls over fixed assets be effectively established and implemented.

Proposed Completion Date: September 2012.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-22
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 and B-10ST-69-0001
Area: Real Property Acquisition and Relocation Assistance
Questioned Costs: \$17,562

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.

Condition: Of two disbursements tested totaling \$1,550,000 of a total population of \$3,335,530, the following were noted:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-22, 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 and B-10ST-69-0001
Area: Real Property Acquisition and Relocation Assistance
Questioned Costs: \$17,562

Condition, Continued:

1. For one leasehold rights purchase of \$1,170,000 (check no.10998), there is no evidence of review of the appraisal report by a review appraiser which should have been documented in a signed statement explaining the basis for adjusting comparable sales to reach the review appraiser's determination of the fair market value. In addition, the agreement to purchase leasehold interests was entered into with the former lessee; however, NMHC may incur additional costs to purchase the property from the owner, negotiations for which have not begun. No questioned costs result since the purchase price was approved by the federal grantor agency.
2. For one property purchase of \$380,000 (check no. 10995), there is no evidence of review of the appraisal report by a review appraiser which should have been documented in a signed statement explaining the basis for adjusting comparable sales to reach the review appraiser's determination of the fair market value. Further, there is no documentation of written offer and related negotiations evidencing that the offer or purchase price is just compensation and for public interest. No questioned costs result since the purchase price did not exceed the appraised value.
3. For rental housing payments to three tenants of \$5,250 each (claim numbers 07-2011-04, 07-2011-05 and 07-2011-10), NMHC did not use Form HUD 40061 but used a comparison of rental rates of three comparable units to determine comparable replacement dwellings. Consideration of the above criteria A through F was not documented. Additionally management approval of low-income determination was not documented. Further, for claim number 07-2011-05, there was no documentation evidencing that the tenant occupied the dwelling at least 90 days prior to negotiations to purchase the property. The total relocation costs incurred from these tenants amounted to \$17,562 which is reported as questioned costs.

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

Effect: The effect of the above condition is noncompliance with real property and relocation requirements and questioned costs of \$17,562.

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

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-22, 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 and B-10ST-69-0001
Area: Real Property Acquisition and Relocation Assistance
Questioned Costs: \$17,562

Auditee Response and Corrective Action Plan:

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

Corrective Action: NMHC will ensure that a review appraisal is performed in future CDBG projects involving the acquisition of property. Moreover, as with URA costs, NMHC will ensure that the proper HUD forms are used in future projects involving Uniform Relocation Costs. NMHC will establish procedures of proper documentation regarding income eligibility and proper documentation that will confirm the number of days a tenant has been living in the unit for future projects involving URA costs.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-23
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 and B-10ST-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 fiscal year 2011 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.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jocelyn S. Kaipat, Procurement Officer and Zenie P. Mafnas, Grant Writer/Planner

Corrective Action: NMHC will ensure that grant reporting requirements are adhered to.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-24
 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 and B-10ST-69-0001
 Area: Subrecipient Monitoring
 Questioned Costs: \$-0-

Criteria: Subrecipient agreements should be established before disbursing CDBG funds to a subrecipient. The subrecipient agreement should include provisions, not limited to, the statement of work, records and reports, program income and uniform administrative requirements. Further, the pass-through entity must establish and implement subrecipient monitoring policies and procedures.

Condition: Of forty-one disbursements tested totaling \$2,776,264 of a total population of \$3,335,530, the following were noted:

1. For twenty items (or 49%), a written agreement with the subrecipient was not signed prior to disbursing CDBG funds for the following contracts:

<u>Reference Number</u>	<u>Expenditure Amount</u>	<u>Reference Number</u>	<u>Expenditure Amount</u>
CUC-PG-11-C048	\$ 42,947	NMHC-2011-003	\$ 50,078
CUC-PG-11-C048	\$ 150,316	NMHC-2011-003	\$ 27,956
CUC-PG-11-C048	\$ 128,842	NMHC-2011-003	\$ 43,115
CUC-PG-11-C048	\$ 60,688	NMHC-2011-003	\$ 28,675
CUC-PG-11-C048	\$ 127,598	NMHC-2011-003	\$ 16,299
CUC-PG-11-C047	\$ 20,350	NMHC-2011-003	\$ 18,542
CUC-PG-11-C047	\$ 23,250	NMHC-2011-003	\$ 44,032
CUC-PG-11-C047	\$ 40,769	NMHC-2011-004	\$ 2,603
NMHC-2011-006	\$ 42,560	NMHC-2011-008	\$ 3,360
NMHC-2011-007	\$ 27,189	NMHC-2011-009	\$ 40,086

2. For four items (or 10%), a subrecipient agreement was not available.

<u>Reference Number</u>	<u>Expenditure Amount</u>
Assignment of lease	\$ 532,594
Assignment of lease	\$ 108,000
Assignment of lease	\$ 637,406
Quitclaim Deed	\$ 380,000

3. For four items (or 10%), copies of progress reports and documentation of site visits evidencing the subrecipient monitoring policies and procedures were not provided.

<u>Reference Number</u>	<u>Expenditure Amount</u>
NMHC-2011-006	\$ 42,560
NMHC-2011-004	\$ 2,603
NMHC-2011-008	\$ 3,360
Quitclaim Deed	\$ 380,000

Cause: The cause of the above condition is the lack of subrecipient agreements, progress reports and site visits.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-24, 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 and B-10ST-69-0001
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Effect: The effect of the above condition is noncompliance with subrecipient monitoring requirements. No questioned costs result since the costs were incurred for allowable projects and subrecipients' OMB A-133 audits are obtained.

Recommendation: We recommend that NMHC implement subrecipient monitoring policies and procedures. We further recommend that NMHC document monitoring procedures performed.

Auditee Response and Corrective Action Plan:

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

Corrective Actions:

Condition 1:

NMHC will ensure that subrecipient agreements are drafted prior to the disbursement of funds for future CDBG-funded projects and that NMHC monitoring procedures are documented when performed. Please see "Written Procedures to Ensure Subrecipient Agreements are drafted before the disbursement of funds" forwarded to HUD on April 27, 2012.

Condition 2:

NMHC, through confirmation from HUD, has determined that a subrecipient agreement is not applicable to the (3) items tested. All (3) items pertain to the acquisition of property. At the time of acquisition, no transactions occurred between NMHC and a subrecipient. The only transactions that occurred were the purchase of leasehold rights from the leaseholders for the Koblerville property and the purchase of the Valley Inn property from the Commonwealth Development Authority.

Condition 3:

Clemente Sablan, CDBG Technical Coordinator, was responsible for project site visits and progress reports. Copies of progress reports (specific reports that were provided to the Planning Division by Mr. Sablan) based on on-site visits are attached for auditor review. NMHC will strengthen its procedures regarding on-site monitoring. NMHC will ensure that the CDBG Technical Coordinator submits all documentation to the Planner regarding on-site visits and progress reports, so in the case of the absence of the CDBG Technical Coordinator, the Planner will have a complete documentation of file of on-site visits and progress reports.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-24, 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 and B-10ST-69-
0001
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Auditor Response: Payment for the leasehold rights purchase is part of the planned project to build one junior high school. As noted in condition #1, a written agreement must be utilized prior to disbursement of funds. For the Valley Inn property, there is only an existing Memorandum of Agreement for the use of the property but a subrecipient agreement that includes all applicable program and federal regulations has not been utilized. For condition #3, the documentation provided did not contain evidence of monitoring upon transfer of the project to the subrecipient.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-25
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
 and M-10-ST-690203
 Area: Eligibility
 Questioned Costs: \$114,000

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-five loan files noted the following:

1. For five loan files (or 20%), copies of birth certificates of household members were not in file. Birth certificates or equivalent acceptable documentation should be obtained to determine the household size. Further, this documentation also determines adult household members, whose income must be included in the household's gross income, and verifies allowances claimed for dependents deducted from gross income to determine adjusted income. No questioned costs result as the household income would still be within the income limit. Details are as follows:

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
401	hnc-401	\$ 57,000
367	hnc-367	\$ 56,800
392	hr-392	\$ 40,000
394	hnc-394	\$ 56,000
461	hr-461	\$ 40,000

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-25, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
 and M-10-ST-690203
 Area: Eligibility
 Questioned Costs: \$114,000

Condition, Continued:

2. For one loan file (or 4%), the spouse or co-applicant is not a U.S. citizen and there is no marriage certificate or equivalent in file. No questioned costs result as the household income would still be within the income limit.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
362	hr-362	\$ 39,200

3. For one loan file (or 4%), the supporting birth certificate for one dependent (member #7) was not in file. No questioned costs result as the household income would still be within the income limit.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
449	hnc-449	\$ 57,000

4. For three loan files (or 12%), the debt-to-income ratio exceeded the maximum allowed of 40%.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
428	hr-428	\$ 57,000
454	hr-454	40,000
439	hnc-439	<u>57,000</u>
		\$ <u>154,000</u>

5. For six loan files (or 24%), the potential income and repayment ability from bank accounts declared were not included in the household income determination on the eligibility review sheet. No questioned costs result since the potential income from assets could not be estimated.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
401	hnc-401	\$ 57,000
486	hr-486	\$ 39,950
402	hnc-402	\$ 57,000
367	hnc-367	\$ 56,800
385	hr-385	\$ 57,000
449	hnc-449	\$ 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.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-25, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
and M-10-ST-690203
Area: Eligibility
Questioned Costs: \$114,000

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$114,000, which resulted from Condition 4 (except for HR-454).

Recommendation: We recommend NMHC properly calculate, verify and document gross and adjusted income, household size, income deductions and repayment ability.

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 Audit of NMHC for fiscal year 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jennifer C. Camacho, Loan Specialist

Corrective Actions:

Conditions 1 through 3:

The above should not be findings because this matter has already been addressed in the previous audit. As stated previously “Although the HOME policies and procedures do not require that applicants submit birth and marriage certificates, we have begun requesting from new applicants both documents.” In addition “Loan Officers will ensure that all household members are listed on the review sheets and will reflect the same information on loan write-up.” Please take note that the above loans were executed prior to initiation of this corrective action plan.

Condition 4:

For IDIS 428, debt-to-income ratio did exceed the maximum allowed of 40% but, because it’s a deferred loan and no regular monthly repayment is expected, the assistance was extended therefore, this should not be a finding.

For IDIS 454, the applicants’ obligation of \$70 per month was excluded because this debt would be paid off within 12 months. An existing policy defines the term “monthly debt payment” to “include all monthly payments on installments debts having a remaining term of one year or more.” As a result, this should not be a finding as the debt-to-income ratio is below 40%.

For IDIS 439, debt ratio for this activity indeed exceeded the debt ratio. However based on the Foreclosure Prevention Manual training materials, it was allowable that the Debt-to-Income ratio not exceed 55% and PITI not exceed 31%. However, HOME Program Policies and Procedures will be followed and adhered to.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-25, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
and M-10-ST-690203
Area: Eligibility
Questioned Costs: \$114,000

Auditee Response and Corrective Action Plan, Continued:

Corrective Actions, Continued:

Condition 5:

The activities indicated in this section were applications reviewed during the fiscal year 2010 (last audit). Hence, Loan officers have begun ensuring that clients do provide the most recent savings and/or checking statements. In cases where clients were unable to provide the most recent statements because of account inactivity, we have had clients provide certification from the bank for such statements.

Proposed Completion Date: Currently in effect.

Auditor Response:

Conditions 1 through 3 and 5:

Although eligibility determination was performed prior to implementation of corrective actions of previous audit findings, additional disbursements were made to these loans during fiscal year 2011, and the finding is reported in the current year.

Condition 4:

For IDIS 428, the deferred monthly payment is excluded from the total debt calculation but the applicant still exceeded the maximum allowed debt-to-income ratio of 40%. For IDIS 454, any debt that is excluded from the calculation should be properly explained or documented in the loan file. For IDIS 439, NMHC approved HOME loan policies and procedures requiring debt to income ratio at 40%.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-26
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
 and M-10-ST-690203
 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.

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

1. For three loan files (or 12%), the Home Ownership Counseling checklist had the following deficiencies:

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Deficiencies Noted on the Checklist</u>
460	hnc-460	\$ 56,000	not property completed (boxes are not checked)
367	hnc-367	\$ 56,800	signed after the commitment letter date
461	hr-461	\$ 40,000	could not be located in file

2. For one loan file (or 4%), the loan conclusion and related eligibility review sheet was not reviewed and signed by the Loan Manager and the Corporate Director.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
453	hr-453	\$ 40,000

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-26, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
 and M-10-ST-690203
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

3. For one loan file (or 4%), the loan conclusion was reviewed and concurred with by the Loan Manager and Corporate Director on 10/06/09; however, the amount and interest rate in the signed loan conclusion do not agree to the amount and interest rate in the signed loan agreement. Further, the loan conclusion review and concurrence was completed after the Board of Directors' approval on 09/24/09.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
367	hnc-367	\$ 56,800

4. For five loan files (or 20%), 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 authorized personnel in an acting capacity.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
455	hr-455	\$ 40,000
451	hnc-451	\$ 54,400
428	hr-428	\$ 57,000
475	hr-475	\$ 40,000
454	hr-454	\$ 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.

Effect: The effect of the above condition is noncompliance with eligibility requirements. No questioned costs result as applicants were determined to be eligible.

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 Audit of NMHC for fiscal year 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jennifer C. Camacho, Loan Specialist

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-26, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
and M-10-ST-690203
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Actions:

Condition 1:

Loan Officers will ensure that the Homeownership Counseling Checklist is properly completed, signed simultaneously with the commitment letter, and is filed in each activity file

Condition 2:

Loan Officers will ensure that Loan Conclusions are reviewed and approved by the Loan Manager and Corporate Director; however, the Loan Manager or representative gives an oral presentation during meetings for approval of applicants.

Condition 3:

The Loan Officer did not ensure that documents were updated, signed and/or submitted prior to the loan closing. The Loan Officer must ensure that HOME Policies and Procedures are complied with.

Condition 4:

The Loan Manager was off-island and did not delegate any authority within the division; however, the Loan Manager was present and did review the write-ups before presenting it to the Board. In addition, at or during the Board meeting, the Loan Manager verbally presents these applicants for Board approval. In this situation however, the Loan Manager will ensure that a Delegation of Authority is extended within the division prior to his leaving off-island.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-27
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
 and M-10-ST-690203
 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-five loan files noted the following:

1. For one loan file (or 4%), the loan application form and use of funds certification form were not signed by the co-applicant or spouse.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
401	hnc-401	\$ 57,000

2. For one loan file (or 4%), the home eligibility release form was not signed by one adult household member (#3). Further, the pay stubs and tax compliance letters for the applicant and co-applicant were dated more than six (6) months from the date the eligibility review was conducted.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
453	hr-453	\$ 40,000

3. For one loan file (or 4%), the loan agreement was completed and signed on 09/09/10; however, the home eligibility release form, use of funds certification form, employment verification and tax compliance letters in file were signed or dated 07/29/09. Further, copies of check stubs covered the period from 03/2009 to 07/2009 and copies of the saving account bank statement covered the month ended 05/2009; however, documentation that these documents were updated during the eligibility review is not evident.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-27, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
 and M-10-ST-690203
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
367	hnc-367	\$ 56,800

4. For one loan file (or 4%), the home eligibility release form, use of funds certification form and statement of unemployment were not completed and signed by the spouse or co-applicant. Further, third party verification of assets and tax compliance for the spouse or co-applicant could not be located in file.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
392	hr-392	\$ 40,000

5. For one loan file (or 4%), the home eligibility release form, use of funds certification form, statement of unemployment, SSI or retirement benefits verification and tax compliance letter were not updated. Further, there is no verification for two bank accounts declared in the application form.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
461	hr-461	\$ 40,000

6. For one loan file (or 4%), the home eligibility release form was not signed by one adult household member (member #5). Further, the SSI or retirement benefits third party verification was dated 11/5/08 but was not updated.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
394	hnc-394	\$ 56,000

7. For one loan file (or 4%), the home eligibility release form was not signed by two adult members (member #s 3 and 4) and the statements of unemployment for both the head and spouse was signed 11/10/09 but were not updated.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
449	hnc-449	\$ 57,000

8. For three loan files (or 12%), the tax compliance letter for the co-applicant or spouse is either not in file or not updated.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-27, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203 and M-10-ST-690203
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Deficiencies Noted on Tax Compliance</u>
401	hnc-401	\$ 57,000	none in file
455	hr-455	\$ 40,000	none in file
454	hr-454	\$ 40,000	letter in file dated 12/9/05 but was not updated

9. For four loan files (or 16%), the household income reported in the eligibility review sheet does not agree to the household income per third party verifications in file.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Household Income Per Eligibility Review Sheet</u>	<u>Household Income Per Third Party Verification</u>
458	hr-458	\$ 40,000	\$ 35,400	\$ 38,400
439	hnc-439	\$ 57,000	\$ 31,752	\$ 31,744
480	hr-480	\$ 40,000	\$ 15,444	\$ 19,604
385	hr-385	\$ 57,000	\$ 6,000	\$ 17,723

10. For nine loan files (or 36%), HOME assistance was provided (i.e. loan agreement signature date) after six months from the date of eligibility review and determination.

<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>
402	hnc-402	\$ 57,000	11/09/09	06/22/10	8
367	hnc-367	\$ 56,800	09/03/09	09/09/10	12
403	hnc-403	\$ 57,000	08/20/09	07/06/10	8
385	hr-385	\$ 57,000	11/09/09	07/30/10	9
362	hr-362	\$ 39,200	09/21/09	10/06/10	13
454	hr-454	\$ 40,000	07/14/10	03/15/11	8
392	hr-392	\$ 40,000	11/09/09	07/22/10	9
394	hnc-394	\$ 56,000	11/09/09	06/08/10	7
461	hr-461	\$ 40,000	09/01/09	08/09/10	11

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. No questioned costs result as applicants were determined to be eligible.

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

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 Audit of NMHC for fiscal year 2010.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-27, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
and M-10-ST-690203
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jennifer C. Camacho, Loan Specialist

Corrective Actions:

Conditions 1 through 8:

For IDIS 401, 392, 394, 454, and 455, as indicated in this section, there are findings from last year's (2010) audit; however, in our current action we have begun ensuring that all documents are updated and signed by the co-applicant as applicable.

For IDIS 453, 461, and 449, these should be considered a finding as the Loan Officer failed to ensure that documents are updated, signed and/or submitted prior to loan closing. The Loan Officer must ensure that HOME Policies and Procedures are complied with.

Condition 9:

For IDIS 458, this should not be a finding as the calculation was based on the anticipated monthly income for the next 12 months where it was certain that government work hours will be cut. The reduction in work hours was proved with the passage of the Budget Bill which became Public Law 17-21 and further proved with check date 11/17/10. The client was eligible for the assistance.

For IDIS 439, this should not be a finding either as calculation was based on the anticipated monthly income for the next 12 months where it was certain that government work hours will be cut. At the time of the review, the impending Budget Bill had yet to be passed and reduction of work hours was imminent therefore, calculation was based on 78 working hours.

For IDIS 458, 439, 480, and 385, this should not be a finding.

Condition 10:

For IDIS 402, 367, 403, 385, 362, 454, 392, 394, 461, there were several factors that affected our ability to deliver assistance before the six-month period, including the Contractor not being able to submit pre-construction documents on time; permitting agencies' responses took longer than usual; appraisal and PTR reports were completed later than expected; legal review took longer than expected; client was not able to submit requested documents on time; and other loan programs required attention. However, Loan Officers have begun ensuring that clients' information is updated every six months to ensure continued eligibility.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-27, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
and M-10-ST-690203
Area: Eligibility
Questioned Costs: \$-0-

Auditor Response: For condition 9, if NMHC's calculation of anticipated income is different from the income per the employer verification due to certain circumstances, the basis of NMHC's calculation and supporting documentation should be included in the loan files.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-28
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
and M-10-ST-690203
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 2011 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.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jennifer C. Camacho, Loan Specialist

Corrective Action: MCD provided copies to HUD for review but HUD did not respond to the request for review of the section 3 Summary Report. The Mortgage and Credit Division will ensure that this report is submitted on a timely basis.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-29
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
and M-10-ST-690203
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: HOME loans extended to eligible participants should be properly monitored and accounted for.

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, 2011, 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 Audit of NMHC for fiscal year 2010.

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 Loan receivables by recording all such loans at the end of the month, and the responsible loan Accountant will reconcile for check and balances with a Loan Specialist.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-30
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
and M-10-ST-690203
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 ten items tested totaling \$336,993 of a total population of \$2,420,379 deferred loans receivable as of September 30, 2011, documentation of annual re-certifications performed in fiscal year 2011 could not be provided for eight items as follows:

<u>Loan No.</u>	<u>Loan Principal</u>
DHL-227	\$ 30,000
DHNC-385	\$ 57,000
DHP-428	\$ 57,000
DHR-364	\$ 44,758
HL-43-95B	\$ 13,462
PIHL-49 D	\$ 30,000
DHL-187	\$ 25,000
HL-001-PI	\$ 24,803

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 year 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jennifer C. Camacho, Loan Specialist

Corrective Action: NMHC did conduct annual recertifications with existing deferred loan borrowers beginning November 2010, January 2011, March 2011 and May 2011. Since we have a new Loan Specialist on board, she has been tasked with the annual recertifications of deferred home loan borrowers on a monthly basis.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-30, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203
and M-10-ST-690203
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Auditor Response: NMHC was not able to provide documentation supporting that annual recertifications performed in FY2011 for the eight items noted in the condition.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-31
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.254 Community Development Block Grants/Special Purpose
Grants/Insular Areas (Recovery Act Funded)
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 performed.

Condition: For twelve (or 92%) of thirteen disbursements tested, records of contractor employee interviews were not available.

<u>Check Number</u>	<u>Contract Number</u>
8911	NMHC-2010-R-005
9106	NMHC-2010-R-008
9211	NMHC-2010-R-005
9508	NMHC-2010-R-003
9509	NMHC-2010-R-005
10021	NMHC-2010-R-004
10107	NMHC-2010-R-008
10291	NMHC-2010-R-008
10516	NMHC-2010-R-008
10671	NMHC-2010-R-008
10944	NMHC-2010-R-008
11237	NMHC-2010-R-008

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.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jocelyn S. Kaipat, Procurement Officer, Zenie P. Mafnas, Grant Writer/Planner and Clemente S. Sablan, Technical Maintenance Coordinator

Corrective Action: NMHC will ensure that proper documentation of Davis-Bacon and employee interview requirements are adhered to.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-32
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.254 Community Development Block Grants/Special Purpose
Grants/Insular Areas (Recovery Act Funded)
Federal Award No.: B-09-SY-690001
Area: Procurement and Suspension and Debarment
Questioned Costs: \$20,821

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Specifically, the CNMI's Procurement Regulations state the following:

- Price quotations should be obtained from at least three vendors for purchases between \$2,500 and \$9,999.99. Price quotations obtained must be written, documented and submitted for approval.
- Procurements of \$10,000 and above should be procured using competitive sealed bidding. The invitation for bids shall be publicized in order to increase competition and broaden industry participation. A bidding period of at least thirty days shall be provided unless a shorter period is determined to be reasonable and necessary, but shall never be less than fifteen days.
- For procurement methods that permit contracting without using full and open competition, a written justification memo should be prepared and submitted by the expenditure authority and approved by the Procurement and Supply Director.
- For change orders, the agency shall thoroughly assess whether or not it would be more prudent to seek competition before adding significant new work to existing contracts. Change orders on construction and A&E contracts, which exceed 25% of the cumulative contract price, shall automatically be procured through competitive procedures, except when the procurement of the additional work to be performed is authorized without using full and open competition.
- Contractors shall not be allowed to continue working beyond expiration term of the original contract in the absence of an approved new contract or change order. Change orders shall be processed using the procedures for processing new contracts.

In addition, Sections 1605 of the American Recovery and Reinvestment Act of 2009 (ARRA) prohibits the use of ARRA funds for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States.

Condition: Of thirteen expenditures tested totaling \$615,582 of a total population of \$661,641, we noted the following:

1. For one item (or 8%) related to contract number NMHC-2010-R-004, a change order of \$4,421 was made to the original contract for new and additional work without obtaining competition. NMHC negotiated with the existing vendor to decrease the additional costs from \$6,521 to \$4,421 so as not to go through competitive bidding, which is required when the change order exceeds 25% of the cumulative contract price. Questioned costs are reported for the total change order amount of \$4,421.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-32, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.254 Community Development Block Grants/Special Purpose Grants/Insular Areas (Recovery Act Funded)
 Federal Award No.: B-09-SY-690001
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$20,821

Condition, Continued:

<u>Fund Code</u>	<u>General Ledger Date</u>	<u>Check Number</u>	<u>Expenditure Amount</u>
399	03/10/11	10021	\$ 16,200

2. For one item (or 8%), certification of compliance with Buy-American requirements was included in the bids; however, documentation of NMHC's compliance verification could not be provided.

<u>Fund Code</u>	<u>GL Date</u>	<u>Check Number</u>	<u>Contract Number</u>	<u>Expenditure Amount</u>
399	12/22/2010	9508	NMHC-2010-R-003	\$ 16,400

3. For one item (or 8%) related to contract number NMHC-2010-R-004 and three items (or 23%) related to contract number NMHC-2010-R-5, time extensions were approved without utilizing change orders which is required under CNMI Procurement Regulations. No questioned costs result from this condition since no additional costs were incurred related to the change orders.

Cause: The cause of the above conditions is inadequate documentation to support procurement procedures.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned cost of \$20,821.

Recommendation: We recommend that the NMHC comply with applicable procurement regulations and the Buy American Act. We further recommend that NMHC strengthen procedures on procurement file maintenance.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jocelyn S. Kaipat, Procurement Officer, Zenie P. Mafnas, Grant Writer/Planner and Clemente S. Sablan, Technical Maintenance Coordinator

Corrective Action: NMHC will ensure that compliance with procurement regulations and proper documentation and file requirements are adhered to.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-33
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.254 Community Development Block Grants/Special Purpose
Grants/Insular Areas (Recovery Act Funded)
Federal Award No.: B-09-SY-690001
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 2011 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.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jocelyn S. Kaipat, Procurement Officer and Zenie P. Mafnas, Grant Writer/Planner

Corrective Action: NMHC will ensure that grant reporting requirements are adhered to.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-34
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.254 Community Development Block Grants/Special Purpose Grants/Insular Areas (Recovery Act Funded)
 Federal Award No.: B-09-SY-690001
 Area: Subrecipient Monitoring
 Questioned Costs: \$-0-

Criteria: Subrecipient agreements should be established before disbursing any CDBG funds to a subrecipient. The subrecipient agreement should include provisions, not limited to, the statement of work, records and reports, program income and uniform administrative requirements. Further, the pass-through entity must establish and implement subrecipient monitoring policies and procedures.

Condition: Of thirteen expenditures tested totaling \$615,582 of a total population of \$661,641, we noted the following:

1. For thirteen items (or 100%), a written agreement with the subrecipient was not signed prior to disbursing CDBG-R funds for following contracts:

<u>Fund Code</u>	<u>General Ledger Date</u>	<u>Check Number</u>	<u>Contract Number</u>	<u>Expenditure Amount</u>
399	10/07/10	8911	NMHC-2010-R-005	\$ 53,207
399	11/03/10	9106	NMHC-2010-R-008	\$ 43,470
399	11/15/10	9211	NMHC-2010-R-005	\$ 103,688
399	11/17/10	9225	NMHC-2010-R-007	\$ 14,490
399	12/22/10	9508	NMHC-2010-R-003	\$ 16,400
399	12/22/10	9509	NMHC-2010-R-005	\$ 76,644
399	03/10/11	10021	NMHC-2010-R-004	\$ 16,200
399	03/18/11	10107	NMHC-2010-R-008	\$ 147,900
399	04/13/11	10291	NMHC-2010-R-008	\$ 20,133
399	05/13/11	10516	NMHC-2010-R-008	\$ 21,040
399	06/10/11	10671	NMHC-2010-R-008	\$ 43,521
399	07/20/11	10944	NMHC-2010-R-008	\$ 23,953
399	09/01/11	11237	NMHC-2010-R-008	\$ 34,937

2. For four items (or 10%), copies of progress reports and documentation of site visits evidencing the subrecipient monitoring policies and procedures were not provided.

<u>Fund Code</u>	<u>General Ledger Date</u>	<u>Check Number</u>	<u>Contract Number</u>	<u>Expenditure Amount</u>
399	10/07/2010	8911	NMHC-2010-R-005	\$ 53,207
399	11/15/2010	9211	NMHC-2010-R-005	\$ 103,688
399	12/22/2010	9509	NMHC-2010-R-005	\$ 76,644
399	03/10/2011	10021	NMHC-2010-R-004	\$ 16,200

Cause: The cause of the above condition is weak controls over implementation of subrecipient agreements, establishing monitoring policies and procedures and poor file maintenance.

Effect: The effect of the above condition is noncompliance with subrecipient monitoring requirements. No questioned costs result since the costs were incurred for allowable projects and subrecipients' OMB A-133 audits are obtained.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-34, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.254 Community Development Block Grants/Special Purpose
Grants/Insular Areas (Recovery Act Funded)
Federal Award No.: B-09-SY-690001
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Recommendation: We recommend that NMHC implement subrecipient monitoring policies and procedures. We further recommend that NMHC document monitoring procedures performed.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1:

NMHC will ensure that subrecipient agreements are drafted prior to the disbursement of funds for future CDBG-funded projects and that NMHC monitoring procedures are documented when performed. Please see "Written Procedures to Ensure Subrecipient Agreements are drafted before the disbursement of funds" forwarded to HUD on April 27, 2012.

Condition 2:

Clemente Sablan, CDBG Technical Coordinator, was responsible for project site visits and progress reports. Copies of progress reports (specific reports that were provided to the Planning Division by Mr. Sablan) based on on-site visits are attached for auditor review. NMHC will strengthen its procedures regarding on-site monitoring. NMHC will ensure that the CDBG Technical Coordinator submits all documentation to the Planner regarding on-site visits and progress reports, so in the case of the absence of the CDBG Technical Coordinator, the Planner will have a complete documentation of file of on-site visits and progress reports.

Proposed Completion Date: Immediately.

Auditor Response: For condition #2, the documentation provided did not provide adequate evidence of monitoring upon transfer of the project to the subrecipient.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-35
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Allowable Costs/Cost Principles
Questioned Costs: \$1,714

Criteria: Applicable allowable costs/cost principles requirements state that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary report will be required where employees work on more than one Federal award or a Federal award and a non-Federal award.

Condition: NMHC initially records salaries and benefits for all employees to a general account. On a quarterly basis, NMHC uses the employee timesheet for one payroll period to allocate salaries and benefits paid during the quarter to federal programs. Based on the selected timesheet, percentages of hours worked per program are calculated and are used to allocate salaries and benefits for the entire quarter. NMHC prepares journal entries to transfer calculated allocations from the general account to federal program expense accounts. Grantor approval of this allocation process was not provided.

Tests of administrative expenses totaling \$216,740 noted salaries expense and retirement benefits charged to the Section 8 Housing Choice Voucher Program of \$157,010 and \$14,633 for the fiscal year ended September 30, 2011, were allocated based on a quarterly hours worked certification, and supporting timesheets signed by employees, which was approved by the employees' immediate supervisor. Salaries expense charged to the grant is higher by \$1,714 and retirement benefits are lower by \$381 than the expected amounts based on quarterly allocation percentages.

Additionally, tests of employee activities noted that required certifications are not being obtained for employees working full-time on specific federal programs. Although employees are signing off on timecards or timesheets evidencing hours worked on a federal program, the sign off does not indicate if the employee actually performed activities solely for the one federal program.

Cause: The cause of the above condition is the lack of grantor approval of the quarterly allocation process and improper calculations of quarterly allocation percentages.

Effect: The effect of the above condition is noncompliance with the allowable costs/cost principles and questioned costs of \$1,714. This matter is reportable as the projected questioned costs exceed \$10,000.

Recommendation: We recommend NMHC obtain necessary approval from the grantor agency for all expenses allocated to the program. We further recommend NMHC verify that salaries charged to the program are based on approved quarterly hours worked certifications.

Prior Year Status: The lack of compliance with applicable allowable costs/cost principles requirements was reported as a finding in the Single Audits of NMHC for fiscal years 2009 and 2010.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-35, 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: Allowable Costs/Cost Principles
Questioned Costs: \$1,714

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger Dris, Chief Accountant

Corrective Action: NMHC implemented quarterly timesheets which was agreed during the grantor's on-site monitoring from March 12, 2007 through March 16, 2007 and from March 10, 2008 through March 14, 2008 and May 2011. For the FY 2011 calculation, NMHC will verify the average percentage within the four quarterly timesheet certifications for accuracy. NMHC implemented HUD timesheet compliance every pay period.

Proposed Completion Date: FY 2012.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-36
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$941

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 \$3,324,558 and \$198,422 rental and utilities expenses, respectively, twenty-seven HAP rental disbursements totaling \$24,972 and three utilities disbursements totaling \$370 were tested noting the following:

1. For one HAP disbursement (or 3%), the HAP amount per the general ledger did not agree with the amount per Form HUD 50058 by \$100. No questioned cost is presented 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>
03/03/11	HR0026A	\$ 1,000	\$ 1,100	\$ 100

2. Form HUD 50058 and HAP contract for one HAP disbursement (or 3%) were not provided, as follows:

<u>Period Tested</u>	<u>ACH/Check No.</u>	<u>HAP Amount Per General Ledger</u>	<u>Questioned Costs</u>
07/01/11	DD0199	\$ 941	\$ 941

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 and questioned costs of \$941. This matter is reportable as the projected questioned costs exceed \$10,000.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Actions:

1. NMHC's Program and Housing Division will work closely with the Fiscal Division to ensure that HAP amounts indicated in the general ledger coincide with the HAP amount indicated on the Form HUD 50058.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-36, 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: Allowable Costs/Cost Principles
Questioned Costs: \$941

Auditee Response and Corrective Action Plan, Continued:

Corrective Actions, Continued:

2. NMHC will ensure that the Form HUD 50058 and the HAP Contract are signed, dated, and maintained in file.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-37
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$6,082

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. 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
HO1055	11/03/10	04/01/10	3	Statement of unemployment; Affidavit of zero income	\$ 1,300
HO1045	12/03/10	07/01/10	Head	Affidavit of zero income	682
HO1175	12/03/10	01/01/10	1,2	Statement of unemployment; Affidavit of zero income	1,200
H01309	01/04/11	09/01/10	2	Statement of unemployment; Affidavit of zero income, Certification of asset disposition	700
HO1074A	06/01/11	12/01/10	Head	Affidavit of child support; Affidavit as to assets	1,100
HO1269	11/03/10	09/01/10	Head	Certification of asset disposition	1,100
					<u>\$ 6,082</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 \$6,082. 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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-37, 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: Eligibility
Questioned Costs: \$6,082

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: NMHC will ensure that documents supporting income and/or assets for all adult members of the household are maintained in file.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-38
 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: \$18,060

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. Eligibility files for one tenant (or 1%) were not provided. The amount of questioned costs represent total expenditures in fiscal year 2011 for the following tenant:

<u>General Ledger Date</u>	<u>Household No.</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
07/01/11	HR0036B	\$ 941	\$ 11,593
	Less costs already questioned in previous finding 2011-36		(941)
		Questioned costs this finding	\$ <u>10,652</u>

2. The completed and signed *Declaration of Section 214 Status* form for one household member (or 1%) 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>
HO1281	08/01/10	2	\$ 711

3. A birth certificate or other acceptable evidence of citizenship for one or more of the following household members could not be located:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member No.</u>	<u>HAP Amount</u>
HO1074A	12/01/10	1, 2, 3, 4	\$ 1,100
	Less costs already questioned in previous finding 2011-37		(1,100)
		Questioned costs this finding	\$ <u>-</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-38, 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: \$18,060

Condition, Continued:

4. A copy of the social security card (or other acceptable evidence of the SSN) for the following household member(s) could not be located:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member No.</u>	<u>HAP Amount</u>
HO1082	11/01/10	3, 4	\$ 1,088

5. Birthdate, name, SSN and other identification of household members per Form HUD 50058 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>
H01171	01/01/11	2	Birthdate does not agree with birth certificate	\$ 1,100
H01309	09/01/10	4	Social security number does not agree per social security card	700
H01082	11/01/10	2	Birthdate does not agree with birth certificate	1,088
H01330	09/01/10	1, 4, 5	Social security number does not agree with social security card and birthdate does not agree with birth certificate	970
HO1322	05/01/11	6	Birthdate does not agree with birth certificate	1,100
HO1174	12/01/10	1, 4, 7, 2, 3, 5, 6	Birthdate does not agree with birth certificate and first name in birth certificate does not agree with social security card	1,300
H01264	08/01/11	1, 2	Birthdate does not agree with birth certificate	1,100
H01246	06/01/11	1	Birthdate does not agree with birth certificate	750
Total				8,108
Less costs already questioned in previous findings 2011-37 (\$700) and condition 4 above (\$1,088)				(1,788)
				\$ 6,320

Cause: The cause of the above condition is the lack of adequate procedures to ensure 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 \$18,060.

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 and 2010.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-38, 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: \$18,060

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Actions:

1. NMHC will ensure that files are available upon request. In addition, NMHC will work closely with NMHC field offices in maintaining files and ensuring that files are accessible when needed.
2. NMHC will ensure that the Declaration of Section 214 Status form is signed, dated, and maintained in file.
3. NMHC will ensure that a birth certificate or other acceptable evidence of citizenship for all members of the household is maintained in file.
4. NMHC will ensure that a copy of the social security card or other acceptable evidence of the SSN is obtained for all household members and maintained in file.
5. NHMC will ensure that the birthdate, name, SSN, and other identification of household members indicated on Form HUD 50058 coincide with what is indicated on the birth certificate, social security card, and other forms of identification provided by the household members.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-39
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: \$2,289

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. The re-certification interview sheets for the following was either (a) not signed by the NMHC Housing Manager, the tenant/interviewee or both; or (b) re-certification was performed beyond twelve months:

<u>Household No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification per Certification/ Re-certification Interview Sheet</u>	<u>Deficiencies Noted</u>
HR0023A	10/04/10	05/01/10	Not signed by tenant/interviewee and NMHC
H01325	11/03/10	09/01/10	Not signed by tenant/interviewee
HO1103	06/29/11	10/01/11	Not signed by tenant/interviewee
HO1062	03/03/11	01/01/11	Re-certification was performed beyond twelve months

2. Form HUD 50058 was not signed by the NMHC Housing Manager for the following:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>HAP Amount</u>
HR0023A	05/01/10	\$ 750
HO1190	06/01/10	\$ 1,100
HO1170B	09/01/10	\$ 550

3. The HAP contract and lease amendment agreement was not signed by one or all adult household members, or NMHC, or was not in file for the following:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-39, 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: \$2,289

Condition, Continued:

Household No.	Form HUD 50058 Effective Date	Deficiencies Noted	HAP Amount	Questioned Costs
HR0023A	05/01/10	HAP contract not signed by NMHC	\$ 750	
HO1045	07/01/10	HAP contract not in file;	\$ 682	\$ 682
HO1175	01/01/10	HAP contract not in file;	\$ 1,200	1,200
HO1213	10/01/10	HAP contract not signed by NMHC	\$ 1,100	
HO1149	04/01/11	HAP contract not signed by NMHC and landlord	\$ 722	
HO1194	09/01/10	Lease agreement not in file	\$ 750	750
HO1168	10/01/10	HAP contract not in file	\$ 1,100	1,100
HO1003	11/01/10	HAP contract not in file; lease contract was signed by both tenant and landlord but not notarized	\$ 439	<u>439</u>
HO1128	04/01/11	Lease contract was not signed by landlord and tenant	\$ 1,300	
			Total	4,171
Less costs already questioned in previous finding 2011-37 (\$682 and \$1,200)				<u>(1,882)</u>
			Questioned costs this finding	<u>\$ 2,289</u>

4. *The Tenants Obligation to Report Interim Change* was either not signed by the NMHC Housing Manager, the tenant/interviewee, or both, or was not in file:

Household No.	Form HUD 50058 Effective Date	Deficiencies Noted	HAP Amount
H01309	09/01/10	Form not signed by the co-head of household	\$ 700
HO1077A	06/01/10	Form not signed by the head of household	\$ 431
HO1149	04/01/11	Not in file	\$ 722
H01241	06/01/11	Form not signed by the head and co-head of household	\$ 1,100

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 and questioned costs of \$2,289 resulting from condition 3. This matter is reportable as the projected questioned costs exceed \$10,000. No questioned costs are presented for conditions 1, 2 and 4 as the participants were determined to be eligible.

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.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-39, 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: \$2,289

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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Actions:

1. NMHC will ensure that the re-certification interview sheets are signed by the tenant, Housing Specialist, and Program and Housing Division Manager. In addition, NMHC will ensure that re-certifications are performed in a timely manner and 120 days on or before the re-certification date.
2. NMHC will ensure that the Form HUD 50058 is signed by the Program and Housing Division Manager.
3. NMHC will ensure that the HAP contract and lease agreement is signed and maintained in file.
4. NMHC will ensure that the Tenants Obligation to Report Interim Change is signed, dated, and maintained in file.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-40
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's 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 signed by one household adult member (member #2) as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
H01309	01/04/11	09/01/10	\$ 700

Cause: The cause of the above condition is the lack of policies and procedures to require signed consent forms. The finding is reported as projected discrepancies are greater than \$10,000.

Effect: The effect of the above condition was 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 Audit of NMHC for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Action: An *Authorization for the Release of Information - Privacy Act Notice* form for HO1309 was not signed by the co-head of household due to the fact that the individual was off-island for the medical attention of another family member. NMHC will ensure that the *Authorization for the Release of Information- Privacy Act Notice* form is signed by all adult members of the household and maintained in file.

Proposed Completion Date: Ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-41
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: \$-0-

Criteria: Applicable regulations state that the PHA must adopt a payment standard schedule that establishes voucher payment standard amounts for each fair market rent (FMR) area in the PHA jurisdiction. Under NMHC’s Section 8 Administrative Plan for Rental Assistance Program Section 10.1, NMHC currently administers a payment standard that is at 90% of the published FMR set for Guam and the Pacific Islands. In addition, the PHA’s administrative plan must state the method used by the PHA to determine that the rent to the owner is reasonable in comparison to rent for other comparable unassisted units. The PHA determination must consider unit attributes such as the location, quality, size, unit type, and age of the unit, and any amenities, housing services, maintenance and utilities provided by the owner.

Condition: Tests of the payment standard and reasonable rent noted the following:

1. For five items tested, one or more assisted units were included in the rent reasonableness determination. No questioned costs are raised since we could not assess the monetary value of the deficiency noted.

<u>Household No.</u>	<u>Date of Rent Reasonableness</u>	<u>Certification Effective</u>	<u>Unit Size</u>
HO1356	05/19/11	06/01/11	3
HO1269	08/30/11	09/01/11	3
HO1024A	05/31/11	06/01/11	3
HO1358	05/20/11	06/01/11	3
HO1216	09/29/10	10/01/10	2

2. Variances in calculated FMRs were noted for the following. No questioned costs are raised as the rent paid to the landlord is below the expected FMR.

<u>Household No.</u>	<u>Certification Effective</u>	<u>Unit Size</u>	<u>FMR Per Form HUD 50058</u>	<u>FMR Per Expectation</u>	<u>Variance in FMR</u>
HO1356	06/01/11	3	\$ 927	\$ 1,342	\$ (415)
HO1024A	06/01/11	3	\$ 921	\$ 1,342	\$ (421)
HO1100A	05/01/10	4	\$ 1,351	\$ 1,615	\$ (264)
HO1103	10/01/10	4	\$ 1,615	\$ 1,604	\$ 11
HO1175	01/01/10	4	\$ 1,589	\$ 1,615	\$ (26)
HO1276	12/01/10	3	\$ 927	\$ 1,342	\$ (415)
HO1356	07/01/10	3	\$ 927	\$ 1,351	\$ (424)
H01213	10/01/10	3	\$ 1,351	\$ 1,342	\$ 9
HO1024A	10/01/10	2	\$ 927	\$ 921	\$ 6
HO1194	09/01/10	3	\$ 927	\$ 1,351	\$ (424)
HO1168	10/01/10	3	\$ 1,351	\$ 1,342	\$ 9
HO1003	11/01/10	3	\$ 1,351	\$ 1,342	\$ 9
HO1356	07/01/11	3	\$ 921	\$ 1,342	\$ (421)
H01246	06/01/11	2	\$ 1,342	\$ 921	\$ 421
H01270	06/01/11	3	\$ 1,315	\$ 1,342	\$ (27)

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-41, 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: \$-0-

Cause: The cause of the above condition is lack of strict monitoring procedures over updating payment standard schedules and weak controls over performing rent reasonableness.

Effect: The effect of the above condition is the potential misstatement of payment standard amounts.

Recommendation: We recommend that payment standard schedules be updated to reflect current fair market rents published by HUD. We further recommend that NMHC strengthen controls over rent reasonableness determination.

Prior Year Status: The lack of monitoring procedures to ensure that payment standard schedules are updated was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008 and NMHC for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Actions:

1. The TENMAST Rent Reasonableness Module is programmed to maintain a listing of unassisted units needed to conduct the rent reasonableness determination report. It was noted by the PHD Special Assistant, as well as previous audits, that some of the units selected for the RR determination report were already assisted units. NMHC does not maintain the unassisted units listing produced by the TENMAST Module. Deletion of the assisted units in the unassisted units listing must be addressed by TENMAST since the module performs other activities. The need to address this issue was brought up on several occasions to the PHD Manager for corrective action. NMHC will ensure that in conducting rent reasonableness, units that are assisted will not be included in the rent reasonableness determination.
2. It was recommended by HUD, that the number of bedrooms in a unit reflect the number of bedrooms stated on the voucher. It was argued that because a landlord was not charging for the extra room (e.g. 3 bedroom unit for a 2 bedroom rental price), units were being approved despite the additional bedroom; this was considered office practice as implemented by previous PHD Management. As a result of this, NMHC has to issue a higher Utility Reimbursement Payment (URP) to the tenants since the Utility Allowance is based on the actual number of bedrooms in a unit. The need to address this issue was brought up on several occasions to the PHD Manager for corrective action; currently, the Housing Specialists are working with tenants to ensure that the number of bedrooms in a unit matches the number of bedrooms stated on the Housing Choice Voucher (unless a request has been made as a form of reasonable accommodation). NMHC will ensure that the proper FMR is applied to the rent calculation.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-42
 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: \$-0-

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:

1. The inspection report in file was not completely filled out or some sections were not completed and were not signed by the inspector for the following:

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspections Performed During FY 2011</u>	<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspections Performed During FY 2011</u>
HR0023A	10/04/10	03/03/11	HO1024A	05/04/11	05/25/11
HR0026A	03/03/11	06/17/11	H01074A	06/01/11	10/28/10
HO1281	10/04/10	07/08/11	HO1168	06/01/11	08/23/11
HO1269	11/03/10	08/26/11	HO1357	06/01/11	06/13/11
H01100A	11/03/10	03/15/11	HO1037A	06/03/11	10/28/10
HO1055	11/03/10	03/08/11	HO1003	06/03/11	10/07/10
H01129	11/03/10	10/07/10	HO1334	06/03/11	12/14/10
HO1183A	12/03/10	08/03/11	HO1333	06/03/11	12/14/10
HO1175	12/03/10	12/03/10	HO1110	06/29/11	01/20/11
H01008A	01/04/11	01/07/11	HO1037A	06/29/11	10/28/10
H01171	01/04/11	12/14/10	HO1116	06/29/11	10/06/10
H01082	01/04/11	10/06/10	HO1220	06/30/11	09/26/11
HO1333	02/01/11	12/14/10	HO1322	07/01/11	08/25/11
HO1276	02/03/11	04/27/11	HO1241	07/01/11	04/28/11
HO1212	02/03/11	08/25/11	HO1114	07/01/11	04/07/11
HO1356	02/03/11	06/07/11	HO1356	07/01/11	06/07/11
H01302	02/03/11	07/08/11	HO1152	07/01/11	01/21/11
HO1077A	04/04/11	04/28/11	HO1179	07/01/11	12/09/11
HO1356	04/04/11	06/07/11	HO1183A	07/01/11	08/03/11
HO1149	04/04/11	03/09/11	H01016	08/04/11	04/28/11
HO1357	04/04/11	06/13/11	HO1246	09/02/11	04/26/11
H01063A	05/04/11	04/28/11			

2. The completed unit inspection form evidencing unit inspections performed during fiscal year 2011 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>
HR0036B	07/01/11	\$ 941
Less costs already questioned in previous finding 2011-36		<u>(941)</u>
Questioned costs this finding		\$ <u> </u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-42, 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: \$-0-

Condition, Continued:

3. The NMHC inspector did not complete the inspection results section of the deficiency report for the following:

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspection Performed During FY 2011</u>
HO1045	12/03/10	06/08/11
HO1077A	04/04/11	04/28/11
H01241	07/01/11	04/28/11
H01016	08/04/11	04/28/11
H01246	09/02/11	04/26/11

4. The inspection deficiency report was not signed by the Tenant/Owner; therefore, acknowledgment by the owner of deficiencies noted was not evident for one tenant:

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspection Performed During FY 2011</u>
HO1110	06/29/11	01/20/11

5. Three failed inspections were not included in the Failed Inspection Log Sheet as of September 30, 2011 as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspection Performed During FY 2011</u>
HO1183A	12/03/10	08/03/11
HO1170B	04/04/11	08/08/11
HO1183A	07/01/11	08/03/11

6. Deficiencies were not corrected within thirty days for the following failed inspections:

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspection Performed During FY 2011</u>
H01302	02/03/11	07/08/11
HO1357	04/04/11	06/13/11
HO1357	06/01/11	06/13/11
H01114	07/01/11	04/07/11

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.

Effect: The effect of the above condition is possible noncompliance with the HQS inspections requirement. No questioned costs are presented for conditions 1, 3, 4, 5 and 6 as the units met the required HQS.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-42, 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: \$-0-

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 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Actions:

1. HO1281, HO1269, HO1100A, HO1129, HO1175, HO1008A, HO1171, HO1082, HO1333, HO1276, HO1212, HO1356, HO1302, HO1077A, HO1149, HO1357, HO1024A, HO1074A, HO1168, HO1037A, HO1003, HO1334, HO1333, HO1110, HO1037A, HO1116, HO1322, HO1241, HO1114, HO1152, HO1179, HO1016, HO1246, HO1220, HO1063A and HO1055 - Some sections of the Inspection Checklist Reports identified were not completed or filled out. This is due to the fact that not all sections are applicable to the unit being inspected (i.e. not all units have “chimneys” or “elevators”). Moreover, some sections (i.e. *D. Questions to ask the Tenant* and *E. Inspection Summary*) are optional and are not required to be filled out by the HQS Inspector. In addition, the Inspection Checklist Report (HUD-52580) does not require the HQS Inspector’s signature. The HQS Inspector and the PHD Special Assistant are working with the TENMAST Desktop Inspection module in order to address these findings since electronic copies can be generated and stored through the TENMAST module.

HO1183A - The tenant was not home at the time the HQS inspection was to be conducted; the HQS inspector went back to the tenant’s unit in the afternoon to conduct the HQS inspection, but the tenant was still not home. The HQS inspector tried contacting the tenant via telephone, but was unsuccessful since no one answered the calls. The tenant was terminated from the HCV Program.

2. NMHC will ensure that the inspection checklist is completed and maintained in file.
3. NMHC will ensure that the inspector completes the inspection results/summary decision section of the inspection form.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-42, 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: \$-0-

Auditee Response and Corrective Action Plan, Continued:

4. Although the *HQS Inspection Deficiency* form was not signed by the landlord, the HQS Inspector did inform the tenant of the deficiencies and requested the tenant to contact the landlord for notification of the deficiencies. In addition, the HQS Inspector also contacted and informed the landlord of the deficiencies via telephone; the landlord was leaving off-island and had informed her maintenance worker to address the deficiencies. When the HQS Inspector conducted the re-inspection the next day, the deficiencies had been corrected and the tenant's rental unit passed the annual HQS inspection. The HQS Inspector made several attempts to contact the landlord to sign and retrieve the HQS Inspection Deficiency form but was unsuccessful. Despite this, the deficiencies were corrected in a timely manner. The PHD Manager will work on strengthening HQS procedures to ensure landlord compliance with NMHC policies. NMHC will ensure that the inspection deficiency report is signed and dated.
5. HO1183A and HO1170B - The *HQS Inspection Deficiency* forms were not provided to the PHD Special Assistant by the HQS Inspector to be included in the Failed Inspection Log Sheet; this was an oversight on the HQS Inspector's part. The PHD Manager will reiterate the importance of maintaining/collecting all *HQS Inspection Deficiency* forms for the Failed Inspection Log Sheet. In addition, the HQS Inspector and the PHD Special Assistant are working with the TENMAST Desktop Inspection module in order to eliminate the need to collect HQS Inspection Deficiency forms since a report similar to the Failed Inspection Log Sheet can be generated through the TENMAST module. NMHC will ensure that failed inspections are included in the Failed Inspection Log Sheet.
6. NMHC will ensure that if deficiencies are cited in an inspection, documentation that the deficiencies were corrected within thirty days will be maintained in file.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-43
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: \$-0-

Criteria: Applicable regulations state that the PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised.

Condition: NMHC's review of utility rate data resulted in a rate change of more than 10 percent since the last utility allowance schedule was revised; however, NMHC failed to revise the utility allowance schedule to reflect the rate change.

Cause: The cause of the above condition is the lack of procedures to update the utility allowance schedule to reflect the change in utility rates.

Effect: The effect of the above condition is noncompliance with the utility allowance requirement. No questioned cost is presented as we were not able to quantify the amount of noncompliance.

Recommendation: We recommend that NMHC establish procedures to monitor utility rate change and update the utility allowance schedule in response to the change in utility rates.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Division Manager

Corrective Action: Although the Utility Allowance Schedule analysis was conducted, the actual Utility Allowance Schedule rate was not implemented until April 01, 2012 pending the results of a utility consumption survey and the approval of the NMHC Board Members. The effective date of the Utility Allowance Schedule rate was set for October 01, 2011; tenants were issued checks by NMHC reflecting a retroactive Utility Allowance Schedule payment for the months of October through April due to the rate increase. The PHD Special Assistant will conduct the Utility Allowance Schedule analysis in a timely manner (e.g. end of 3rd Quarter of every fiscal year) to ensure ample time for review, approval, and implementation by the start of the next fiscal year.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2011

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, 2011:

Questioned costs as previously reported:

Fiscal year 2010	\$ 571,388
Fiscal year 2009	625,176
Fiscal years 2008 and prior	<u>356,801</u>
	1,553,365
Questioned costs of fiscal year 2011 Single Audit	<u>215,907</u>
Unresolved questioned costs at September 30, 2011	\$ <u><u>1,769,272</u></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 97).



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, 2010:

FINANCIAL STATEMENT FINDINGS

- Finding No. 2010-1 - Not corrected. See corrective action plan to Finding No. 2011-01.
- Finding No. 2010-2 - Corrective action was taken.
- Finding No. 2010-3 - Not corrected. See corrective action plan to Finding No. 2011-03.
- Finding No. 2010-4 - Not corrected. See corrective action plan to Finding No. 2011-04.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- Finding No. 2010-5 - Not corrected. See corrective action plan to Finding No. 2011-08.
- Finding No. 2010-6 - Not corrected. See corrective action plan to Finding No. 2011-09.
- Finding No. 2010-7 - Not corrected. See corrective action plan to Finding No. 2011-10.
- Finding No. 2010-8 - Not corrected. See corrective action plan to Finding No. 2011-12.
- Finding No. 2010-9 - Not corrected. See corrective action plan to Finding No. 2011-13.
- Finding No. 2010-10 - Not corrected. See corrective action plan to Finding No. 2011-11.
- Finding No. 2010-11 - Not corrected. See corrective action plan to Finding No. 2011-14.
- Finding No. 2010-12 - Not corrected. See corrective action plan to Finding No. 2011-15.
- Finding No. 2010-13 - Not corrected. See corrective action plan to Finding No. 2011-16.
- Finding No. 2010-14 - Corrective action was taken.
- Finding No. 2010-15 - Not corrected. See corrective action plan to Finding No. 2011-19.
- Finding No. 2010-16 - Not corrected. See corrective action plan to Finding No. 2011-21.
- Finding No. 2010-17 - Corrective action was taken.
- Finding No. 2010-18 - Corrective action was taken.

“NMHC is a fair housing agency and an equal opportunity provider, lender and employer.”

Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2010, Continued:

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

- Finding No. 2010-19 - Not corrected. See corrective action plan to Finding No. 2011-25.
- Finding No. 2010-20 - Not corrected. See corrective action plan to Finding No. 2011-26.
- Finding No. 2010-21 - Not corrected. See corrective action plan to Finding No. 2011-27.
- Finding No. 2010-22 - Corrective action was taken.
- Finding No. 2010-23 - Corrective action was taken.
- Finding No. 2010-24 - Not corrected. See corrective action plan to Finding No. 2011-29.
- Finding No. 2010-25 - Not corrected. See corrective action plan to Finding No. 2011-30.
- Finding No. 2010-26 - Not corrected. See corrective action plan to Finding No. 2011-35.
- Finding No. 2010-27 - Corrective action was taken.
- Finding No. 2010-28 - Not corrected. See corrective action plan to Finding No. 2011-37.
- Finding No. 2010-29 - Corrective action was taken.
- Finding No. 2010-30 - Not corrected. See corrective action plan to Finding No. 2011-38.
- Finding No. 2010-31 - Not corrected. See corrective action plan to Finding No. 2011-39.
- Finding No. 2010-32 - Corrective action was taken.
- Finding No. 2010-33 - Not corrected. See corrective action plan to Finding No. 2011-40.
- Finding No. 2010-34 - Corrective action was taken.
- Finding No. 2010-35 - Not corrected. See corrective action plan to Finding No. 2011-41.
- Finding No. 2010-36 - Not corrected. See corrective action plan to Finding No. 2011-42.