

Audit of Collections on Saipan

August 4, 2023



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Results in Brief

The Office of the Public Auditor (OPA) conducted an audit on the Department of Finance's (DOF) sanctioned collection points on Saipan for the period of December 14, 2022, through December 16, 2022, to determine if daily collections are properly accounted for.

To address the audit objective, OPA requested a complete listing of DOF-sanctioned collection points and the standard operating procedures (SOP) for daily collections from DOF, Division of Treasury (Treasury). The listing of collection points was provided; however, DOF did not have an SOP. Consequently, OPA extended its audit procedures to include conducting interviews with key personnel, walkthroughs of processes, and observations at each collection point to gain an understanding of the daily collection activities. Surprise collection counts were also performed at all collection points.

Accordingly, OPA's testing procedures indicate that the lack of an SOP to ensure that daily collections are adequately accounted for at all DOF-sanctioned collection points resulted in the following:

- Reconciliation and remittance of daily collections to the Treasury at five collection points were untimely;
- Daily collections and Manual Official Cash Receipts (MOCRs) at five collection points were not properly secured;
- Lack of Segregation of duties at one collection point;
- Cash overages and shortages at five collection points were noted during the surprise collection count; and
- Change fund was not consistently provided to all the collection points.

The finding indicates a lack of accountability and oversight of daily collections. OPA recommends that DOF develop and implement a uniform SOP for accountability of collections at all DOF-sanctioned collection points and ensure strict adherence. The SOP should have adequate procedures to ensure that (1) reconciliation of daily collections is performed at the end of each business day; (2) collections are deposited timely; (3) collection duties are properly segregated; (4) internal controls are established to ensure that all unremitted collections to the Treasury and MOCRs are properly secured; and (5) the need for change fund at all collection points are reassessed.

Introduction

Objective

The objective of the audit is to determine if daily collections at DOF-sanctioned collection points on Saipan are properly accounted for.

Please see [APPENDIX 1](#) for the scope and methodology of the audit.

Background

1 CMC §§ 2553(a) and 2557 authorizes DOF to collect and deposit all locally raised revenues from any source, which includes taxes, custom duties, excise tax revenues, license fees, payment for services, and to adopt rules and regulations for matters within its jurisdiction. To perform these duties, various DOF-sanctioned collection points were established to ensure compliance with applicable laws and regulations.

Due to the nature of collections and their inherent risks, OPA interviewed key personnel, performed walkthroughs and observations, and conducted surprise collection counts at 16 DOF-sanctioned collection points to gain an understanding of DOF's daily collection process and determine whether collections were properly accounted for. The 16 collection points on Saipan identified by the Treasury are listed in [Table 1](#) below.

[Table 1: DOF-sanctioned Collection Points on Saipan](#)

DOF-sanctioned Collection Points on Saipan	Location
DOF, Division of Customs and Biosecurity (Francisco C. Ada International Airport)	Dandan
DOF, Division of Customs and Biosecurity (Seaport)	Lower Base
DOF, Division of Customs and Biosecurity (U.S. Postal Service)	Chalan Kanoa
DOF, Division of Revenue and Taxation	Dandan
DOF, Division of Treasury	Capitol Hill
Bureau of Environmental and Coastal Quality	Gualo Rai
CNMI Scholarship Office	Capitol Hill
Commonwealth Law Revision Commission	Susupe
Commonwealth Office of Transit Authority	Lower Base
Department of Community and Cultural Affairs, Division of Nutrition Assistance Program	As Lito
Department of Lands and Natural Resources, Division of Agriculture (Animal Health Clinic)	Kagman
Department of Lands and Natural Resources, Division of Parks and Recreation	Lower Base
Department of Public Safety, Bureau of Motor Vehicle	Susupe
Department of Public Works, Division of Solid Waste Management (Transfer Station)	Lower Base
Department of Public Works, Division of Solid Waste Management (Marpi Landfill Station)	Marpi
Joeten Kiyu Public Library	Susupe

Prior Audit Coverage

See [APPENDIX 2](#) for prior audit coverage.

Findings

DOF lacks an SOP to ensure daily collections are adequately accounted for at all DOF-sanctioned collection points.

The collection and deposit of all locally generated revenues are within DOF's purview. However, DOF does not have an SOP to ensure daily collections are adequately accounted for at all 16 DOF-sanctioned collection points on Saipan. Consequently, OPA expanded its audit procedures to include walkthroughs and observations of the daily collection process and performed surprise collection counts at these collection points. The primary goal of an SOP is to describe the steps in key processes to ensure accountability, consistency, and efficiency in the conduct of an activity or operation. The lack of an SOP increases the likelihood of errors, improprieties, inefficiencies, and inconsistencies.

During the interviews, walkthroughs, observations, and surprise collection counts at all the collection points, OPA noted inconsistencies due to the lack of an SOP as follows:

Reconciliation and Remittance of Daily Collections Were Untimely

Five collection points did not perform daily reconciliation procedures and timely remittance of collections to Treasury. Reconciliation procedures and remittance of collections varied from once a week to twice a month. According to Treasury, collections should be remitted daily. Interviews with authorized custodians/cashiers at the collection points stated that daily collections are reconciled and remitted to the Treasury the day before or the day of their entity's scheduled remittance date. Consequently, daily collections were left to accumulate until the entity's scheduled date. At one collection point, OPA was unable to validate collections totaling \$3,650 as reconciliation and supporting documents were not provided.

Daily Collections and MOCRs Were Not Properly Secured

Daily collections and MOCRs were not properly secured at five collection points. Two of the collection points neither had a security system nor a locked safe/cabinet to properly secure the MOCRs and unremitted collections. At the end of the business day, the unremitted collections and MOCRs were held by the authorized custodian/cashier offsite for safekeeping. One collection point did not secure collections and unused MOCRs in a locked cabinet throughout the day until the end of the business day. Another collection point utilized a locked cabinet to store collections; however, the key was not adequately secured. One collection point did not secure its unused MOCR despite having a safe.

Lack of Segregation of Duties

At one collection point, the reconciliation of daily collections and remittance to Treasury were performed by one individual due to the nature of operations and frequency of services provided. An essential control over collections is the segregation of duties. The basic premise should be that at least two individuals handle daily collections and related activities of any task or transaction to ensure that no single person is solely in control.

Surprise Collection Count Results in Cash Overages and Shortages

OPA conducted surprise collection counts at all 16 collection points from December 14, 2022, through December 16, 2022. Cash overages and shortages were noted at five collection points. Two collection points had an overage totaling \$1.00, and three had a shortage totaling \$254.00.

During interviews conducted with authorized custodians/cashiers at the collection points, OPA noted that the overages and shortages were due to either an oversight, the customer leaving change behind, or collections being secured at an off-site location. OPA also noted that the lack of an SOP creates confusion on how collection points address overages and shortages during the daily reconciliation process.

Change Fund Was Not Consistently Provided to All Collection Points

Six of the 16 collection points did not have a change fund. OPA's interviews, walkthroughs, observations, and the surprise collection count revealed that change funds were not consistently provided to all collection points. Consequently, authorized custodians/cashiers have requested customers to pay the exact amount due or resorted to using their personal funds to make or give change for cash sales.

OPA recommends:

DOF develops and implements a uniform SOP for accountability of collections at all DOF-sanctioned collection points and ensures strict adherence. The SOP should have adequate procedures to ensure that (1) reconciliation of daily collections is performed at the end of each business day; (2) collections are deposited timely; (3) collection duties are properly segregated; (4) internal controls are established to ensure that all unremitted collections to the Treasury and MOCRs are properly secured; and (5) the need for change fund at all collection points are reassessed.

Conclusion and Recommendations

An SOP that clearly defines operating procedures is essential for collection points to ensure accountability, efficiency, and process consistency. In addition, SOPs, if properly designed and communicated to employees, provide additional assurance that collection point activities are conducted in accordance with applicable laws and regulations.

Recommendation Summary

DOF should develop and implement a uniform SOP for accountability of collections at all DOF-sanctioned collection points and ensures strict adherence. The SOPs should have adequate procedures to ensure that (1) reconciliation of daily collections is performed at the end of each business day; (2) collections are deposited timely; (3) collection duties are properly segregated; (4) internal controls are established to ensure that all unremitted collections to the Treasury and MOCRs are properly secured; and (5) the need for change fund at all collection points are reassessed.

Summary of Responses

Please see [APPENDIX 3](#) for OPA's response and [APPENDIX 4](#) for DOF's detailed response.

Appendix 1. Scope and Methodology

The scope of our audit covered:

All DOF-sanctioned collection points and daily collections between December 14, 2022, through December 16, 2022, on Saipan.

The Office of the Public Auditor (OPA) performed audit procedures to achieve the following:

1. Gained an understanding of the subject matter: Review applicable laws, regulations, and policies relating to collections.
2. Obtained a list of DOF-sanctioned collection points on Saipan from DOF-Treasury.
3. Conducted interviews with key personnel, walkthroughs of processes, observations, and surprise collection counts.
4. Prepared work papers and summarized audit results.
5. Summarized findings and recommendations.
6. Prepared and finalized the audit report.
7. Published audit report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix 2. Prior Audit Coverage

On December 28, 2021, OPA published its Audit of Cash report, which encompasses the results of the collection points at the DOF-Treasury, the Mayor’s Offices, and the Municipal Treasurers on the islands of Tinian and Rota. The audit resulted in no significant discrepancies; however, notable observations and recommendations to improve collection accountability were communicated to the DOF Secretary. Further, pursuant to 1 CMC § 7823, OPA maintains an Audit Recommendation Tracking System to monitor the implementation and resolution of recommendations and publishes a status report semi-annually. Consequently, OPA performed follow-up procedures to determine if corrective actions were taken to address the outstanding recommendations on the Audit of Cash on Tinian and Rota. However, DOF did not provide a status update on its corrective actions as of December 31, 2022.

	Report Number and Date	Agency	Audit Report Title	Status
1.	Report No. 21-06, December 28, 2021	Department of Finance	Audit of Cash on Tinian and Rota	Unresolved

Appendix 3. OPA Response

Auditor's Response to Agency's Comments:

	OPA Findings	OPA's Response
1.	DOF lacks an SOP to ensure daily collections are adequately accounted for at all DOF-sanctioned collection points.	OPA acknowledges the Department of Finance's response to the Draft Report. OPA will conduct follow-up procedures semi-annually to determine if corrective actions were taken to address the recommendation.

Appendix 4. Agency Response



Office of the Secretary
Department of Finance



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SFM 2023-118

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FROM: Tracy B. Norita
Secretary of Finance
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SUBJECT: DOF Corrective Action Plan in response to Audit of Collection Findings

In response to the Office of the Public Auditor's Audit of Collection on the Department of Finance's collection points, the department has met with key personnel involved in the process of cash handling in their respective stations to acknowledge the findings of the draft audit report and implement measures to resolve the matters cited.

Finding 1: DOF lacks an SOP to ensure daily collections are adequately accounted for at all DOF-sanctioned collection points.

Corrective Action: The Division of CNMI Treasury has begun efforts to finalize and disseminate an official cash handling SOP, along with other agency-specific SOPs being compiled for all DOF sanctioned collection points on Saipan.

Target Completion Date: August 31, 2023

Finding 2: Reconciliation and Remittance of Daily Collections were untimely.

Corrective Action: Going forward, all collection points are onboard with a uniformed method of daily reconciliation, as well as daily remittance of collections to the CNMI Treasury. Collection points must document changes to this standard procedure if an alternate approach is necessary to meet agency-specific needs. Collection points must initiate closure at 3pm daily to allow timely remittance to any of the main collection points.

Finding 3: Daily collections and MOCRs were not properly secured.

Corrective Action: All collection points have been briefed regarding the safekeeping of used and unused MOCRs, which will be included in the SOP that will be distributed amongst the collection points. These stations have been advised on procuring a safe box or vault, for efficient safe keeping of payments and

MOCRs. The SOP will include standard specifications for the procuring of vaults and safe boxes, as well as guidance to the securing of keys and/or codes.

Finding 4: Lack of Segregation of Duties

Corrective Action: The SOP will include an auditing section that will ensure segregation of duties for all individuals involved in the cash handling at a collection point. All collection points have been advised to submit official documentation to determine authorized personnel to be involved in cash handling, as well as reconciliation and access to vaults, safe boxes, and keys/codes within their stations.

Finding 5: Surprise collection count results in cash overages and shortages

Corrective Action: SOP will include policies and procedures regarding overages and shortages. This will allow all authorized personnel involved in cash handling to acknowledge efficient practices when dealing with situations involving overages and shortages and proper documentation.

Finding 6: Change fund was not consistently provided to all collection points

Corrective Action: CNMI Treasury has identified all collection points in need of a change fund and has initiated the processing of providing these collection points with a proper change fund. Departments have been instructed to issue official memos to request a change fund for their respective collection point and must indicate a justified amount.

Respectfully,



Tracy B. Norita

Appendix 6: Status of Recommendation

No.	Recommendation	Status
1.	DOF should develop and implement a uniform SOP for accountability of collections at all DOF-sanctioned collection points and ensure strict adherence. The SOP should have adequate procedures to ensure that (1) reconciliation of daily collections is performed at the end of each business day; (2) collections are deposited timely; (3) collection duties are properly segregated; (4) internal controls are established to ensure that all unremitted collections to the Treasury and MOCRs are properly secured; and (5) the need for change fund at all collection points are reassessed.	Unresolved



Department of Finance
Audit of Collections on Saipan
Report No. 23-02, August 4, 2023

CONSTITUTIONAL MANDATE

Article III, Section 12 of the CNMI Constitution and the Commonwealth Auditing Act (1 CMC, Sections 2301 and 7812 *et seq.* of the Commonwealth Code) established the Office of the Public Auditor as an independent agency of the Commonwealth Government to audit the receipt, possession, and disbursement of public funds and to perform such other duties as required by law.

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- OR visit our office on 1200 Route 312, Capitol Hill