

Office of the Public Auditor

A Report to the Citizens of the CNMI Calendar Year 2014

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Mission

We promote and advance government accountability and public trust through the prevention and detection of fraud. waste, and abuse, while maintaining the highest standards of independence, integrity, and professionalism.

A CITIZEN-CENTRIC REPORT		
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Who We Are

The Office of the Public Auditor (OPA) is an independent agency of the Commonwealth Government tasked with the responsibility to audit the receipt, possession, and disbursement of public funds and to perform such other duties as required by law.

OPA is mandated to prevent and detect fraud, waste and abuse in the collection and expenditure of all public funds. The Public Auditor may conduct audits and investigations, when necessary, relating to programs and operations involving expenditure of public funds.

The office is composed of 14 staff headed by the Public Auditor. Five individuals are in the Auditing Division, six people comprise the Legal & Investigation Division, with the remaining three in Administration.

2014 Peer Review Results – Who Audits the Auditor?

The CNMI OPA is pleased to announce that it received a full compliance rating for its 2014 quality control peer review. In compliance with Generally Accepted Government Auditing Standards, OPA undergoes an external peer review every three years. The purpose of the review is to determine if OPA's internal quality control system is suitably designed and operating effectively.

The 2014 peer review was conducted by the Association of Pacific Island Public Auditors (APIPA) and performed by Charles W. Hester, APIPA Peer Review Technical Consultant; Stoney Taulung, Kosrae State

Public Auditor; and Alice Etse, Senior Auditor of the Pohnpei State Auditor's Office.

The team concluded that, "Based on the results of our review, it is our opinion that the Office of the Public Auditor's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audits and attestation engagements during the period October 1, 2011 through September 30, 2014." The full report can be found at www.opacnmi.com.



From left to right: Charles W. Hester, Alice Etse, Michael Pai, Geraldine Tenorio, David Blake, and Stoney Taulung.

Michael Pai Confirmed for Second Six Year Term

On November 25, 2014, the House of Representatives confirmed Michael Pai's re-appointment as Public Auditor. House members each spoke briefly in their support of Pai's reappointment. House Speaker Joseph P. Deleon Guerrero said Pai "is well respected in his field, has diligently performed his duties, and has the respect of his subordinates." Pai said, "Serving as the CNMI Public Auditor is the biggest honor and highlight of my career and I want to thank the Governor, the Legislature, and the community of the CNMI for their confidence and support."

2014 ACCOMPLISHMENTS and ACTIVITIES

OPA Audit Activities

- Conducted a performance audit on the assessment and collection of excise taxes by the Division of Customs. The assessment and collection of excise, fuel, and cigarette taxes historically represents the third largest revenue source for the CNMI with total reported receipts of \$23M and \$25M in fiscal years 2011 and 2012, respectively. The audit disclosed inadequacies and inconsistencies in both the initial assessment of excise taxes and the collection of outstanding balances. These findings resulted in a loss of income or forgone revenue for the CNMI. OPA presented a list of recommendations, which if implemented, would improve the overall operations of the Division as it relates to tax assessment and collection. The full report can be found at: http://www.opacnmi.com/resources/files/reports/aud
- it/Customs AR1401.pdf
 Assisted and coordinated with Deloitte & Touche to conduct the 2013 CNMI Single Audit.
- Engaged the services of a CPA firm to conduct the audits of the Northern Mariana Islands Retirement Fund and the Commonwealth HealthCare Corp. (CHCC).
- Performed necessary bank reconciliations for CHCC for fiscal year 2013.

2014 Elections

As required by law, the OPA assisted the Commonwealth Election Commission (CEC) to prevent and detect fraud and any abuse in the election process. OPA staff was assigned to monitor the polling stations during the 2014 General and Run-off Elections. OPA is also a member of the CEC Appeals Board.

Audit Recommendation Tracking System

OPA maintains an audit recommendation tracking system to monitor the implementation and resolution of audit recommendations. On a semi-annual basis, OPA issues its *Report on CNMI Agencies' Implementation of Audit Recommendations which presents the audited agencies' compliance with OPA's recommendations.* The table below presents the status of OPA's audit recommendations as of June 30, 2014:

Status of Audit Recommendations	As of 06/ 30/14
Total Recommendations Tracked	33
Less: Closed Recommendation	1
Outstanding Recommendations	32
Delinquent Recommendations	31

Delinquent Recommendations

The recommendations addressed to agencies were classified as delinquent as OPA was not informed by these agencies within the last 180 days of any corrective action taken to implement OPA's recommendations.

Procurement Appeals

The procurement appeals process resolves a protest about a solicitation or contract. For a vendor to file an appeal with OPA, they must first protest to the government agency and be denied relief by the agency.

OPA ruled on five procurement appeals in 2014: Three appeals involved Requests for Proposals (RFPs) issued by the Commonwealth Utilities Corporation (CUC) and two appeals for RFPs issued by the Department for Public Works (DPW). Two CUC appeals were denied and one was dismissed. One DPW appeal was dismissed and the remaining appeal was denied.

Legal and Investigations

OPA Investigation Division recorded eighty-four (84) complaints of Audit/Investigation Requests, these complaints were received through the OPA Hotline portal, walk-ins, and/or internal referrals. This report reflects the cases received during the time period from January to December 31, 2014.

All cases/complaints received by the Investigation Division are reviewed by OPA legal counsels and the Chief Investigator. Suggestions and recommendations are then provided to the Public Auditor for approval.

DETAIL OF CASES BY PRIORITY:

- > Thirty (30) complaints were considered HIGH
- Eighteen (18) were MEDIUM
- > Thirty-one (31) were LOW; and
- Three (3) complaints were for legal review and two (2) complaints fell under administrative action.

JOINT INVESTIGATIONS:

- Federal: Five (5) cases are on-going.
- Local: OPA and Department of Public Safety are investigating seven (7) on-going cases.

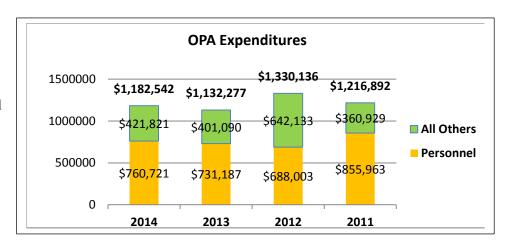
OPA EXPENDITURES FY 2011 to 2014

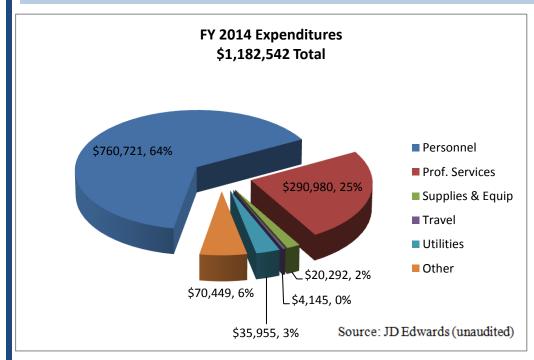
The Office's expenditures for fiscal years 2011 through 2014 are summarized in the accompanying table. Personnel expenditures for these years were 70%, 52%, 65%, and 64%, respectively. The Professional Services category includes expenditures related to conducting the CNMI Single Audit and other performance audits and services.

Expenses	FY 2014	FY 2013	FY 2012	FY2011
Personnel	\$760,721	\$731,187	\$688,003	\$855,963
Professional Services	290,980	319,114	560,445	273,671
Supplies & Equipment	20,292	10,985	8,879	10,317
Travel	4,145	6,751	6,971	7,286
Utilities	35,955	3,537	29,302	19,002
Other	70,449	60,703	36,536	50,653
Total	\$1,182,542	\$1,132,277	\$1,330,136	\$1,216,892

Source: JD Edwards (unaudited)

The chart to the right depicts OPA's expenditures classified into two general categories, Personnel and All Others to show their relative importance.





A more detailed depiction of OPA's expenditures for FY 2014 is shown in the following chart. The \$290,980 amount in the Professional Services category, which accounts for 25% of the Office's overall expenditures, included services related to the performance of the CNMI Single Audit.

The Other category is comprised of operating expenditures such as, Vehicle Rentals, Repairs and Maintenance, Custodial services, and Grounds Maintenance, etc.

OPA has historically expended less than its budgeted amounts resulting in significant surplus funds that revert to the General

Fund at the end of each fiscal year. The Office expects to continue its prudent and conservative spending pattern in the foreseeable future.

2015 OVERVIEW

AUDITS

- OPA will continue to coordinate and assist in the performance of the 2014 CNMI Single Audit.
- OPA will continue to coordinate and assist in the audits of CHCC and the Retirement Fund.
- An on-going performance audit of DPS Evidence Controls will be completed in 2015.

Other on-going or planned audits for 2015 involve examining government expenditures, compliance with regulatory requirements, and contractual agreements.

Additional performance audits or reviews may initiate depending on the progress of planned audit activities.

INITIATIVES

- Ensure that audits of component units and the overall CNMI Single Audit are completed on a timely basis.
- Conduct an on-going review of Budgeting and Accounting policies and procedures that impact the CNMI Single Audit. The Financial Management Information System of the CNMI central government will also be included in this review.
- Work with the Legislature to address and resolve conflicting existing laws and ambiguities to clarify and better define the roles and responsibilities that the office must observe.
- Review and discuss the MOA that established the joint multi-agency task force comprised of OPA, the Office of the Attorney General (OAG), and the Department of Public Safety to ensure continued effective collaboration and cooperation.
- Initiate training/workshops from the U.S. Office of the Inspector General covering government accounting and auditing principles and practices.
- Create a Frequently Asked Question (FAQ) section on the OPA website to aid the public's understanding of audit requirements, details and terminology.

• Encourage the adoption of the Association of Government Accountants Citizen-Centric financial reporting format to improve transparency and accountability and foster innovative means of communication between governments and their citizenry.

CHALLENGES

- Since 2002, OPA has relied on a technical assistance grant from the U.S. Department of the Interior (DOI) for staff development and professional training. It seems unlikely that this assistance will continue in 2015 because of competing priorities that DOI must address in the CNMI. OPA will fund these necessary and in some cases required educational/certification activities through its local funding sources.
- OPA has had difficulties in filling needed positions. Despite a continuous job vacancy announcement for Auditors that has been posted since July 2013, OPA has been able to hire just three qualified persons. As a result, OPA will identify incentives that will attract qualified individuals for needed positions in the office.
- OPA foresees a potential increase in procurement protests in 2015. Planned investment activities throughout the CNMI will generate an influx of funds to the CNMI government that will result in more RFPs and ITBs for related projects. The legal staff must be prepared to address these appeals.
- The CNMI General Fund cash flow and OPA's budget is negatively impacted by the non-payment of autonomous agencies to remit the lawfully mandated 1% assessment of funding either through exemption or lack of enforcement. OPA will consult with the Administration, the OAG, and the Legislature to resolve this issue.

OPA envisions its work to facilitate and advance responsible governance, accountable to the people, by effectively communicating the results of our work simply and clearly. Please share your opinion of this report by contacting Roger Madriaga at Tel: 322-6481 ext. 114 or at Email: rmadriaga@opacnmi.com. Thank you. Si Yu'us ma'ase, Olomwaay.