

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REPORT ON THE AUDIT OF FINANCIAL  
STATEMENTS IN ACCORDANCE  
WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2014

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

BASIC FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2014

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
 FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2014

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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2014

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## INDEPENDENT AUDITORS' REPORT

Honorable Eloy S. Inos  
Governor  
Commonwealth of the Northern Mariana Islands:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements as set forth in Section III of the foregoing table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Commonwealth Utilities Corporation, Marianas Public Land Trust, the Northern Marianas College, the Public School System and the Marianas Visitors Authority, which represent 49%, 46% and 67%, respectively, of the assets and deferred outflows, net position and operating revenues of the CNMI's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Northern Marianas College, the Public School System and the Marianas Visitors Authority, is based on the reports of the other auditors. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Summary of Opinions**

<b>Opinion Unit</b>	<b>Type of Opinion</b>
Governmental Activities	Unmodified
Aggregate Discretely Presented Component Units	Disclaimer
Each Major Governmental Fund	Unmodified
Aggregate Remaining Fund Information	Adverse

***Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units***

The propriety of the Commonwealth Healthcare Corporation's receivables, inventories, due to/from CNMI, accounts payable, due to related parties, accrued payroll, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense) could not be determined as of and for the year ended September 30, 2014. The financial activities of the Commonwealth Healthcare Corporation are included in the CNMI's basic financial statements as a discretely presented component unit and represent 9%, 8% and 18% of the assets and deferred outflows, net position and operating revenues, respectively, of the CNMI's aggregate discretely presented component units.

***Basis for Adverse Opinion on the Aggregate Remaining Fund Information***

The financial statements do not include the financial statements of the Northern Mariana Islands Settlement Fund. Accounting principles generally accepted in the United States of America require the financial statements of the Northern Mariana Islands Settlement Fund be reported with the financial data of the CNMI's primary government unless the CNMI also issues financial statements for the financial reporting entity that include the financial data for its component units. The CNMI has not issued such reporting entity financial statements. Additionally, the financial statements of the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund) have not been audited. The financial activities of the Pension Trust Fund are included in the CNMI's basic financial statements and represent 51%, 61% and 28%, respectively, of the assets, net position/fund balance and revenues of the aggregate remaining fund information. Because of the departure from accounting principles generally accepted in the United States of America and the lack of audited financial statements for the Pension Trust Fund, the assets, liabilities, net position/fund balances, revenues, and expenditures of the aggregate remaining fund information could not be determined.

### ***Disclaimer of Opinion***

Because of the significance of the matters discussed in the “Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units” paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the assets and deferred outflows, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units.

### ***Adverse Opinion***

In our opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinion on the Aggregate Remaining Fund Information” paragraph, the financial statements referred to above do not present fairly, the respective financial position of the aggregate remaining fund information of the CNMI, as of September 30, 2014, or the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the CNMI as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

#### *Correction of Errors*

As discussed in note 16 to the financial statements, the beginning fund balances and net position of governmental funds/governmental activities, fiduciary funds and the aggregate discretely presented component units have been restated for the transfer of the CNMI Workers' Compensation Commission fund and for the correction of errors.

#### *Going Concern*

The CNMI's plans regarding its General Fund deficit position and the related governmental activities net deficiency position are described in note 13 to the financial statements.

Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 12 and the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, as set forth in Section IV of the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CNMI's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2015 on our consideration of the CNMI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CNMI's internal control over financial reporting and compliance.

*Deloitte & Touche LLC*

June 29, 2015



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**Management's Discussion and Analysis (MD&A)  
Year Ended September 30, 2014**

Our discussion and analysis of the Commonwealth of the Northern Mariana Islands (the CNMI) financial performance provides an overview of the CNMI's financial activities for the fiscal year ended September 30, 2014. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2013 comparative information has been included where appropriate for comparative purposes.

**FINANCIAL HIGHLIGHTS**

- For the fiscal year ended September 30, 2014, the CNMI's total deficit net position increased by \$24.1 million, to a deficit net position of \$239.3 million, which represents an increase of approximately 11.2% from the restated deficit net position at the beginning of the year.
- During the year, the CNMI's expenses for governmental activities were \$272.4 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$125.9 million, further funded with taxes and other general revenues that totaled \$161.2 million. The difference between total revenues of \$287.2 million and total expenses of \$272.4 million resulted in a \$14.8 million decrease in deficit net position. However, transfer of capital assets totaling \$39.9 million to the Commonwealth Healthcare Corporation and recoveries of \$1.1 million resulted in a net increase in deficit net position of \$24.1 million.
- At September 30, 2014, the General Fund reported an unassigned fund deficit of \$111.1 million, which is an increase in the unassigned fund deficit of 40.7% from the prior year's reported unassigned fund deficit of \$79.0 million.
- For budgetary reporting purposes, General Fund actual revenues were higher than final estimates by \$5.3 million, or 3.4%, while reported actual expenditures exceeded final estimated appropriations by \$15.1 million, or 9.7%. These amounts do not include the receipt or use of long-term debt proceeds.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include all of the activities of the CNMI and its component units using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are government-wide statements for the governmental activities of the CNMI, along with the CNMI's discretely presented component units. The government-wide financial statements present the complete financial picture of the CNMI from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the CNMI (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

**Reporting the CNMI as a Whole**

***The Statement of Net Position and the Statement of Activities***

One of the most frequently asked questions about the CNMI's finances is, "Has the CNMI's overall financial condition improved, declined or remained steady over the past year?" The Statement of Net Position and the Statement of Activities report information about the CNMI as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two government-wide statements report the CNMI's net position and changes in them from the prior year. You can think of the CNMI's net position - the difference between assets and liabilities - as one way to measure the CNMI's financial condition, or position. Over time, increases or decreases in the CNMI's net position are indicators of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial factors, such as changes in the CNMI's tax base, the condition of the CNMI's roads and infrastructure, and the quality of services to assess the overall health and performance of the CNMI.

As mentioned above in the Statement of Net Position and the Statement of Activities, we divide the CNMI into two kinds of activities:

- Governmental activities - Most of the CNMI's basic services are reported here, including public safety, general administration, streets and parks. Income taxes, business gross receipt taxes, other taxes and fees, fines, and federal grants finance most of these activities.
- Discretely presented component units - These account for activities of the CNMI's reporting entities that do not meet the criteria for blending within the CNMI's primary government. These discretely presented component units are often referred to as autonomous agencies.

## **Reporting the CNMI's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds - not the CNMI as a whole. Some funds are required to be established by law or regulation and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other monies.

*Governmental funds* - Most of the CNMI's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the CNMI's general government operations and the basic service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the CNMI's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

*Fiduciary funds* - The CNMI is responsible for assets that - because of a trust arrangement or other fiduciary requirement - can be used only for trust beneficiaries or others parties, such as pensions and other employee benefit trust funds and agency funds. The CNMI is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the CNMI's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the CNMI's government-wide financial statements because the CNMI cannot use these assets to finance operations.

Additional information on the restatement of the beginning net position/fund balances of the governmental activities, the aggregate remaining fund information and the aggregate discretely presented component units can be found in note 16 to the financial statements.

## **A FINANCIAL ANALYSIS OF THE CNMI AS A WHOLE**

### ***Net Position***

The CNMI's governmental activities deficit net position, as restated, increased from \$215.2 million to a deficit net position of \$239.3 million, an increase in the deficit of 11.2%, between fiscal years 2013 and 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended September 30, 2014

A summary of net position (condensed) is presented below, with comparable balances for fiscal year 2014:

	Governmental Activities 2014	Governmental Activities 2013 As Restated	Change
Current assets	\$ 64,624,727	\$ 53,945,292	\$ 10,679,435
Capital assets, net	159,477,148	198,540,972	(39,063,824)
Other noncurrent assets	2,500,000	2,500,000	-
Deferred outflows from cost of refunding debt	<u>5,884,802</u>	<u>6,194,529</u>	<u>(309,727)</u>
<b>Total assets and deferred outflows</b>	<b><u>232,486,677</u></b>	<b><u>261,180,793</u></b>	<b><u>(28,694,116)</u></b>
Long-term debt outstanding	88,840,077	96,700,078	(7,860,001)
Obligations under settlement agreement	227,749,160	252,749,160	(25,000,000)
Other liabilities	<u>155,173,945</u>	<u>126,935,123</u>	<u>28,238,822</u>
<b>Total liabilities</b>	<b><u>471,763,182</u></b>	<b><u>476,384,361</u></b>	<b><u>(4,621,179)</u></b>
Net position:			
Net investment in capital assets	76,521,873	107,021,832	(30,499,959)
Restricted	54,051,603	19,867,903	34,183,700
Unrestricted	<u>(369,849,981)</u>	<u>(342,093,303)</u>	<u>(27,756,678)</u>
<b>Total net position</b>	<b><u>\$ (239,276,505)</u></b>	<b><u>\$ (215,203,568)</u></b>	<b><u>\$ (24,072,937)</u></b>

Significant changes from 2013 in the Statement of Net Position include a net decrease in capital assets and investment in capital assets as a result of asset transfers to the Commonwealth Healthcare Corporation, an increase in both current and long-term claims and judgments, and an increase in restricted assets. This was mitigated by decreases in long-term debt and other liabilities as a result of debt service payments and payments toward pension liabilities under the settlement agreement.

### ***Changes in Net Position***

For the year ended September 30, 2014, net position of the primary government changed as follows, with comparable amounts for fiscal year 2013:

	Governmental Activities 2014	Governmental Activities 2013 As Restated	Change
<b>Revenues:</b>			
Program revenues	\$ 125,949,699	\$ 105,405,863	\$ 20,543,836
Taxes and other general revenues	<u>161,236,936</u>	<u>141,023,960</u>	<u>20,212,976</u>
<b>Total revenues</b>	<b><u>287,186,635</u></b>	<b><u>246,429,823</u></b>	<b><u>40,756,812</u></b>
<b>Expenses:</b>			
Capital projects	2,442,753	410,347	2,032,406
Health	38,286,263	51,379,750	(13,093,487)
Public safety and law enforcement	53,700,799	28,834,600	24,866,199
General government	28,663,023	16,820,074	11,842,949
Community and social services	21,454,460	21,453,705	755
Other elected officials	8,738,133	7,017,950	1,720,183
Utilities	3,716,608	11,337,831	(7,621,223)
Public works	12,397,253	16,452,092	(4,054,839)
Lands and natural resources	14,691,441	13,521,151	1,170,290
Legislative branch	5,346,232	5,414,217	(67,985)
Judicial branch	4,583,395	4,001,602	581,793
Education	3,836,548	3,568,754	267,794
Interest and fiscal charges	4,212,349	5,128,833	(916,484)
Economic development	2,880,763	3,139,508	(258,745)
Payments to autonomous agencies	<u>67,461,855</u>	<u>48,505,485</u>	<u>18,956,370</u>
<b>Total expenses</b>	<b><u>272,411,875</u></b>	<b><u>236,985,899</u></b>	<b><u>35,425,976</u></b>
<b>Increase in net position</b>	<b>14,774,760</b>	<b>9,443,924</b>	<b>5,330,836</b>
<b>Recoveries</b>	<b>1,068,393</b>	<b>-</b>	<b>1,068,393</b>
<b>Net capital assets transferred to CHCC</b>	<b>(39,916,090)</b>	<b>-</b>	<b>(39,916,090)</b>
<b>Transfer of WCC assets (note 16)</b>	<b>-</b>	<b>1,929,209</b>	<b>(1,929,209)</b>
<b>Net position, beginning of year, as restated</b>	<b><u>(215,203,568)</u></b>	<b><u>(226,576,701)</u></b>	<b><u>11,373,133</u></b>
<b>Net position, end of year</b>	<b><u>\$ (239,276,505)</u></b>	<b><u>\$ (215,203,568)</u></b>	<b><u>\$ (24,072,937)</u></b>

The CNMI's governmental activities' increase in deficit net position of \$24.1 million represents an 11.2% increase from the prior year. Significant changes from 2013 in the Statement of Activities include an increase in net deficit position from a transfer of \$39.9 million in capital assets to the Commonwealth Healthcare Corporation. This was mitigated by a \$14.8 decrease in net deficit position from governmental activities including implementation of casino and electronic gaming license fees and increases in gross receipts, excise, hotel and other taxes resulting from an increase in visitor arrivals to the CNMI and a surge in the tourism industry.

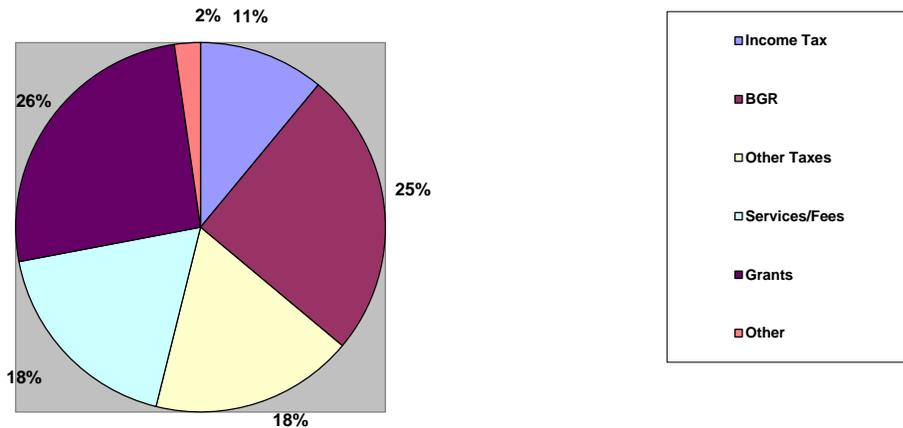
**Governmental Activities**

To aid in the understanding of the Statement of Activities some additional explanation is given.

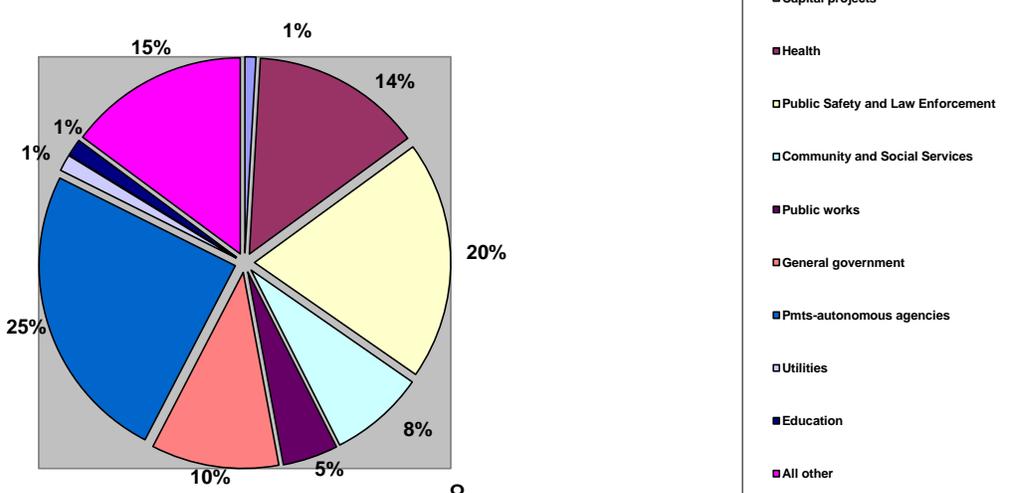
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this format is to highlight the relative financial burden of each of the functions on the CNMI's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

For the year ended September 30, 2014, the CNMI's governmental activities were funded as follows:

**Governmental Activities Sources**



**Governmental Activities Uses**



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended September 30, 2014

For the year ended September 30, 2014, total expenses for governmental activities amounted to \$272.4 million. Of these total expenses, taxpayers and other general revenues funded \$161.2 million, while those directly benefiting from the activities funded \$73.8 million from grants and other contributions and \$52.1 million from charges for services, with the remaining expenses under revenues decreasing the net position.

**Net Revenue (Expense) of Governmental Activities**

	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>
	2014	2014	2013	2013	Change	Change
Capital projects	\$ 2,442,753	\$ -	\$ 410,347	\$ -	\$ 2,032,406	\$ -
Health	38,286,263	(14,106,409)	51,379,750	(17,912,672)	(13,093,487)	3,806,263
Public safety and law enforcement	53,700,799	(37,161,545)	28,834,600	(17,235,141)	24,866,199	(19,926,404)
General government	28,663,023	14,008,736	16,820,074	1,141,162	11,842,949	12,867,574
Community and social services	21,454,460	(4,544,968)	21,453,705	(3,636,309)	755	(908,659)
Public works	12,397,253	(3,612,913)	16,452,092	(8,060,755)	(4,054,839)	4,447,842
Utilities	3,716,608	(3,310,875)	11,337,831	(10,329,916)	(7,621,223)	7,019,041
Education	3,836,548	(3,716,825)	3,568,754	(3,396,305)	267,794	(320,520)
Payments to auto- nomous agencies	67,461,855	(67,154,532)	48,505,485	(47,837,165)	18,956,370	(19,317,367)
All others	40,452,313	(26,862,845)	38,223,261	(24,312,935)	2,229,052	(2,549,910)
<b>Total</b>	<b>\$ 272,411,875</b>	<b>\$ (146,462,176)</b>	<b>\$ 236,985,899</b>	<b>\$ (131,580,036)</b>	<b>\$ 35,425,976</b>	<b>\$ (14,882,140)</b>

**A FINANCIAL ANALYSIS OF THE CNMI'S FUNDS**

As the CNMI completed its 2014 fiscal year, the governmental funds reported a combined fund deficit of \$52.6 million, when compared with the prior year restated fund deficit of \$57.9 million, which is a decrease in the deficit of \$5.3 million or 9.2%, due to an increase in governmental revenues mainly from casino licensing fees.

Individual fund highlights include:

- For the year ended September 30, 2014, the General Fund's total fund deficit increased by \$7.3 million or 9.8%, to a total fund deficit of \$81.5 million, while the total unassigned fund deficit increased by \$32.1 million or 40.7%, for a total unassigned fund deficit of \$111.1 million.
- The Grants Assistance Fund's revenues and expenditures netted to a \$2.8 million increase in fund balance, providing a remaining fund balance for grant expenditures of \$5.3 million.
- The Saipan Amusement Fund's (a new major fund in 2014 accounting for casino license fees and other electronic gaming fees) revenues and expenditures netted to approximately \$5.5 million increase in fund balance, providing a fund balance of \$5.5 million.

**General Fund Budgetary Highlights**

Original and final revenue estimates remained constant at \$157.6 million, while original expenditure estimates remained constant at \$155.8 million. The General Fund's actual revenues of \$162.9 million were more than the final estimates by \$5.3 million, a variance of 3.4%, mainly due to higher than anticipated tax collections and other revenues. The General Fund's actual expenditures (including net transfers) of \$172.6 million exceeded appropriations by \$11.6 million, a variance of 7.7%, due mainly to unanticipated expenditures that significantly increased expenditures for medical referral and the local match for Medicaid.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of September 30, 2014, the CNMI had \$159.5 million invested in capital assets, net of depreciation where applicable, including land, infrastructure, vehicles and other machinery and equipment, buildings, and various projects under construction (see table below). This represents a net decrease of \$39,063,824 or 19.7% from last year.

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>	<u>Change</u>
Infrastructure, net	\$ 30,476,209	\$ 30,990,037	\$ (513,828)
Buildings and improvements, net	71,850,680	112,276,109	(40,425,429)
Machinery and equipment, net	7,746,429	9,646,000	(1,899,571)
Land	30,064,154	29,899,810	164,344
Construction in progress	<u>19,339,676</u>	<u>15,729,016</u>	<u>3,610,660</u>
<b>Total</b>	<b><u>\$ 159,477,148</u></b>	<b><u>\$ 198,540,972</u></b>	<b><u>\$ (39,063,824)</u></b>

Transfers of capital assets to the Commonwealth Healthcare Corporation (CHCC) totaling \$39.9 million resulted in a decrease in capital assets as of September 30, 2014. See note 6 to the financial statements for more detailed information on the CNMI's capital assets and changes therein.

***Long-Term Debt***

At year end, the CNMI had \$88.8 million in long-term debt outstanding, which represents a net decrease of \$8.9 million or 9.1% from the prior year. The CNMI's changes in long-term debt outstanding are as follows:

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>	<u>Change</u>
General Obligation Bonds (backed by the CNMI)	\$ 88,840,077	\$ 92,736,088	\$ (3,896,011)
Loan payable (backed by specific fee revenues)	<u>-</u>	<u>4,977,581</u>	<u>(4,977,581)</u>
<b>Total</b>	<b><u>\$ 88,840,077</u></b>	<b><u>\$ 97,713,669</u></b>	<b><u>\$ (8,873,592)</u></b>

As of September 30, 2014, no rating information was provided from Fitch Ratings or Standard and Poor's Financial Services, LLC for the CNMI's General Obligation Bonds.

Article X, Section 4, of the CNMI Constitution limits public indebtedness, other than bonds or other obligations of the government payable solely from the revenues derived from a public improvement or undertaking, to no more than 10% of the aggregate assessed valuation of the real property within the CNMI. The CNMI aggregate assessed valuation has not been determined as of September 30, 2014. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2014. This estimation was based on the 1995 CNMI Mid-Decade Census.

See note 9 to the financial statements for more detailed information on the CNMI's long-term debt and changes therein.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

During the fiscal year ended September 30, 2013, the United States District Court for the Northern Mariana Islands approved a Settlement Agreement between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, the Northern Mariana Islands Retirement Fund (NMIRF) and others. The Settlement Agreement includes the creation of a Settlement Fund (NMISF) to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court. As part of the Settlement Agreement, the CNMI agrees to make minimum annual payments to the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund's expected life and as determined by an actuary appointed by a Trustee and approved by the District Court. The CNMI is awaiting the actuarial determination and the effect on the accompanying financial statements has not been determined.

As a result of the Settlement Agreement, the CNMI recorded a liability of \$227,749,160 to the Settlement Fund as of September 30, 2014 equivalent to the amount of judgment for Civil Case No. 06-0367 less payments made to the Settlement Fund pursuant to the Settlement. The amount of the judgment is factored into the annual payments disclosed in note 9 to the financial statements.

Management believes that the actuarial determination will have a positive effect on the General Fund Financial Position and will commence the process of reducing the abovementioned General Fund deficit position.

The Settlement Fund September 30, 2014 financial statements were not available for inclusion in this audit as a CNMI component unit. After consultation with the auditors, the Settlement Fund was determined to be a component unit of the CNMI in March 2015. Shortly after that determination, the Settlement Fund initiated an audit but it has not been completed as of the date of the CNMI audit.

Public Law 18-38, as amended by Public Law 18-43 and Public Law 18-56, was enacted to authorize, establish and regulate an exclusive gaming license within the CNMI. Public laws allow the Commonwealth Lottery Commission (the Commission) to impose a one-time nonrefundable casino application fee of \$1 million for each applicant and impose an annual casino license fee of \$15 million. Application fees are deposited to a special fund and expended without appropriation by the Commission for the investigation of the applicants and other costs associated with reviewing the applicants and granting or denying applications for the exclusive license. Funds collected from license fees are deposited in the CNMI Treasury and allocated to pay the 25% reduction in retirement benefits under the Settlement Agreement and to pay interest to active members who terminated their membership from the defined benefit plan under Public law 17-82 as amended by Public law 18-02. See note 1 to the financial statements for additional information.

During fiscal year 2014, the CNMI recorded application fees of \$2 million and casino license fees of \$30 million (1<sup>st</sup> and 5<sup>th</sup> year license fees). Accordingly, during the fiscal year, the CNMI recorded payment to the Settlement Fund of the 25% reduction in retirement benefits and paid interest to active members who terminated defined benefit plan membership under the applicable public laws.

Management believes that the addition of casino gaming in the CNMI will provide significant additional economic activity in the local economy with an associated increase in government revenues.

Economic factors continue to play a large role in developing the tax and other revenue budgets for the General Fund of the CNMI. The local economy, expanding by the effects of an increase in tourism, has followed a trend of increasing revenues. Since 2012 business gross revenue tax, hotel tax and excise tax collections have increased by 38%, 122% and 34% respectively. The audited Statements of Activities for 2014 and 2013 indicates positive changes of \$15.8 million (before the transfer of capital assets to CHCC) and \$9.4 million, respectively, to the CNMI's deficit net position. The prospects for fiscal year 2015 appear similar.

## **CONTACTING THE CNMI'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of CNMI's finances and to show the CNMI's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Secretary of Finance P.O. Box 5234 CHRB, Saipan, MP 96950 or phone at (670) 664-1100 or email [larrisa.larson@gov.mp](mailto:larrisa.larson@gov.mp) or [larrisa.larson@gmail.com](mailto:larrisa.larson@gmail.com).

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Position  
September 30, 2014

	Primary Government	Component Units
<u>ASSETS AND DEFERRED OUTFLOWS</u>		
Current assets:		
Cash and cash equivalents	\$ 9,979,558	\$ 53,043,901
Time certificates of deposit	2,758,018	2,695,094
Receivables, net of allowance for uncollectibles	19,564,912	50,798,190
Due from primary government	-	6,623,977
Inventories	1,233,387	13,971,129
Advances	489,318	-
Other assets	-	6,850,859
Restricted assets:		
Cash and cash equivalents	29,375,229	17,223,105
Time certificates of deposit	133,528	2,800,000
Investments	1,090,777	89,914,806
Total current assets	<u>64,624,727</u>	<u>243,921,061</u>
Noncurrent assets:		
Investments	2,500,000	7,355,502
Receivables:		
Loans, net of allowance for uncollectibles	-	11,315,756
Notes, net of allowance for uncollectibles	-	3,054,728
Other	-	1,551,301
Foreclosed real estate	-	2,964,705
Nondepreciable capital assets	49,403,830	122,890,920
Depreciable capital assets, net of accumulated depreciation	110,073,318	289,811,109
Total noncurrent assets	<u>161,977,148</u>	<u>438,944,021</u>
Deferred outflows from cost of refunding debt	5,884,802	801,719
Total assets and deferred outflows	<u>232,486,677</u>	<u>683,666,801</u>
<u>LIABILITIES AND DEFERRED INFLOWS</u>		
Current liabilities:		
Current portion of bonds payable	4,056,320	1,895,000
Current portion of notes payable	4,814,903	5,991,450
Current portion of obligations under preferred stock agreement	-	2,340,000
Current portion of claims and judgments payable	43,682,326	-
Current portion of compensated absences	3,048,399	1,781,593
Stipulated order penalties assessed	-	36,041,000
Accounts payable	10,250,534	32,101,074
Tax rebates payable	43,048,353	-
Recovery rebate payable	398,688	-
Accrued interest payable	1,826,375	668,983
Other liabilities and accruals	6,652,232	32,776,882
Due to Pension (and Other Employee Benefit) Trust Fund	19,229	-
Due to external parties	1,391,134	-
Due to component units	11,583,616	-
Due to primary government	-	5,110,039
Unearned revenues	5,661,138	4,056,946
Total current liabilities	<u>136,433,247</u>	<u>122,762,967</u>
Noncurrent liabilities:		
Obligations under Settlement Agreement	227,749,160	-
Bonds payable, net of current portion	84,783,757	40,088,747
Notes payable, net of current portion	-	5,861,592
Claims and judgments payable, net of current portion	15,000,000	-
Obligations under preferred stock agreement	-	2,160,000
Compensated absences, net of current portion	3,216,177	3,322,433
Due to Pension (and Other Employee Benefit) Trust Fund	-	27,154,219
Due to primary government	-	6,754,086
Accrued interest payable	-	546,679
Unearned purchase obligation rebate	-	6,131,316
Unearned revenues, net of current portion	-	8,356,816
Landfill closure	4,580,841	-
Total noncurrent liabilities	<u>335,329,935</u>	<u>100,375,888</u>
Deferred inflows of resources	-	4,154,501
Total liabilities and deferred inflows of resources	<u>471,763,182</u>	<u>227,293,356</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	76,521,873	366,762,562
Restricted for:		
Expendable:		
Capital projects	6,529,847	-
Retirement of indebtedness	2,298,222	-
Other purposes	45,223,534	172,526,884
Unrestricted	(369,849,981)	(82,916,001)
Total net position	<u>\$ (239,276,505)</u>	<u>\$ 456,373,445</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities  
For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Primary government:</b>						
<b>Governmental activities:</b>						
Health	\$ 38,286,263	\$ 59,017	\$ 23,799,317	\$ 321,520	\$ (14,106,409)	\$ -
Public safety and law enforcement	53,700,799	8,422,843	8,095,735	20,676	(37,161,545)	-
General government	28,663,023	37,858,484	4,503,643	309,632	14,008,736	-
Community and social services	21,454,460	23,944	16,885,548	-	(4,544,968)	-
Other elected officials	8,738,133	-	-	-	(8,738,133)	-
Utilities	3,716,608	-	-	405,733	(3,310,875)	-
Utilities - Capital Projects	2,442,753	-	-	2,442,753	-	-
Public works	12,397,253	377,905	1,090,025	7,316,410	(3,612,913)	-
Lands and natural resources	14,691,441	4,955,591	6,678,871	-	(3,056,979)	-
Legislative branch	5,346,232	-	-	-	(5,346,232)	-
Judicial branch	4,583,395	402,197	-	-	(4,181,198)	-
Education	3,836,548	-	119,723	-	(3,716,825)	-
Interest and fiscal charges	4,212,349	-	-	-	(4,212,349)	-
Economic development	2,880,763	-	20,580	1,532,229	(1,327,954)	-
<b>Education:</b>						
Payments to Public School System	32,582,724	-	220,004	-	(32,362,720)	-
Payments to Northern Marianas College	5,208,772	-	87,319	-	(5,121,453)	-
<b>Payments to Commonwealth Healthcare Corporation</b>						
Corporation	1,208,675	-	-	-	(1,208,675)	-
Payments to Marianas Visitors Authority	8,934,537	-	-	-	(8,934,537)	-
<b>Payments to Pension (and Other Employee Benefit) Trust Fund</b>						
Benefit) Trust Fund	7,596,351	-	-	-	(7,596,351)	-
Payments to Settlement Fund	11,930,796	-	-	-	(11,930,796)	-
Total primary government	<u>\$ 272,411,875</u>	<u>\$ 52,099,981</u>	<u>\$ 61,500,765</u>	<u>\$ 12,348,953</u>	<u>(146,462,176)</u>	<u>-</u>
<b>Component units:</b>						
Commonwealth Ports Authority	\$ 27,305,226	\$ 21,059,862	\$ -	\$ 9,155,039	-	2,909,675
Commonwealth Development Authority	8,956,579	1,554,192	7,015,497	-	-	(386,890)
Commonwealth Utilities Corporation	110,063,538	98,931,151	-	6,270,224	-	(4,862,163)
Marianas Public Land Trust	1,857,016	-	-	-	-	(1,857,016)
Northern Marianas College	15,044,715	2,068,228	8,996,516	-	-	(3,979,971)
Public School System	65,372,622	1,616,203	30,319,671	-	-	(33,436,748)
Marianas Visitors Authority	7,972,969	147,943	33,117	-	-	(7,791,909)
Commonwealth Healthcare Corporation	64,185,575	47,675,810	52,658,313	-	-	36,148,548
Total component units	<u>\$ 300,758,240</u>	<u>\$ 173,053,389</u>	<u>\$ 99,023,114</u>	<u>\$ 15,425,263</u>	<u>-</u>	<u>(13,256,474)</u>
<b>General revenues:</b>						
<b>Taxes:</b>						
Income					31,572,512	-
Gross receipts					72,052,458	-
Excise					21,548,571	-
Hotel					12,898,482	-
Fuel					4,359,109	-
Cigarette					7,176,134	-
Other taxes					5,108,674	-
Unrestricted investment earnings and dividends					279,235	1,289,206
Contributions from primary government					-	46,218,030
Other					6,241,761	13,553,400
Total general revenues					<u>161,236,936</u>	<u>61,060,636</u>
Recoveries					1,068,393	-
Net capital assets transferred to Commonwealth Healthcare Corporation					(39,916,090)	-
Change in net position					<u>(24,072,937)</u>	<u>47,804,162</u>
Net position - beginning, as previously reported					(217,132,777)	458,299,023
Prior period adjustment (note 16)					1,929,209	(49,729,740)
Net position - beginning, as restated					<u>(215,203,568)</u>	<u>408,569,283</u>
Net position - ending					<u>\$ (239,276,505)</u>	<u>\$ 456,373,445</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2014

	General	Grants Assistance	Saipan Amusement	Other Governmental Funds	Total
<u>Assets</u>					
Cash and cash equivalents	\$ 3,761,849	\$ -	\$ -	\$ 6,217,709	\$ 9,979,558
Time certificates of deposit	92,195	-	-	2,665,823	2,758,018
Investments	2,500,000	-	-	-	2,500,000
Restricted cash and cash equivalents	26,898,629	2,295,045	-	181,555	29,375,229
Restricted time certificates of deposit	-	-	-	133,528	133,528
Restricted investments	-	-	-	1,090,777	1,090,777
Receivables, net:					
Federal agencies	6,461,422	2,895,678	-	284,562	9,641,662
Taxes	7,215,662	-	-	-	7,215,662
General	1,037,711	-	-	447,217	1,484,928
Other	-	12,831	-	1,209,829	1,222,660
Due from other funds	3,058,169	6,378,843	5,509,412	15,359,582	30,306,006
Due from component units	-	-	-	-	-
Advances	489,318	-	-	-	489,318
Inventories	232,387	1,001,000	-	-	1,233,387
	<u>\$ 51,747,342</u>	<u>\$ 12,583,397</u>	<u>\$ 5,509,412</u>	<u>\$ 27,590,582</u>	<u>\$ 97,430,733</u>
<u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Accounts payable	\$ 4,291,093	\$ 5,030,215	\$ 30,999	\$ 898,227	\$ 10,250,534
Tax rebates payable	43,048,353	-	-	-	43,048,353
Recovery rebates payable	398,688	-	-	-	398,688
Other liabilities and accruals	5,677,007	177,975	-	797,250	6,652,232
Claims and judgments payable	35,882,326	-	-	-	35,882,326
Notes payable	4,814,903	-	-	-	4,814,903
Due to Pension (and Other Employee Benefit) Trust Fund	19,229	-	-	-	19,229
Due to other funds	27,247,837	1,119,191	-	1,938,978	30,306,006
Due to component units	10,428,022	-	-	1,155,594	11,583,616
Due to external parties	1,391,134	-	-	-	1,391,134
Unearned revenues	-	1,001,000	-	4,660,138	5,661,138
Total liabilities	<u>133,198,592</u>	<u>7,328,381</u>	<u>30,999</u>	<u>9,450,187</u>	<u>150,008,159</u>
Fund balances (deficit):					
Non-spendable	2,732,387	-	-	-	2,732,387
Restricted	26,898,629	5,255,016	5,478,413	18,267,999	55,900,057
Unassigned:					
General fund	(111,082,266)	-	-	-	(111,082,266)
Special revenue funds	-	-	-	(127,440)	(127,440)
Capital projects funds	-	-	-	(164)	(164)
Total fund balances (deficit)	<u>(81,451,250)</u>	<u>5,255,016</u>	<u>5,478,413</u>	<u>18,140,395</u>	<u>(52,577,426)</u>
	<u>\$ 51,747,342</u>	<u>\$ 12,583,397</u>	<u>\$ 5,509,412</u>	<u>\$ 27,590,582</u>	<u>\$ 97,430,733</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position  
September 30, 2014

Total fund deficit - governmental funds		\$ (52,577,426)
Amounts reported for governmental activities in the statement of net position are different because:		
Bonds issued by the CNMI have associated costs that are paid from current available resources in the funds. However, these costs are deferred on the statement of net position.		
		5,884,802
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$ 30,064,154	
Construction in progress	19,339,676	
Depreciable capital assets and infrastructure, net of \$190,165,284 of accumulated depreciation	<u>110,073,318</u>	
Capital assets, net of accumulated depreciation		159,477,148
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities include:		
Obligations under Settlement Agreement	(227,749,160)	
Bonds payable	(88,840,077)	
Claims and judgment payable	(22,800,000)	
Accrued interest payable	(1,826,375)	
Compensated absences payable	(6,264,576)	
Landfill closure and postclosure costs	<u>(4,580,841)</u>	
Long-term liabilities		<u>(352,061,029)</u>
Net position of governmental activities		<u>\$ (239,276,505)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
Governmental Funds  
For the Year Ended September 30, 2014

	General	Grants Assistance	Saipan Amusement	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 150,181,692	\$ -	\$ -	\$ 4,650,137	\$ 154,831,829
Federal contributions	-	68,164,728	-	5,015,080	73,179,808
Licenses and fees	8,640,377	187,762	32,447,905	4,917,306	46,193,350
Charges for sales and services	1,557,659	-	-	4,247,549	5,805,208
Contributions from component units	653,737	-	-	-	653,737
Interest and dividends	266,100	231	1,707	36,077	304,115
Other	2,977,195	271,643	-	3,586,191	6,835,029
	164,276,760	68,624,364	32,449,612	22,452,340	287,803,076
Recoveries (bad debts)	1,068,393	-	-	(616,441)	451,952
Total revenues	165,345,153	68,624,364	32,449,612	21,835,899	288,255,028
Expenditures:					
Current:					
Health	7,635,203	30,542,575	-	209,077	38,386,855
General government	11,495,042	940,079	14,915,342	27,949	27,378,412
Public safety and law enforcement	20,671,148	8,095,735	-	877,925	29,644,808
Community and social services	3,399,846	16,885,548	94,446	608,711	20,988,551
Lands and natural resources	3,352,720	6,678,871	-	4,714,754	14,746,345
Utilities	3,310,875	405,733	-	-	3,716,608
Other elected officials	8,713,985	-	-	24,148	8,738,133
Legislative branch	5,315,617	-	30,615	-	5,346,232
Judicial branch	4,292,121	-	-	-	4,292,121
Education	1,714,134	119,723	-	2,002,691	3,836,548
Economic development	812,252	1,552,805	-	515,706	2,880,763
Payments to:					
Public School System	32,362,720	220,004	-	-	32,582,724
Marianas Visitors Authority	8,894,439	-	-	40,098	8,934,537
Northern Marianas College	5,121,453	87,319	-	-	5,208,772
Commonwealth Healthcare Corporation	1,208,675	-	-	-	1,208,675
Pension (and Other Employee Benefit) Trust Fund	7,596,351	-	-	-	7,596,351
Settlement Fund	25,000,000	-	11,930,796	-	36,930,796
Debt service:					
Interest and fiscal charges	4,061,868	-	-	-	4,061,868
Principal retirement	8,892,581	-	-	-	8,892,581
Capital outlay:					
Public works	4,778,266	3,395,862	-	6,970,988	15,145,116
Utilities - Capital Projects	-	2,442,753	-	-	2,442,753
Total expenditures	168,629,296	71,367,007	26,971,199	15,992,047	282,959,549
Excess (deficiency) of revenues over (under) expenditures	(3,284,143)	(2,742,643)	5,478,413	5,843,852	5,295,479
Other financing sources (uses):					
Operating transfers in	4,170,641	6,457,638	-	1,752,315	12,380,594
Operating transfers out	(8,176,622)	(913,972)	-	(3,290,000)	(12,380,594)
Total other financing sources (uses), net	(4,005,981)	5,543,666	-	(1,537,685)	-
Net change in fund balances (deficit)	(7,290,124)	2,801,023	5,478,413	4,306,167	5,295,479
Fund balances (deficit) at beginning of year, as previously reported	(74,161,126)	2,453,993	-	11,905,019	(59,802,114)
Prior period adjustment (note 16)	-	-	-	1,929,209	1,929,209
Fund balances (deficit) at beginning of year, as restated	(74,161,126)	2,453,993	-	13,834,228	(57,872,905)
Fund balances (deficit) at end of year	\$ (81,451,250)	\$ 5,255,016	\$ 5,478,413	\$ 18,140,395	\$ (52,577,426)

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
Fund Balances (Deficit) of Governmental Funds to the Statement of Activities  
September 30, 2014

Total net change in fund balances - governmental funds		\$ 5,295,479
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:		
Capital outlays, net of disposals	10,909,317	
Depreciation expense	(10,057,051)	
Capital assets transferred to the Commonwealth Healthcare Corporation	<u>(39,916,090)</u>	(39,063,824)
The incurrence of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is issued, whereas these amounts are deferred and amortized in the Statement of Activities. For the current year, these amounts consist of:		
Repayment of obligations under Settlement Agreement	25,000,000	
Transfer of NMISF loan to governmental funds	4,977,581	
Repayment of bonds	3,915,000	
Amortization of bond premium	6,320	
Amortization of bond discount	(25,309)	
Amortization of deferred amount on refunding	<u>(309,727)</u>	33,563,865
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. For the current year, these activities consist of:		
Change in accrued interest payable	178,235	
Change in landfill closure and postclosure care costs	(381,736)	
Change in compensated absences payable	(864,956)	
Change in claims and judgment payable	<u>(22,800,000)</u>	(23,868,457)
Change in net position of governmental activities		<u>\$ (24,072,937)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Position  
Fiduciary Funds  
September 30, 2014

	<u>Assets</u>	Pension (and Other Employee Benefit) Trust Fund	Agency Funds
Cash and cash equivalents		\$ 2,445,221	\$ 1,643,840
Receivables:			
Loan		3,361,820	-
Notes		904,235	-
Other		7,236	-
		<u>4,273,291</u>	<u>-</u>
Due from General Fund		-	1,391,134
Due from component units		1,923,735	-
		<u>1,923,735</u>	<u>1,391,134</u>
Investments, at fair market value:			
Mutual funds		22,550,222	-
		<u>22,550,222</u>	<u>-</u>
Restricted assets		-	1,575,245
Capital assets		2,414,567	-
Total assets		<u>33,607,036</u>	<u>4,610,219</u>
	<u>Liabilities and Other Credits</u>		
Accounts payable		2,590,317	-
Claims and judgments payable		-	1,391,134
Deposits payable		-	3,219,085
Other liabilities and accruals		2,571,128	-
Unearned revenue		893,468	-
Total liabilities and other credits		<u>6,054,913</u>	<u>\$ 4,610,219</u>
Net position:			
Held in trust for pension benefits		27,829,885	
Held in trust for medical and life insurance benefits		(277,762)	
Total net position		<u>\$ 27,552,123</u>	

See accompanying notes to financial statements.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Position  
Component Units  
September 30, 2014

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Commonwealth Healthcare Corporation	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>									
Current assets:									
Cash and cash equivalents	\$ 20,844,321	\$ 2,400,471	\$ 9,180,020	\$ 1,701,030	\$ 6,399,585	\$ 5,400,358	\$ 6,031,538	\$ 1,086,578	\$ 53,043,901
Time certificates of deposit	-	2,000,000	-	-	695,094	-	-	-	2,695,094
Receivables, net of allowance for uncollectibles:									
Loans	-	5,462,675	-	-	-	-	-	-	5,462,675
Notes	-	275,769	86,855	3,569,689	-	-	-	-	3,932,313
Federal agencies	1,328,572	-	819,393	-	1,167,224	2,459,382	-	-	5,774,571
General	3,025,325	-	10,039,708	-	1,625,999	-	-	18,708,264	33,399,296
Interest and dividends	-	356,849	-	366,502	-	-	-	-	723,351
Other	514,241	383,865	-	106,302	-	346,030	14,376	141,170	1,505,984
Due from primary government	-	-	-	-	177,561	6,909	4,402,286	2,037,221	6,623,977
Inventories	-	-	11,079,929	-	534,685	-	-	2,356,515	13,971,129
Other assets	264,433	12,612	6,088,514	3,554	68,793	-	50,000	362,953	6,850,859
Restricted assets:									
Cash and cash equivalents	-	7,025,588	10,197,517	-	-	-	-	-	17,223,105
Time certificates of deposit	-	2,800,000	-	-	-	-	-	-	2,800,000
Investments	17,918,281	-	-	71,996,525	-	-	-	-	89,914,806
<b>Total current assets</b>	<b>43,895,173</b>	<b>20,717,829</b>	<b>47,491,936</b>	<b>77,743,602</b>	<b>10,668,941</b>	<b>8,212,679</b>	<b>10,498,200</b>	<b>24,692,701</b>	<b>243,921,061</b>
Noncurrent assets:									
Investments	-	-	-	-	7,355,502	-	-	-	7,355,502
Receivables:									
Loans, net	-	11,315,756	-	-	-	-	-	-	11,315,756
Notes	-	-	105,224	2,949,504	-	-	-	-	3,054,728
Other	-	1,551,301	-	-	-	-	-	-	1,551,301
Nondepreciable capital assets	58,670,840	7,472,530	15,662,061	116,000	1,113,376	37,699,297	-	2,156,816	122,890,920
Depreciable capital assets, net of accumulated depreciation	135,801,013	1,822,320	69,050,159	170,621	3,535,150	41,489,832	182,740	37,759,274	289,811,109
Foreclosed real estate	-	2,324,705	-	640,000	-	-	-	-	2,964,705
<b>Total noncurrent assets</b>	<b>194,471,853</b>	<b>24,486,612</b>	<b>84,817,444</b>	<b>3,876,125</b>	<b>12,004,028</b>	<b>79,189,129</b>	<b>182,740</b>	<b>39,916,090</b>	<b>438,944,021</b>
Deferred outflows from cost of refunding debt	801,719	-	-	-	-	-	-	-	801,719
<b>Total assets and deferred outflows</b>	<b>239,168,745</b>	<b>45,204,441</b>	<b>132,309,380</b>	<b>81,619,727</b>	<b>22,672,969</b>	<b>87,401,808</b>	<b>10,680,940</b>	<b>64,608,791</b>	<b>683,666,801</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>									
Current liabilities:									
Current portion of bonds payable	1,895,000	-	-	-	-	-	-	-	1,895,000
Current portion of notes payable	257,790	212,697	2,520,963	-	-	-	-	3,000,000	5,991,450
Current portion of obligations under preferred stock agreement	-	-	2,340,000	-	-	-	-	-	2,340,000
Accounts payable	6,354,137	1,059,352	6,042,615	227,407	697,489	10,329,987	1,807,376	5,582,711	32,101,074
Compensated absences	241,658	-	350,675	-	380,949	763,311	45,000	-	1,781,593
Stipulated order penalties assessed	-	-	36,041,000	-	-	-	-	-	36,041,000
Due to primary government	725,561	-	-	-	-	-	-	4,384,478	5,110,039
Other liabilities and accruals	2,758,237	4,281,967	9,078,998	8,708	370,523	130	1,102,194	15,176,125	32,776,882
Accrued interest payable	-	-	668,983	-	-	-	-	-	668,983
Unearned revenues	1,779,563	931,902	-	-	852,703	-	-	492,778	4,056,946
<b>Total current liabilities</b>	<b>14,011,946</b>	<b>6,485,918</b>	<b>57,043,234</b>	<b>236,115</b>	<b>2,301,664</b>	<b>11,093,428</b>	<b>2,954,570</b>	<b>28,636,092</b>	<b>122,762,967</b>
Noncurrent liabilities:									
Bonds payable, net of current portion	40,088,747	-	-	-	-	-	-	-	40,088,747
Notes payable, net of current portion	4,499,649	509,343	852,600	-	-	-	-	-	5,861,592
Obligations under preferred stock agreement, net of current portion	-	-	2,160,000	-	-	-	-	-	2,160,000
Compensated absences, net of current portion	304,970	-	527,866	-	214,776	2,220,325	54,496	-	3,322,433
Due to primary government	-	-	6,754,086	-	-	-	-	-	6,754,086
Due to Pension (and Other Employee Benefit) Trust Fund	-	-	3,387,153	-	-	23,767,066	-	-	27,154,219
Accrued interest payable	546,679	-	-	-	-	-	-	-	546,679
Unearned purchase obligation rebate	-	-	6,131,316	-	-	-	-	-	6,131,316
Unearned revenues, net of current portion	-	8,356,816	-	-	-	-	-	-	8,356,816
<b>Total noncurrent liabilities</b>	<b>45,440,045</b>	<b>8,866,159</b>	<b>19,813,021</b>	<b>-</b>	<b>214,776</b>	<b>25,987,391</b>	<b>54,496</b>	<b>-</b>	<b>100,375,888</b>
Deferred inflows of resources	-	-	2,788,238	-	131,293	1,223,770	11,200	-	4,154,501
<b>Total liabilities and deferred inflows of resources</b>	<b>59,451,991</b>	<b>15,352,077</b>	<b>79,644,493</b>	<b>236,115</b>	<b>2,647,733</b>	<b>38,304,589</b>	<b>3,020,266</b>	<b>28,636,092</b>	<b>227,293,356</b>
<b>NET POSITION</b>									
Net investment in capital assets	148,532,386	9,294,850	84,712,220	286,621	4,648,526	79,189,129	182,740	39,916,090	366,762,562
Restricted	17,918,281	20,557,514	44,510,907	81,096,991	7,355,502	1,087,689	-	-	172,526,884
Unrestricted	13,266,087	-	(76,558,240)	-	8,021,208	(31,179,599)	7,477,934	(3,943,391)	(82,916,001)
<b>Total net position</b>	<b>\$ 179,716,754</b>	<b>\$ 29,852,364</b>	<b>\$ 52,664,887</b>	<b>\$ 81,383,612</b>	<b>\$ 20,025,236</b>	<b>\$ 49,097,219</b>	<b>\$ 7,660,674</b>	<b>\$ 35,972,699</b>	<b>\$ 456,373,445</b>

See accompanying notes to financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Components Units**  
**Year Ended September 30, 2014**

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Commonwealth Healthcare Corporation	Total
<b>Operating revenues:</b>									
Charges for services and fees	\$ 12,419,319	\$ 936,898	\$ 98,931,151	\$ -	\$ 1,219,826	\$ 1,616,203	\$ 92,193	\$ 47,675,810	\$ 162,891,400
Grants and contributions	-	7,015,497	-	-	8,996,516	30,319,671	33,117	-	46,364,801
Other	8,640,543	617,294	-	5,236,483	848,402	-	55,750	266,819	15,665,291
	21,059,862	8,569,689	98,931,151	5,236,483	11,064,744	31,935,874	181,060	47,942,629	224,921,492
(Provision for) recovery of uncollectible receivables	(392,797)	965,539	(6,906,360)	145,611	-	-	-	(9,434,557)	(15,622,564)
<b>Total operating revenues</b>	<b>20,667,065</b>	<b>9,535,228</b>	<b>92,024,791</b>	<b>5,382,094</b>	<b>11,064,744</b>	<b>31,935,874</b>	<b>181,060</b>	<b>38,508,072</b>	<b>209,298,928</b>
<b>Operating expenses:</b>									
Cost of services	5,748,864	4,968,738	70,501,932	-	12,127,568	58,564,601	6,236,140	15,636,963	173,784,806
Depreciation and amortization	13,063,444	266,315	7,227,734	41,570	512,189	1,411,637	18,811	-	22,541,700
Administration	5,598,206	4,625,870	18,313,501	827,924	2,404,958	5,396,384	1,718,018	26,955,724	65,840,585
<b>Total operating expenses</b>	<b>24,410,514</b>	<b>9,860,923</b>	<b>96,043,167</b>	<b>869,494</b>	<b>15,044,715</b>	<b>65,372,622</b>	<b>7,972,969</b>	<b>42,592,687</b>	<b>262,167,091</b>
<b>Operating income (loss)</b>	<b>(3,743,449)</b>	<b>(325,695)</b>	<b>(4,018,376)</b>	<b>4,512,600</b>	<b>(3,979,971)</b>	<b>(33,436,748)</b>	<b>(7,791,909)</b>	<b>(4,084,615)</b>	<b>(52,868,163)</b>
<b>Nonoperating revenues (expenses):</b>									
Contributions from the primary government	-	-	-	-	4,113,778	32,362,718	9,741,534	-	46,218,030
Contributions to the primary government	-	-	(366,948)	(987,522)	-	-	-	-	(1,354,470)
Unrestricted investment earnings	251,986	29,021	574,488	-	433,711	-	-	-	1,289,206
Interest expense	(2,501,915)	(49,195)	(1,206,204)	-	-	-	-	(177,779)	(3,935,093)
Amortization of bond issue cost	-	-	-	-	-	-	-	-	-
Amortization of unearned purchase obligation rebate	-	-	468,684	-	-	-	-	-	468,684
Stipulated order penalties	-	-	(4,574,000)	-	-	-	-	-	(4,574,000)
Other expenses	-	(12,000)	(966,859)	-	-	-	-	(11,980,552)	(12,959,411)
Other revenues	4,526,775	639,286	213,785	1,303,852	-	-	-	1,208,675	7,892,373
<b>Nonoperating revenues (expenses), net</b>	<b>2,276,846</b>	<b>607,112</b>	<b>(5,857,054)</b>	<b>316,330</b>	<b>4,547,489</b>	<b>32,362,718</b>	<b>9,741,534</b>	<b>(10,949,656)</b>	<b>33,045,319</b>
<b>Income (loss) before change in recovery of fuel costs</b>	<b>(1,466,603)</b>	<b>281,417</b>	<b>(9,875,430)</b>	<b>4,828,930</b>	<b>567,518</b>	<b>(1,074,030)</b>	<b>1,949,625</b>	<b>(15,034,271)</b>	<b>(19,822,844)</b>
<b>Change in recovery of fuel costs</b>	<b>-</b>	<b>-</b>	<b>(456,570)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(456,570)</b>
<b>Income (loss) before capital contributions and federal grants</b>	<b>(1,466,603)</b>	<b>281,417</b>	<b>(10,332,000)</b>	<b>4,828,930</b>	<b>567,518</b>	<b>(1,074,030)</b>	<b>1,949,625</b>	<b>(15,034,271)</b>	<b>(20,279,414)</b>
<b>Capital contributions and federal grants</b>	<b>9,155,039</b>	<b>-</b>	<b>6,270,224</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52,658,313</b>	<b>68,083,576</b>
<b>Change in net position</b>	<b>7,688,436</b>	<b>281,417</b>	<b>(4,061,776)</b>	<b>4,828,930</b>	<b>567,518</b>	<b>(1,074,030)</b>	<b>1,949,625</b>	<b>37,624,042</b>	<b>47,804,162</b>
<b>Net position - beginning, as previously reported</b>	<b>172,028,318</b>	<b>29,570,947</b>	<b>94,390,130</b>	<b>76,554,682</b>	<b>19,457,718</b>	<b>50,171,249</b>	<b>5,711,049</b>	<b>10,414,930</b>	<b>458,299,023</b>
<b>Prior period adjustment (note 16)</b>	<b>-</b>	<b>-</b>	<b>(37,663,467)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,066,273)</b>	<b>(49,729,740)</b>
<b>Net position - beginning, as restated</b>	<b>172,028,318</b>	<b>29,570,947</b>	<b>56,726,663</b>	<b>76,554,682</b>	<b>19,457,718</b>	<b>50,171,249</b>	<b>5,711,049</b>	<b>(1,651,343)</b>	<b>408,569,283</b>
<b>Net position - ending</b>	<b>\$ 179,716,754</b>	<b>\$ 29,852,364</b>	<b>\$ 52,664,887</b>	<b>\$ 81,383,612</b>	<b>\$ 20,025,236</b>	<b>\$ 49,097,219</b>	<b>\$ 7,660,674</b>	<b>\$ 35,972,699</b>	<b>\$ 456,373,445</b>

See accompanying notes to financial statements.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Commonwealth of the Northern Mariana Islands (CNMI) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the CNMI's accounting policies are described below.

#### A. Reporting Entity

The Government of the CNMI is a constitutional government comprised of three branches: the Legislative Branch (the Legislature), consisting of a nine-member Senate and an eighteen-member House of Representatives elected by eligible voters; the Executive Branch, with the Governor as the chief executive officer; and the Judicial Branch made up of two Commonwealth courts (the Appeals Court and the Trial Court).

For financial reporting purposes, the CNMI has included all funds, organizations, agencies, boards, commissions and institutions. The CNMI has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the CNMI are such that exclusion would cause the CNMI's basic financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the CNMI, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the CNMI. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Each component unit of the CNMI has a September 30 year end.

Component units are entities that are legally separate organizations for which the CNMI's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the CNMI are such that exclusion would cause the CNMI's basic financial statements to be misleading or incomplete. The CNMI is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the CNMI.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (1) Summary of Significant Accounting Policies, Continued

#### A. Reporting Entity, Continued

The financial statements of the component units have been included in the financial reporting entity as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The component units' column of the basic financial statements includes the financial data of the following discretely presented component units:

- The Commonwealth Ports Authority (CPA) is responsible for the operations, maintenance and improvement of all airports and seaports within the CNMI. CPA is governed by a seven-member Board of Directors appointed by the Governor. The CNMI has the ability to impose its will on CPA.
- The Commonwealth Development Authority (CDA) functions to stimulate the economic development of the CNMI. It serves as the administrator of United States economic assistance for economic development loans and aids in the financing of capital improvement projects undertaken by the CNMI and its autonomous public agencies. CDA is governed by a seven-member Board of Directors appointed by the Governor. The CNMI has the ability to impose its will on CDA.
- The Commonwealth Utilities Corporation (CUC) is responsible for supervising the construction, maintenance, operations and regulation of all utility services within the CNMI. CUC is headed by an Executive Director appointed by the Governor. The CNMI has the ability to impose its will on CUC.
- The Marianas Public Land Trust (MPLT) manages all monies received by it from the CNMI Department of Public Lands for the use of public lands and distributes net income to the general fund of the CNMI. Additionally, MPLT is responsible for maintaining a separate trust fund for the development and maintenance of American Memorial Park. MPLT is governed by a five-member Board of Trustees appointed by the Governor. The CNMI has the ability to impose its will on MPLT.
- The Northern Marianas College (NMC) serves as the state agency for higher education and adult education programs within the CNMI. NMC is governed by a seven-member Board of Regents appointed by the Governor. The CNMI provides financial support to NMC through legislative appropriations.
- The Public School System (PSS) is the state educational agency responsible for pre-school, elementary and secondary education programs in the CNMI. PSS is governed by a five-member Board of Education elected at-large. The CNMI provides financial support to PSS through legislative appropriations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- The Marianas Visitors Authority (MVA) is responsible for the promotion and development of the tourism industry in the CNMI. MVA is governed by a nine-member Board of Directors, five of which are appointed by the Governor with the remaining four chosen by the members of MVA. The CNMI provides financial support to MVA through legislative appropriations.
- The Commonwealth Healthcare Corporation (CHCC) is responsible for providing healthcare services in the CNMI. CHCC is governed by a Chief Executive Officer (CEO) who governs the operations of CHCC in a manner that furthers its purposes. A seven-member Board of Trustees, three of which are ex officio voting members consisting of the CEO, the Director of Medical Affairs and a U.S. citizen selected from CHCC's non-physician healthcare professionals and the remaining four appointed by the Governor with the advice and consent of the Senate, acts in an advisory role to the CEO. The CNMI provides financial support to CHCC through legislative appropriations.

Complete financial statements for each of the abovementioned discretely presented component units may be obtained at the units' administrative offices.

Commonwealth Ports Authority  
P.O. Box 501055  
Saipan, MP 96950-1055

Commonwealth Development Authority  
P.O. Box 502149  
Saipan, MP 96950-2149

Commonwealth Utilities Corporation  
P.O. Box 501220  
Saipan, MP 96950-1220

Marianas Public Land Trust  
P.O. Box 501089  
Saipan, MP 96950-1089

Northern Marianas College  
P.O. Box 501250  
Saipan, MP 96950-1250

Public School System  
P.O. Box 501370  
Saipan, MP 96950-1370

Marianas Visitors Authority  
P.O. Box 500861  
Saipan, MP 96950-0861

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Commonwealth Healthcare Corporation  
P.O. Box 500409  
Saipan, MP 96950-0409

In addition, the fiduciary component units are subject to legislative and executive controls. These component units, while meeting the definition of a component unit and while legally separate, are presented in the fund financial statements of the CNMI. They have been omitted from the government-wide financial statements as their resources are not available to fund operations of the CNMI. The fiduciary component units are as follows:

- The Northern Mariana Islands Retirement Fund (NMIRF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, exists to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system within the CNMI. NMIRF is governed by the CNMI.
- The CNMI Group Health and Life Insurance Trust Fund (GHLITF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for administering the life and health insurance programs for CNMI government employees. GHLITF is governed by the CNMI. The GHLITF health benefit administration was privatized on November 1, 2007.

Complete financial statements for each of the abovementioned blended component units may be obtained at the units' administrative offices.

Northern Mariana Islands Settlement Fund  
P.O. Box 501247  
Saipan, MP 96950-1247

Northern Mariana Islands Retirement Fund  
P.O. Box 5234 CHRB  
Saipan, MP 96950

CNMI Group Health and Life Insurance Trust Fund  
P.O. Box 5234 CHRB  
Saipan, MP 96950

Omitted Component Units

The CNMI has omitted the Northern Mariana Islands Settlement Fund (NMISF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund from the basic financial statements due to the lack of available financial information. NMISF exists to accept the transfer of NMIRF assets, receive annual contributions and payments from the CNMI and to carry out the consent judgment entered by the United States District Court for the Northern Mariana Islands (District Court) for Civil Case No. 09-000023. NMISF is governed by a Trustee appointed by District Court. The omission of this component unit resulted in an adverse opinion on the aggregate remaining fund information.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

## (1) Summary of Significant Accounting Policies, Continued

### A. Reporting Entity, Continued

#### Omitted Component Units, Continued

The CNMI has omitted the Commonwealth Government Employees Credit Union (CGECU) from the basic financial statements due to the lack of available financial information. CGECU serves as a credit union for all CNMI government employees. CGECU is governed by a five-member Board of Directors appointed by the Governor. The financial activities of this omitted component unit are not considered material to the basic financial statements.

#### Program and Other Revenue Recognition

Program revenue is defined by the CNMI to be the revenue from fees and assessments collected by departments that are applicable to that department's operations. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs. All other revenues and expenses are reported as nonoperating.

### B. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other changes between the primary government and the discretely presented component units. Elimination of these changes would distort the direct costs and program revenues reported for the various functions concerned. Primary government activities are all governmental in nature. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net position* results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net position* consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider it to be available for general operations.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (1) Summary of Significant Accounting Policies, Continued

#### B. Government-Wide Financial Statements, Continued

The government-wide Statement of Net Position reports \$54,051,603 of restricted net position, of which \$45,223,534 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

#### C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

The CNMI reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

#### D. Measurement Focus and Basis of Accounting

##### Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (1) Summary of Significant Accounting Policies, Continued

#### D. Measurement Focus and Basis of Accounting, Continued

##### Governmental Fund Financial Statements:

Governmental funds financial statements account for the general governmental activities of the CNMI and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the CNMI considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs, which is generally within twelve months of the current fiscal period.

Significant revenues susceptible to accrual include income, gross receipts, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Therefore, tax related receivables are essentially reserved for or have been historically deferred. Miscellaneous revenues from other financing sources are recognized when received because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

##### Fiduciary Funds and Component Units Financial Statements:

Discretely presented component units distinguish operating revenues from nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (1) Summary of Significant Accounting Policies, Continued

#### D. Measurement Focus and Basis of Accounting, Continued

Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The CNMI reports the following major funds:

- General Fund. This fund is the primary operating fund of the CNMI. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Grants Assistance Fund, a Governmental Fund Type - Capital Projects Fund/Special Revenue Fund. This fund accounts for all financial transactions related to grants received from various U.S. departments. This fund combines the DOI Capital Projects Fund, a Governmental Fund Type - Capital Projects Fund and Federal Grants Fund, a Governmental Fund Type - Special Revenue Fund and is detailed in the combining statements.
- Saipan Amusement Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions related to casino licensing and nonrefundable application fees.

The Department of Public Lands and Private Grants Fund were previously presented as major funds of the CNMI. During the year ended September 30, 2014, these funds did not meet the definition of a major fund. Accordingly, the funds were presented within other governmental funds. The effect of this presentation is an increase of \$4,856,466 in the beginning fund balance of other governmental funds.

The Judicial Building Fund (JBF) was previously presented within other governmental funds. During the year ended September 30, 2014, the NMISF loan was transferred to the General Fund (see note 9). As a result of the transfer, JBF was presented in the General Fund. The effect of this presentation is an increase of \$59,081 in the beginning fund deficit of the General Fund.

For all discretely presented component units, the CNMI utilizes the flow of economic resources measurement focus. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### E. Concentrations of Credit Risk

Financial instruments, which potentially subject the CNMI to concentrations of credit risk, consist principally of cash demand deposits and investments.

At September 30, 2014, the CNMI has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The CNMI has not experienced any losses on such accounts.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

F. Cash and Cash Equivalents and Time Certificates of Deposit

The CNMI pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents include cash held in demand accounts as well as short-term investments in U.S. Treasury obligations with a maturity date within three months of the date acquired by the CNMI. Time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net position/balance sheet.

G. Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied. Tax revenue is recognized on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the CNMI for expenditures on federally-funded reimbursement and grant programs are reported as "receivables from federal agencies".

H. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

I. Interfund Receivables and Payables

During the course of its operations, the CNMI records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet. Receivables and payables resulting from transactions between component units and the primary government are classified as "due to/from primary government" or "due to/from component units" on the governmental balance sheet and statement of net position. Interfund receivables and payables have been eliminated from the statement of net position.

J. Advances

Advances include amounts paid in advance to vendors. In the governmental funds balance sheet, advances are offset by inclusion in the fund balance reserve for encumbrances indicating that they do not constitute expendable available resources and are, therefore, not available for appropriation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

K. Inventories

Inventories are stated at the lower of cost or market using the first-in/first-out (FIFO) method.

Food stamp balances held at year end are recorded as inventories based on face value. Inventories reported in the Grants Assistance Fund of \$1,001,000 are offset by unearned revenues.

L. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land, non-depreciable land improvements are capitalized, regardless of cost. Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

All vehicles have been grouped together regardless of cost and depreciated on a composite basis.

Management has elected to present only assets acquired subsequent to 1990, except for roads. Accordingly, fixed asset records consist of additions commencing in fiscal year 1990.

Applicable capital assets are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

	<u>Estimated Useful Life</u>
Buildings and other improvements	10 - 50 years
Infrastructure	20 years
Machinery and equipment	5 - 25 years

M. Fund Equity/Net Position

The CNMI reports net position as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. Otherwise, these balances are considered unrestricted.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (1) Summary of Significant Accounting Policies, Continued

#### M. Fund Equity/Net Position, Continued

Net position has been restricted as follows:

“Restricted for capital projects” - identifies amounts restricted for Capital Projects.

“Restricted for retirement of indebtedness” - identifies amounts restricted for debt service.

“Restricted for other purposes” - identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the CNMI enabling statutes.

Fund balance classifications are based on the extent to which the CNMI is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the CNMI Legislature, the CNMI’s highest level of decision making authority, and does not lapse at year-end. Formal action of the CNMI Legislature is required to remove the limitations of committed fund balances.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Intent is expressed by either the CNMI Legislature or a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned includes negative fund balances in other governmental funds.

The CNMI has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the CNMI is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction. A formal minimum fund balance policy has not been adopted.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (1) Summary of Significant Accounting Policies, Continued

#### N. Long-Term Obligations

Article X, Section 4, of the CNMI Constitution limits public indebtedness, other than bonds or other obligations of the government payable solely from the revenues derived from a public improvement or undertaking, to no more than 10% of the aggregate assessed valuation of the real property within the CNMI. The CNMI aggregate assessed valuation has not been determined as of September 30, 2014. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2014. This estimation was based on the 1995 CNMI Mid-Decade Census.

#### O. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Compensated absences are recorded as a long-term liability in the statement of net position with amounts to be paid during the next fiscal year reported as current. The liability as of September 30, 2014, is \$6,264,576.

Annual leave accumulates at the rate of thirteen working days for each year of service for up to three years of service, nineteen and a half working days for each year of service for three to six years of service, and twenty-six working days for each year of service for more than six years of service. Accrued annual leave is limited to forty-five working days, with any amounts over forty-five days transferred to sick leave.

#### P. Unearned Revenues

In the government-wide financial statements, unearned revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements, unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period under the modified accrual basis of accounting. Unearned revenues also arise when resources are received by the CNMI before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the CNMI has a legal claim to the resources, the liability for unearned revenue is removed from the governmental fund balance sheet and revenue is recognized.

#### Q. Casino License and Application Fees

Public Law 18-38, as amended by Public Law 18-43 and Public Law 18-56 was enacted to authorize, establish and regulate an exclusive gaming license within the CNMI. Public laws allow the Commonwealth Lottery Commission (the Commission) to impose a one-time nonrefundable casino license application fee of \$1,000,000 for each applicant and impose an annual casino license fee of \$15,000,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

Q. Casino License and Application Fees, Continued

Funds collected from licensing must be deposited in the CNMI Treasury and allocated to pay for the 25% reduction of the retirees and the beneficiaries' pension and to pay interest to active members who terminated their membership from the defined benefit plan under Public Law 17-82, as amended by Public Law 18-02. The nonrefundable casino license application fees must be deposited in a Special Fund and expended by the Commission, without appropriation for the investigation of license applicants pursuant to 1 CMC §2318 and any other costs associated with reviewing the applications and granting or denying applications for the exclusive license.

On August 12, 2014, a casino license agreement between the Commission and Imperial Pacific International (CNMI) LLC (the Licensee) was approved. The casino license agreement is valid for a consecutive period of twenty five years with an option to extend the initial license term for an additional consecutive period of fifteen years. The annual casino license fee is \$15,000,000 and must be paid every year to the CNMI Treasurer on the date of the issuance of the license and on every subsequent anniversary. Further, the casino license agreement, pursuant to the terms of Public Law 18-56, requires the Licensee to deliver a sum of \$30,000,000 into a third party independent escrow account designated by the CNMI Treasurer as a deposit for the annual license fee for the first and fifth years of the total license term.

During the fiscal year, the CNMI recorded casino application fees of \$2,000,000 and casino license fee of \$30,000,000 which represents license fees for first and fifth year of the total license term. Accordingly, during the calendar year, the CNMI recorded payment to NMISF related to 25% reduction of the retirees and the beneficiaries' pension of and paid interest to active members who terminated their membership from the defined benefit plan under Public Law 17-82, as amended by Public Law 18-02 (see note 15).

R. Bond Premiums, Discounts and Issuance Costs

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of bond premiums and discounts. Bond issuance costs are expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received and discounts deducted on debt issuance are reported as other financing sources and other financing uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

## (1) Summary of Significant Accounting Policies, Continued

### S. Income Taxes and Wage and Salary Taxes

The *Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America* (the Covenant) adopted the Internal Revenue Code of the United States of America as the local income tax. Percentages of income tax due to the CNMI from CNMI source income are rebated at 90%, 70% or 50%, based on specified tax brackets for corporate and individual income taxes paid.

During the calendar year, the CNMI collects individual and corporate income taxes through withholdings and payments from taxpayers. At September 30, the CNMI estimates the amount owed to taxpayers for overpayments and rebates. These estimated amounts and the actual tax rebates claimed for prior years but not paid at year end are recorded as tax rebates payable with a corresponding reduction of tax revenue in the General Fund. The estimated tax rebate liability is evaluated on a regular basis by the CNMI and is based upon the CNMI's periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Accordingly, changes to estimates are accounted for on a prospective basis.

### T. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

### U. New Accounting Standards

During the year ended September 30, 2014, the CNMI implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The provisions in Statement No. 67 are effective for fiscal years beginning after June 15, 2013. CNMI management is of the opinion that the required supplementary information must be obtained from NMISF. As of September 30, 2014, NMISF financial statements were not included within the CNMI's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement No. 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the CNMI.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

V. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results may differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the tax rebate payable.

In determining the tax rebates payable, the CNMI makes various estimates. In conjunction with these estimates, the CNMI has established a permanent tax rebate reserve of \$1,500,000 to offset potential estimated disputes or claims.

W. Encumbrances

The CNMI utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2014, the CNMI has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants Assistance</u>	<u>Saipan Amusement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ <u>3,894,515</u>	\$ <u>24,763,016</u>	\$ <u>-</u>	\$ <u>10,628,037</u>	\$ <u>39,285,568</u>

X. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the CNMI's financial statements for the year ended September 30, 2013 from which summarized information was derived.

(2) Deposits and Investments

Deposit and Investment Policy

The CNMI has no formal deposit and investment policy other than the requirements stipulated in applicable bond indentures.

Cash and Cash Equivalents and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, the CNMI's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The CNMI does not have a deposit policy for custodial credit risk.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (2) Deposits and Investments, Continued

#### Cash and Cash Equivalents and Time Certificates of Deposit, Continued

As of September 30, 2014, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$12,737,576 and the corresponding bank balances were \$12,831,775. Of the bank balance amounts, \$11,421,870 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$1,409,905 represents amounts maintained in a non-FDIC insured bank. Restricted cash and cash equivalents for the primary government represent amounts held and administered by the CNMI in accordance with legal mandates and certain capital projects. Restricted cash and cash equivalents and time certificates of deposit at September 30, 2014 amounted to \$29,508,757 and the corresponding bank balances were \$30,657,459. Of the bank balance amounts, \$26,064,268 is maintained in financial institutions subject to FDIC insurance. The remaining amount of \$4,593,191 represents short-term investments held and administered by the CNMI's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of the investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2014. As of September 30, 2014, bank deposits in the amount of \$1,000,000 were FDIC insured. Public Law No. 12-61, the Government Deposit Safety Act of 1994, as amended, governs the general deposit policies of the CNMI and requires that all deposits of public funds made by the CNMI are to be collateralized by U.S. Government obligations at the rate of 100% of the corresponding bank deposit. Compliance with Public Law No. 12-61 as of September 30, 2014, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2014, the carrying amount of the discretely presented component units' restricted and unrestricted cash and cash equivalents and time certificates of deposit were \$75,762,100 and the corresponding bank balances were \$78,505,107. Of the bank balance amounts, \$70,158,369 is maintained in financial institutions subject to FDIC insurance and \$6,962,395 represents amounts maintained in a non-FDIC insured bank. The remaining amount of \$1,384,343 represents amount held and administered by the discretely presented components units' investment manager subject to Securities Investor Protection Corporation (SIPC) insurance up to \$250,000 with coverage in excess of SIPC provided by a supplemental insurance policy through certain underwriters with a per client aggregate limit of \$1.9 million. As of September 30, 2014, bank deposits in the amount of \$9,066,862 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

#### Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the CNMI.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the CNMI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The CNMI's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding various capital projects, land settlement claims and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2014.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The CNMI does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

A. Governmental Funds

As of September 30, 2014, the General Fund holds 13% and 11% of the shares of the Pacific Islands Development Bank and the United Micronesia Development Association, Inc. in the amount of \$1,000,000 and \$1,500,000, respectively. As the fair market value of these investments is not readily available, such have been recorded at cost.

Investments of Other Governmental Funds are held by a bank administered trust company. Investments at September 30, 2014, are as follows:

Stock mutual fund	\$ 722,459
Mutual bond funds	345,269
Money market placements	<u>23,049</u>
	<u>\$ 1,090,777</u>

The following is a listing of fixed income securities of Other Governmental Funds at September 30, 2014:

Investment Type	Fair Value	Investment Maturities (In Years)			Credit Rating	
		Less Than 1	1 - 5	6 - 10		More Than 10
Mutual bond funds	\$ <u>345,269</u>	\$ <u>345,269</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	Unrated

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

Investments, Continued

B. Discretely Presented Component Units

CPA:

CPA's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on those agreements, all of those deposits were held in CPA's name by CPA's custodial financial institutions at September 30, 2014. As of September 30, 2014, investments at fair value consist of investments in U.S. Government money market placements amounting to \$17,918,281.

MPLT:

MPLT's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments are held in MPLT's name by MPLT's custodial financial institutions at September 30, 2014.

As of September 30, 2014, investments at fair value are as follows:

Mutual funds	\$ 7,755,756
Fixed income securities:	
Domestic fixed income	30,559,005
Other investments:	
Domestic equities	30,006,341
International equities	<u>3,675,423</u>
	<u>\$ 71,996,525</u>

The following is a listing of MPLT's fixed income securities at September 30, 2014:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Asset and mortgage backed securities	\$ 41,449	\$ -	\$ -	\$ -	\$ 41,449	AAA
Asset and mortgage backed securities	5,456,254	-	1,868,857	867,212	2,720,185	AA+*
Asset and mortgage backed securities	4,727,840	-	4,727,840	-	-	AA+
Government bonds	10,996,769	-	2,153,155	4,917,483	3,926,131	AA+*
Corporate bonds	878,997	-	-	878,997	-	AA+
Corporate bonds	321,448	-	-	321,448	-	AA-
Corporate bonds	1,569,413	158,227	556,882	854,304	-	A
Corporate bonds	2,304,667	-	-	2,304,667	-	A-
Corporate bonds	562,121	-	-	562,121	-	BBB+
Corporate bonds	307,363	-	83,562	223,801	-	BBB-
Corporate bonds	381,412	-	-	381,412	-	BB+
Corporate bonds	917,739	-	149,970	767,769	-	BB
Corporate bonds	671,497	-	76,285	520,447	74,765	BB-
Corporate bonds	420,345	-	115,521	304,824	-	B+
Corporate bonds	403,155	-	37,125	366,030	-	B
Corporate bonds	412,911	-	185,470	227,441	-	B-
Corporate bonds	70,350	-	-	70,350	-	CCC+
Corporate bonds	115,275	-	-	115,275	-	N/A
	<u>\$ 30,559,005</u>	<u>\$ 158,227</u>	<u>\$ 9,954,667</u>	<u>\$ 13,683,581</u>	<u>\$ 6,762,530</u>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

Investments, Continued

B. Discretely Presented Component Units, Continued

NMC:

NMC's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in NMC's name by NMC's custodial financial institutions at September 30, 2014.

As of September 30, 2014, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 1,980,530
Other investments:	
Domestic equities	4,348,119
Cash and cash equivalents	<u>1,026,853</u>
	<u>\$ 7,355,502</u>

The following is a listing of NMC's fixed income securities at September 30, 2014:

Investment Type	Fair Value	Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Government and GSE bonds	\$ 1,477,097	\$ -	\$ 1,139,894	\$ 337,203	\$ -	AAA
Government and GSE bonds	3,896	3,896	-	-	-	No rating
Corporate bonds	20,207	20,207	-	-	-	AA
Corporate bonds	40,277	-	-	19,525	20,752	A
Corporate bonds	131,565	-	76,228	-	55,337	A-
Corporate bonds	20,059	-	-	20,059	-	AA+
Corporate bonds	139,825	-	19,029	61,408	59,388	BBB
Corporate bonds	61,650	-	-	20,962	40,688	BBB-
Corporate bonds	80,305	-	19,314	19,684	41,307	BBB+
Corporate bonds	5,649	5,649	-	-	-	No rating
	<u>\$ 1,980,530</u>	<u>\$ 29,752</u>	<u>\$ 1,254,465</u>	<u>\$ 478,841</u>	<u>\$ 217,472</u>	

(3) Receivables

Governmental Funds

Receivables as of September 30, 2014, for the primary government's individual major governmental funds and nonmajor governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(3) Receivables, Continued

Governmental Funds, Continued

	<u>General</u>	<u>Grants Assistance</u>	<u>Saipan Amusement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
Federal agencies	\$ 6,461,422	\$ 11,099,961	\$ -	\$ 2,687,198	\$ 20,248,581
Other	3,103,600	-	-	27,572	3,131,172
Taxes	7,215,662	-	-	-	7,215,662
General	<u>2,899,223</u>	<u>12,831</u>	<u>-</u>	<u>22,199,564</u>	<u>25,111,618</u>
Gross receivables	19,679,907	11,112,792	-	24,914,334	55,707,033
Less allowance for uncollectibles	<u>(4,965,112)</u>	<u>(8,204,283)</u>	<u>-</u>	<u>(22,972,726)</u>	<u>(36,142,121)</u>
Net receivables	\$ <u>14,714,795</u>	\$ <u>2,908,509</u>	\$ <u>-</u>	\$ <u>1,941,608</u>	\$ <u>19,564,912</u>

Receivables are primarily due from businesses and individuals residing in the CNMI. The allowance for uncollectibles primarily represents estimated uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

Fiduciary Funds

Receivables as of September 30, 2014, for the fiduciary funds, including allowances for uncollectible accounts, are as follows:

	<u>NMIRF</u>	<u>GHLITF</u>	<u>Total</u>
Receivables:			
Loan	\$ 4,154,718	\$ -	\$ 4,154,718
Notes	7,034,736	-	7,034,736
Other	<u>7,236</u>	<u>-</u>	<u>7,236</u>
Gross receivables	11,196,690	-	11,196,690
Less allowance for uncollectibles	<u>(6,923,399)</u>	<u>-</u>	<u>(6,923,399)</u>
Net receivables	\$ <u>4,273,291</u>	\$ <u>-</u>	\$ <u>4,273,291</u>

Discretely Presented Component Units

Receivables as of September 30, 2014, for the discretely presented component units, including allowances for uncollectible accounts are as follows:

	<u>CPA</u>	<u>CDA</u>	<u>CUC</u>	<u>MPLT</u>	<u>NMC</u>	<u>PSS</u>	<u>MVA</u>	<u>CHCC</u>	<u>Total</u>
Receivables:									
Loans	\$ 3,385,131	\$ 55,025,623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,410,754
Notes	-	275,769	349,831	11,450,482	-	-	-	-	12,076,082
Federal agencies	1,328,572	-	819,393	-	1,167,224	2,459,382	-	-	5,774,571
General	4,357,633	-	46,040,815	-	3,554,704	-	-	42,849,331	96,802,483
Interest and dividends	-	2,235,767	-	366,502	-	-	-	-	2,602,269
Other	<u>514,241</u>	<u>1,935,166</u>	<u>-</u>	<u>106,302</u>	<u>-</u>	<u>623,988</u>	<u>14,376</u>	<u>141,170</u>	<u>3,335,243</u>
Gross receivables	9,585,577	59,472,325	47,210,039	11,923,286	4,721,928	3,083,370	14,376	42,990,501	179,001,402
Less allowance for uncollectibles	<u>(4,717,439)</u>	<u>(40,126,110)</u>	<u>(36,158,859)</u>	<u>(4,931,289)</u>	<u>(1,928,705)</u>	<u>(277,958)</u>	<u>-</u>	<u>(24,141,067)</u>	<u>(112,281,427)</u>
Net receivables	\$ <u>4,868,138</u>	\$ <u>19,346,215</u>	\$ <u>11,051,180</u>	\$ <u>6,991,997</u>	\$ <u>2,793,223</u>	\$ <u>2,805,412</u>	\$ <u>14,376</u>	\$ <u>18,849,434</u>	\$ <u>66,719,975</u>

Loans and notes receivable recorded by the discretely presented component units consist of the following:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(3) Receivables, Continued

Discretely Presented Component Units, Continued

CPA:

Loan receivable from CUC, bearing interest at 6.25% per annum over a term of five years, commencing on July 1, 2008 as reimbursement for project costs paid by CPA for the Sewerline Project and loan receivable from CUC, bearing interest at 6.25% per annum, for repayment of wharfage fees. CPA's utility charges can be offset in lieu of payments. Due to the potential uncollectibility, the amount has been fully allowed for. \$ 3,385,131

CDA:

Economic development loans for commercial purposes due within various periods not to exceed thirty (30) years. The interest rates charged are based on the economic purpose of the loan. Production development loans bear interest at 7% to 9% per annum, marine and agriculture loans bear interest at 4.5% per annum, commercial development loans bear interest at 7% to 9% per annum, and microloans bear interest at 7% to 12% per annum. In October 2007, CDA initiated a "Debt Relief Program", which provides for reduction of interest to two percent and extension of term up to thirty years with a mandated three year callable provision where warranted and justified. \$ 38,149,881

NMHC housing loans for the specific purpose of providing residents of the Northern Mariana Islands with approved low-cost housing. The loans have terms from ten to thirty-three years in duration at interest rates of 4.5% to 12% per annum. 12,118,302

Loan receivable from CPA, bearing interest at 2.5% per annum, with quarterly principal and interest payments in the amount of \$204,113, with maturity date of November 16, 2014. Proceeds were used for the Saipan Harbor Project. On June 29, 2010, the note was revised with monthly principal and interest payments in the amount of \$31,000, with a maturity date of June 15, 2030. 4,757,440

Note receivable from Arctic Circle Air Co. (Arctic Circle), bearing interest at 7% per annum, with monthly principal and interest payments in the amount of \$55,846, with a maturity date of February 12, 2015 and secured by a chattel mortgage loan of \$649,000. 275,769  
\$ 55,301,392

CUC:

Notes receivable from customers, bearing interest at 12% per annum, with terms ranging from six months to ten years. \$ 349,831

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(3) Receivables, Continued

Discretely Presented Component Units, Continued

MPLT:

Notes receivable (Home Loan Program) from various individuals obtained through a settlement agreement with NMHC dated December 31, 2007, interest at 2% per annum (5.5% to 8.5% prior to January 1, 2009) and terms from ten to thirty years. \$ 7,653,850

Note receivable from Adelantun Publickun Luta Enteramente, Incorporated (APLE 501, Inc.), interest at 5% per annum, due on October 18, 2017, with monthly principal and interest payments in the amount of \$1,225, collateralized by a loan portfolio. Proceeds were used to fund an independently administered individual or parent-student loan program. MPLT has ceased future loan commitments and disbursements to APLE 501, Inc. 101,289

Note receivable from CDA, interest at 6.5% per annum, due on June 1, 2018, collateralized by future distributable net income for the maintenance and development of the American Memorial Park and is to be repaid from earnings of the investments pursuant to CNMI Public Law 11-72. 695,343

Note receivable from CHCC, interest at 7% per annum, due on March 12, 2013, collateralized by future distributable income of fiscal year 2014 and CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law 17-76. 3,000,000

\$ 11,450,482

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2014, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 1,938,978
General	Grants Assistance	1,119,191
Grants Assistance	General	6,378,843
Saipan Amusement	General	5,509,412
Nonmajor governmental	General	15,359,582
Fiduciary	General	<u>1,391,134</u>
		<u>\$ 31,697,140</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(4) Interfund Receivables and Payables, Continued

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made and are scheduled to be collected in the subsequent year.

Balances reflected as due to/from component units as of September 30, 2014, are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
PSS	General	\$ 6,906
MVA	General	6,192,009
CUC	General	4,053,060
CHCC	General	176,047
MPLT	DPL	<u>1,155,594</u>
		<u>\$ 11,583,616</u>

The amount recorded as due from component units of the primary government of \$-0- does not equal the corresponding due to primary government of the discretely presented component units of \$11,864,125 due to CPA, CHCC and CUC recording 1% public auditor fee of \$725,561, \$1,147,691 and \$6,646,790, respectively, for which the primary government recorded a corresponding allowance. The difference is also due to CHCC's contribution to the DB Plan of \$3,236,787 and CUC's advances to the CNMI of \$107,296. The difference of \$3 with PSS is due to rounding.

The amount recorded as due from primary government of the discretely presented component units of \$6,623,977 does not equal the corresponding due to component units of the primary government of \$11,583,616 by \$4,959,639. The difference of \$4,053,060 with CUC is due to amounts recorded as general receivables by CUC. The difference of \$177,561 with NMC is due to retirement contributions paid for retired NMC employees that were not recorded by the CNMI. The difference of \$1,789,723 with MVA is due to an allowance of \$792,730 and a write-off of \$855,891 and an unreconciled amount of \$141,102. The difference of \$1,861,174 with CHCC is due to unreconciled amounts.

(5) Restricted Assets

Governmental Funds

Restricted assets of \$26,898,629 recorded in the General Fund represents cash and cash equivalents of \$1,852,316 for capital projects, \$5,054,333 for federal programs and projects, \$2,298,222 for future debt service requirements, \$4,023,336 for State Small Business Credit Initiative payments, \$6,653,580 for Saipan Amusement payments, \$1,007,786 for MVA Trust, \$1,477,389 for education fee payments and \$4,531,667 for other various purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(5) Restricted Assets, Continued

Governmental Funds, Continued

Restricted assets of \$2,295,045 recorded in the Grants Assistance Fund represents cash and cash equivalents restricted for capital projects.

Restricted assets of \$1,405,860 recorded in the Other Governmental Funds represent cash and cash equivalents of \$181,555 for other purposes, a time certificate of deposit of \$133,528 and investments of \$1,090,777 for the purpose of compensating for injury increasing disability in accordance with §(f) of Section 9308 of Public Law 10-19.

Fiduciary Fund Type - Agency Fund

Restricted assets of \$1,575,245 as of September 30, 2014, represent deposits of foreign investors required by law to operate a business in the CNMI.

Discretely Presented Component Units

CPA:

Restricted assets of CPA as of September 30, 2014, represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds, both issued on March 26, 1998, deposited with the Trustee. The Trustee is a commercial lending institution and the securities are held in the name of CPA. Disbursements from unused bond proceeds are to be made solely for the purpose of paying the costs of the projects, and pursuant to the Act establishing CPA (Public Law No. 2-48), payment of the costs of issuance and the payment of bond principal and interest to the extent provided in the Indenture.

<u>Fund</u>	<u>Airport Revenue Bonds</u>	<u>Seaport Revenue Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,589,375	\$ 3,479,779	\$ 5,069,154
Supplemental Reserve Fund	-	8,034,239	8,034,239
Construction Fund	-	7,179	7,179
Reimbursement Fund	-	5,809	5,809
Bond Fund	428,720	916,481	1,345,201
Maintenance and Operation	1,908,612	1,534,451	3,443,063
Optional Redemption Fund	12,101	-	12,101
Revenue Fund	<u>724</u>	<u>811</u>	<u>1,535</u>
	<u>\$ 3,939,532</u>	<u>\$ 13,978,749</u>	<u>\$ 17,918,281</u>

CDA:

Restricted assets of CDA's Development Banking Division of \$5,205,686 represent the proceeds of Covenant funding and liquidated revenue bonds derived from pledged Covenant funding to be used for capital development purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

CDA, Continued:

Restricted assets of NMHC represent depository accounts with financial institutions in the CNMI that are restricted for various purposes, as summarized below:

Escrow and savings account maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development Loans	\$ 3,237,677
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	200,348
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	91
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,134,808
Other depository accounts reserved for various purposes	<u>46,978</u>
	<u>\$ 4,619,902</u>

CUC:

Restricted assets of \$10,197,517 as of September 30, 2014, represent customer deposits segregated pursuant to CUC policy.

MPLT:

Restricted assets of \$71,996,525 represent investments held and administered by trustees in accordance with trust and custody agreements for purposes of investment and distribution to the CNMI General Fund in accordance with provisions of the CNMI Constitution.

(6) Fixed Assets and Depreciation

Capital asset activities for the year ended September 30, 2014, are as follows:

Primary Government

	Balance October 1, 2013	Additions	Reclassifications	Transfers to CHCC	Balance September 30, 2014
Assets not being depreciated:					
Land	\$ 29,899,810	\$ 164,344	\$ -	\$ -	\$ 30,064,154
Construction in progress	<u>15,729,016</u>	<u>8,561,297</u>	<u>(2,793,821)</u>	<u>(2,156,816)</u>	<u>19,339,676</u>
	<u>45,628,826</u>	<u>8,725,641</u>	<u>(2,793,821)</u>	<u>(2,156,816)</u>	<u>49,403,830</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(6) Fixed Assets and Depreciation, Continued

Primary Government, Continued

	Balance October 1, 2013	Additions	Reclassifications	Transfers to CHCC	Balance September 30, 2014
Depreciable assets:					
Buildings and other improvements	183,705,196	-	503,640	(60,228,508)	123,980,328
Machinery and equipment	32,066,611	2,183,676	229,759	(3,483,667)	30,996,379
Infrastructure	<u>143,201,473</u>	<u>-</u>	<u>2,060,422</u>	<u>-</u>	<u>145,261,895</u>
	<u>358,973,280</u>	<u>2,183,676</u>	<u>2,793,821</u>	<u>(63,712,175)</u>	<u>300,238,602</u>
Accumulated depreciation:					
Buildings and other improvements	(71,429,087)	(4,303,704)	-	23,603,143	(52,129,648)
Machinery and equipment	(22,420,611)	(3,179,097)	-	2,349,758	(23,249,950)
Infrastructure	<u>(112,211,436)</u>	<u>(2,574,250)</u>	<u>-</u>	<u>-</u>	<u>(114,785,686)</u>
Total accumulated depreciation	<u>(206,061,134)</u>	<u>(10,057,051)</u>	<u>-</u>	<u>25,952,901</u>	<u>(190,165,284)</u>
Depreciable assets, net	<u>152,912,146</u>	<u>(7,873,375)</u>	<u>2,793,821</u>	<u>(37,759,274)</u>	<u>110,073,318</u>
	<u>\$ 198,540,972</u>	<u>\$ 852,266</u>	<u>\$ -</u>	<u>\$ (39,916,090)</u>	<u>\$ 159,477,148</u>

Public Law 16-51 created CHCC which is responsible for providing healthcare services in the CNMI as of October 1, 2011. Healthcare services had previously been accounted for within the General Fund of the CNMI. Public Law 16-51 requires the CNMI and CHCC to transfer and accept all real properties owned by the CNMI Department of Public Health, and all other real and personal property used exclusively for the functions and duties assumed by CHCC. On December 11, 2013, CHCC requested the CNMI to transfer the aforementioned capital assets to CHCC. On December 18, 2013, the CNMI approved CHCC's request. Accordingly, the CNMI and CHCC agreed to record the transfer of net capital assets of \$39,916,090 as of September 30, 2014.

Depreciation expense was charged to functions/programs of the primary government as follows:

Public Works	\$ 4,291,909
Public Safety and Law Enforcement	3,300,222
Community and Social Services	1,353,271
General Government	596,999
Judicial Branch	291,274
Lands and Natural Resources	<u>223,376</u>
Total depreciation expense - governmental activities	<u>\$ 10,057,051</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance at October 1, 2013	Additions and Transfers	Retirements	Balance at September 30, 2014
Assets not being depreciated:					
Land		\$ 45,914,185	\$ -	\$ (100,000)	\$ 45,814,185
Construction in progress		<u>63,200,482</u>	<u>14,323,453</u>	<u>(447,200)</u>	<u>77,076,735</u>
		<u>109,114,667</u>	<u>14,323,453</u>	<u>(547,200)</u>	<u>122,890,920</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(6) Fixed Assets and Depreciation, Continued

Discretely Presented Component Units, Continued

	Estimated Useful Lives	Balance at October 1, 2013	Additions and Transfers	Retirements	Balance at September 30, 2014
Depreciable assets:					
Housing projects	30 years	7,977,392	-	-	7,977,392
Buildings	5 - 50 years	68,330,100	60,228,508	-	128,558,608
Harbor facilities	20 years	63,635,195	-	(33,773)	63,601,422
Infrastructure	30 years	4,446,674	-	(26,038)	4,420,636
Terminal facilities	20 years	101,802,939	96,916	(211,564)	101,688,291
Runway and improvements	20 years	113,856,055	-	-	113,856,055
Terminal equipment	2 - 10 years	10,301,788	85,885	(854,555)	9,533,118
Electric plant	20 years	128,881,452	854,128	(2,493)	129,733,087
Water plant	20 years	67,805,784	146,396	-	67,952,180
Sewer plant	20 years	45,730,511	2,585,462	-	48,315,973
Other improvements	3 - 20 years	27,453,698	259,330	(286,706)	27,426,322
Fire and rescue	2 - 8 years	11,514,281	60,225	-	11,574,506
Office furniture and fixtures	2 - 10 years	9,220,795	4,197,489	(443,334)	12,974,950
General transportation	3 - 5 years	8,495,395	236,145	(82,599)	8,648,941
Other equipment	3 - 5 years	4,154,806	144,681	(78,216)	4,221,271
Ground maintenance and shop equipment	2 - 5 years	<u>388,189</u>	<u>-</u>	<u>(33,279)</u>	<u>354,910</u>
		673,995,054	68,895,165	(2,052,557)	740,837,662
Less accumulated depreciation		<u>(403,566,063)</u>	<u>(49,453,582)</u>	<u>1,993,092</u>	<u>(451,026,553)</u>
Depreciable assets net		<u>270,428,991</u>	<u>19,441,583</u>	<u>(59,465)</u>	<u>289,811,109</u>
		\$ <u>379,543,658</u>	\$ <u>33,765,036</u>	\$ <u>(606,665)</u>	\$ <u>412,702,029</u>

(7) Tax Rebates Payable

The CNMI makes significant estimates in determining tax rebates payable. A Rebate Trust Fund was established to account for amounts paid to the CNMI, with respect to taxes imposed, which are rebateable to taxpayers. P.L. 9-22, enacted in January 1995, repealed and re-enacted the CNMI tax code and removed the requirement of a Rebate Trust Fund. P.L. 9-57, enacted in October 1995, reestablished the Rebate Trust Fund. The reestablishment was not retroactive, and thus tax year liabilities are paid from subsequent year collections of the General Fund.

The rebate percentage is either 90%, 70% or 50%, based on the specified tax brackets for taxes paid. Tax rebate liabilities amounted to \$43,048,353 as of September 30, 2014. Cash to fund this liability is to be provided by the General Fund. Any changes in the estimate will be accounted for in a prospective manner.

(8) Recovery Rebates Payable

The Congress of the United States passed the Economic Stimulus Act of 2008, which was approved and became law on February 13, 2008 as U.S. Public Law 110-185 (the Act). Among other things, the Act provides economic stimulus through recovery rebates to individuals meeting certain criteria. The Act provides that the U.S. Department of Treasury will make payment to the CNMI in an amount equal to the aggregate amount of the credits allowable by reason of the provision to the CNMI's residents against their CNMI income tax to cover advance and final payments. In 2008, the CNMI received total funds of \$16,100,000 pursuant to the Act. The recovery rebates payable of \$398,688 recorded in the General Fund represents the remaining undisbursed funds as of September 30, 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations

NMISF Loan

On February 28, 1995, the CNMI entered into a loan agreement with NMIRF, a Fiduciary Fund Type - Pension (and Other Employee Benefits) Trust Fund, for the construction of a Judicial Complex on the island of Saipan, in an amount not to exceed \$15,000,000. All revenue collected by the courts is deposited into the Judicial Building Fund, a Governmental Fund Type - Special Revenue Fund, to finance debt service on the loan. As of September 30, 2014, cash balances held by NMISF for the retirement of debt totaled \$519. The loan was initially for a period of fifteen years, due February 28, 2010, with interest at 7.5% per annum, principal and interest payable in monthly installments of \$137,198. On July 15, 1999, the loan agreement was amended to extend the term of the loan to twenty years and to increase interest to 7.75% per annum. Pursuant to the amendment, principal and interest are payable in monthly installments of \$120,000. On October 1, 2013, the loan was transferred from NMIRF to NMISF pursuant to Section 8 of the Settlement for Civil Case No. 09-00023. The loan is due on March 1, 2015. Accordingly, the principal and interest outstanding and payable of \$4,814,903 and \$29,023, respectively, as of September 30, 2014, were transferred to the governmental fund financial statements.

\$40,000,000 Bond Issue

On December 1, 2003, CDA, acting for and on behalf of the CNMI, issued \$40,000,000 in 2003A general obligation bonds, with interest rate at 6.75% per annum. The bonds were authorized by Public Law 13-17 as amended by Public Law 13-25, Public Law 13-39 and Public Law 13-56. Bond proceeds, net of bond issuance costs and discount of \$999,309, were used to fund the (i) land compensation claims amounting to \$28,000,691, (ii) the prison project of \$9,104,694 and (iii) reimburse CDA for interim financing of \$1,895,306.

Installments of principal are paid to the Bond Trustee annually commencing October 1, 2009 through October 1, 2033. Interest is payable semiannually beginning April 1, 2004 through October 1, 2033.

The 2003 Series A general obligation bonds are subject to redemption.

- (a) Optional Redemption - The bonds maturing after October 1, 2013 are subject to redemption prior to their respective maturities, at the option of the Commonwealth, from any source of available funds, on any date on or after October 1, 2013, as a whole, or in part by such maturity or maturities as may be specified by request of the Commonwealth (and by lot within a maturity as selected by the Trustee), at a redemption price of one hundred percent (100%) of the principal amount thereof plus accrued interest thereon to the dated fixed for redemption.
- (b) Mandatory Redemption from Sinking Fund Payments - The bonds are subject to redemption prior to their stated maturities, in part, by lot, from mandatory sinking fund payments deposited in the principal account in the Bond Payment Fund pursuant to Section 4.05 of this Indenture, on each October 1 from and after October 1, 2009, at the principal amount thereof plus accrued interest thereon, if any, to the date of redemption (without premium).

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (9) Long-Term Debt Obligations, Continued

#### \$40,000,000 Bond Issue, Continued

- (c) Partial Redemption of Bonds - Upon surrender of any bond redeemed in part only, the Paying Agent shall provide a replacement bond in a principal amount equal to the portion of such bond not redeemed, and deliver it to the registered owner thereof. The bond so surrendered shall be cancelled by the Paying Agent as provided herein. The Authority, the Trustee and the Paying Agent shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.
- (d) Effect of Redemption - Moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the bonds (or portions thereof) so called for redemption being held by the Paying Agent, on the redemption date designated in such notice, shall become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date, said bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Holders of said bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the redemption date. Any accrued interest payable upon the redemption of bonds may be paid from amounts held in the interest account for the payment of interest on the next following interest payment date.

All bonds redeemed pursuant to the provision of this Article, shall be cancelled upon surrender thereof and shall be destroyed by the Paying Agent, who shall thereupon deliver to the Trustee or the Authority a certificate evidencing such destruction if so requested.

As of September 30, 2014, the debt was retired in full.

#### Refunding of Debt

In April 2007, the CNMI issued \$100,490,000 of Series 2007A and Series 2007B General Obligation bonds to primarily refund the outstanding debt obligations of the Series 2000A and Series 2003A General Obligation bonds, and to pay certain expenses related to the issuance of the bonds. The primary purpose of the refunding was to refinance at lower interest rates. The refunding resulted in a cash flow savings of \$7,801,220 and did not extend the length of original bonds.

The refunding resulted in the advance defeasance of approximately 95% of the Series 2000A and Series 2003A General Obligation bonds by placing deposits in an irrevocable trust and escrow account for the purchase of U.S. government securities to pay the principal and interest on the defeased bonds as they are due and payable. For financial reporting purposes, both the defeased bonds outstanding and the escrowed securities have been excluded from the accompanying financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Refunding of Debt, Continued

Although the advance refunding resulted in the recognition of an accounting loss of \$8.2 million for the year ended September 30, 2007, the CNMI in effect reduced its aggregate debt service payments by \$7.8 million over the next twenty-six years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$7.475 million.

At September 30, 2014, Series 2003A bonds outstanding of \$37,400,000 are considered defeased.

\$57,800,000 Bond Issue

In April 2007, CDA, acting for and on behalf of the CNMI, issued general obligation refunding bonds, Series 2007A in the aggregate principal amount of \$57,800,000 with interest rate at 5% per annum to refund \$52,435,000 of the 2000 Series A general obligation bonds. Installments of principal are to be paid to the Bond Trustee annually commencing June 1, 2009 through June 1, 2030. Interest is payable semi-annually beginning December 1, 2007 through June 1, 2030.

Amount outstanding and payable as of September 30, 2014, consist of the following:

Series 2007A general obligations refunding bonds	\$ 46,995,000
Unamortized premium on bond issuance	<u>71,240</u>
	\$ <u><u>47,066,240</u></u>

\$42,690,000 Bond Issue

In April 2007, CDA, acting for and on behalf of the CNMI, issued general obligations refunding bonds, Series 2007B in the aggregate principal amount of \$42,690,000 with interest rate at 5% per annum to refund \$37,400,000 of the 2003 Series A general obligation bonds. Installments of principal are to be paid to the Bond Trustee annually commencing October 1, 2011 through October 1, 2033. Interest is payable semi-annually beginning October 1, 2007 through October 1, 2033.

Amount outstanding and payable as of September 30, 2014, consist of the following:

Series 2007B general obligations refunding bonds	\$ 41,725,000
Unamortized premium on bond issuance	<u>48,837</u>
	\$ <u><u>41,773,837</u></u>

Changes in long-term liabilities for the year ended September 30, 2014, are as follows:



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Obligations Under Settlement Agreement, Continued

After fiscal year 2015, the CNMI has agreed to make minimum annual payments to the Settlement Fund sufficient to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year for the Settlement Fund's expected life and as determined by an independent actuary appointed by the Trustee and approved by the District Court. The Parties project that the minimum annual payments necessary to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year will likely be at least:

2016	\$ 30,000,000
2017	\$ 33,000,000
2018	\$ 45,000,000
2019	\$ 44,000,000
2020	\$ 43,000,000
2021	\$ 42,000,000
2022	\$ 41,000,000
2023	\$ 40,000,000
2024	\$ 39,000,000

The CNMI has agreed to continue to make annual payments in these minimum amounts unless the District Court determines after a hearing that a different amount is required to enable payment to Class Members of 75% of their Full Benefits.

After fiscal year 2024, the CNMI has agreed to make minimum annual payments to the Settlement Fund sufficient to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year for the Settlement Fund's expected life as determined by an independent actuary appointed by the Trustee and approved by the District Court.

As a result of the Settlement, the CNMI recorded a liability of \$227,749,160 to NMISF equivalent to the amount of judgment for Civil Case No. 06-0367 less payments made to NMISF pursuant to the Settlement. The CNMI is awaiting the actuarial determination for the amount of liability and as a result, the effect on the accompanying financial statements has not been determined.

Claims and Judgments

On September 26, 2014, District Court issued a court order to fund and implement Stipulated Order Number Two (SO2) (Dkt. no. 15) filed by the United States, CUC and the CNMI (jointly the Parties). The successful funding and implementation of the SO2 will result in timely and cost-efficient improvements to CUC's infrastructure, proper oil management and disposal and oil spill prevention, preparedness and response action. District Court established an Engineering and Environmental Management Company (EEMC) in order to achieve expeditious compliance with SO2. The EEMC must implement the SO2 and be funded. The court order requires the CNMI to fund the SO2 as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Claims and Judgments, Continued

1. The CNMI must deposit \$5,000,000 no later than December 31, 2014, into the Court Registry (the Registry) established by District Court for the CNMI.
2. The CNMI must deposit the following amounts on or before the dates specified into the Registry or, if applicable, must file a notice with the Court of the Department of Interior's Authorization to Proceed (ATP) for funding SO2 projects: a. \$2,800,000 no later than February 1, 2015; b. \$5,000,000 no later than February 1, 2016; c. \$5,000,000 no later than February 1, 2017; and d. \$5,000,000 no later than February 1, 2018. The notice must include a commitment from CNMI/CUC that the ATP will be fully available for the EEMC as specified in the ATP and that the grantee will not re-program the associated funds without mutual agreement of the Parties.

The funds must be used to reimburse EEMC for the approved expenses for SO2 projects and should not be utilized for CUC's day-to-day expenses. If CUC, the CNMI or the EEMC do not meet the requirements of the court order, the United States is authorized to seek emergency relief. The parties must file a notice of satisfaction to District Court upon completion of the requirements of the court order and termination of the EEMC. If District Court finds CUC and the CNMI satisfied the requirements of the court order and the EEMC has been terminated, any funds remaining in the Registry should be transferred to the CUC's restricted fund for Technical Manager for Oil account.

At September 30, 2014, the CNMI recorded claims and judgment liability of \$22,800,000.

Discretely Presented Component Units

CPA:

Note payable to CDA, due November 16, 2014, interest at 2.5% per annum, with maturity date of June 15, 2030. Principal and interest payments in the amount of \$31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling \$546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first.

\$ 4,757,439

CDA:

Note payable to MPLT, bearing interest at 6.5% per annum, due over a fifteen-year term, beginning June 2003. The note is collateralized by the full faith and credit of the CNMI Government held in trust by MPLT, for the purpose of development and maintenance of the American Memorial Park, and is being repaid from earnings of the investments pursuant to CNMI Public Law 11-72.

722,040

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CUC:

Loan payable to CPA, net of receivable from CPA of \$3,385,131, with a remaining unreconciled difference of \$11,568. Principal of \$3,385,131, interest at 6.5% per annum, with a maturity date of October 31, 2017. Principal and interest payments are due in monthly installments of \$38,008 beginning October 31, 2007. 3,373,563

CHCC:

Note payable to MPLT, bearing interest at 7% per annum, due over a one-year term, beginning on June 4, 2015. The note is collateralized by accounts receivable, future distributable income in fiscal year 2015 and CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law No. 17-76. 3,000,000

\$ 11,853,042

Annual debt service requirements to maturity for principal and interest for notes payable outstanding as of September 30, 2014 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 5,991,450	\$ 963,421	\$ 6,954,871
2016	831,912	197,214	1,029,126
2017	872,388	153,461	1,025,849
2018	465,429	101,384	566,813
2019	282,994	89,006	372,000
2020 - 2024	1,526,007	333,992	1,859,999
2025 - 2029	1,728,967	131,033	1,860,000
2030 - 2031	<u>153,895</u>	<u>547,405</u>	<u>701,300</u>
	<u>\$ 11,853,042</u>	<u>\$ 2,516,916</u>	<u>\$ 14,369,958</u>

CPA \$20,050,000 Bond Issue

On March 26, 1998, CPA issued \$20,050,000 of tax-exempt airport revenue bonds which, in part, were used for a current refunding of \$8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$503,906. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of \$688,620 and an increase of \$7,616,151 in future debt service payments.

Installments are paid to the Bond Trustee annually on March 15 through 2028. Interest is payable semi-annually, at 6.25%, on March 15 and September 15 of each year.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CPA \$20,050,000 Bond Issue, Continued

Revenue bonds payable as of September 30, 2014, consists of the following:

1998 Senior Series A tax-exempt airport revenue bonds \$ 12,860,000

The 1998 Senior Series A tax-exempt airport revenue bonds are limited obligations of CPA and, except to the extent payable from bond proceeds, are payable solely out of revenues, assets and funds pledged under the Indenture.

The 1998 Senior Series A tax-exempt airport revenue bonds are subject to redemption prior to their respective stated maturities on or after March 15, 2013, at the option of CPA, from any source of available funds, as a whole on any date, or in part on any interest payment date and by lot within a maturity, at the redemption prices (expressed as percentages of principal amount) set forth in the table below plus interest accrued thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
March 15, 2013 through March 14, 2014	102%
March 15, 2014 through March 14, 2015	101%
March 15, 2015 and thereafter	100%

CPA \$33,775,000 Bond Issue

On March 26, 1998, CPA issued \$33,775,000 of Senior Series A tax-exempt seaport revenue bonds which, in part, were used for a current refunding of \$22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$1,345,593. This amount is recorded as a deferred outflow from cost of refunding debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. At September 30, 2014, deferred outflows from cost of refunding debt amounted to \$801,719. The transaction also resulted in an economic gain of \$1,724,777 and a decrease of \$6,983,345 in future debt service payments.

Installments are paid to the Bond Trustee annually on March 15 through 2028. Interest is payable semi-annually, at 6.6%, on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2014, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds \$ 23,210,000

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CPA \$33,775,000 Bond Issue, Continued

Additionally, CPA has resolved to hold \$8,000,000 in the Seaport supplemental reserve fund. The supplemental reserve fund was established pursuant to the First Supplemental Indenture dated March 1, 2000 for the purpose of providing funding and maintenance for the 1998 Senior Series A Seaport Bonds. At September 30, 2014, total deposits in the Seaport supplemental reserve fund amounted to \$8,034,239.

The 1998 Senior Series A tax-exempt seaport revenue bonds are limited obligations of CPA and, except to the extent payable from bond proceeds, are payable solely out of revenues and funds pledged under the Indenture.

The 1998 Senior Series A tax-exempt seaport revenue bonds are subject to redemption prior to their stated maturity, at the option of CPA, as a whole or in part by lot, on any date from the proceeds of available funds, the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

CPA \$7,225,000 Bond Issue

On September 21, 2005, CPA issued \$7,225,000 of Senior Series A tax-exempt seaport revenue bonds for the purpose of financing (including reimbursing itself for) the purchase, acquisition, construction, reconstruction, repair, renovation, improvement or expansion of CPA's seaports. Pursuant to Section 2.04(A)(9) of the 1998 Senior Series A Seaport Revenue Bonds Indenture Agreement dated March 1, 1998 and as supplemented by a First Supplemental Indenture dated March 1, 2000, CPA entered into a Second Supplemental Indenture for the issuance of the 2005 Senior Series A bonds. Interest on the bonds is payable semi-annually at 5.5% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2014, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 5,995,000
Discount on bonds	<u>(81,253)</u>
	\$ <u>5,913,747</u>

CPA Bond Issues

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 2014. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) states that CPA shall impose, levy, enforce and collect such dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in an aggregate amount with respect to each fiscal year to produce gross revenues of 125% of debt service requirements. Management of CPA has determined that gross revenues consist of total operating revenues, other grant revenue and contributions, interest income and passenger facility charges to meet the Indenture requirements. For fiscal year 2014, management of CPA determined that 100% of passenger facility charges would be considered as gross revenues for these purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Annual debt service requirements to maturity for principal and interest for bonds payable outstanding as of September 30, 2014 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,895,000	\$ 2,605,060	\$ 4,500,060
2016	2,010,000	2,480,840	4,490,840
2017	2,135,000	2,348,968	4,483,968
2018	2,285,000	2,208,345	4,493,345
2019	2,415,000	2,058,804	4,473,804
2020 - 2024	14,545,000	7,706,858	22,251,858
2025 - 2029	15,755,000	2,420,247	18,175,247
2030 - 2031	<u>1,025,000</u>	<u>57,062</u>	<u>1,082,062</u>
	<u>\$ 42,065,000</u>	<u>\$ 21,886,184</u>	<u>\$ 63,951,184</u>

Obligations Under Preferred Stock Agreement

A Memorandum of Agreement (MOA) was established between CDA and CUC on November 21, 2002, as amended in January 2004, to waive a portion of the capital development loans receivable and to provide for the conversion into equity ownership of the balance. Public Laws 13-35, 13-36 and 16-17 were enacted to effectuate the settlement of disputes between CDA and CUC as required by the MOA.

On May 7, 2009, CUC and CDA, entered into a Preferred Stock Agreement (the Agreement) to effectuate the terms and conditions of the MOA by requiring CUC to issue shares of cumulative, non-convertible and non-transferrable preferred stock of \$45,000,000 to CDA and yielding annual dividends of two percent. The Commonwealth Public Utilities Commission approved the Agreement on September 3, 2009. The Agreement provides CUC the right to purchase from CDA up to \$16,200,000 of the \$45,000,000 preferred stock through offset against CUC's future, internally-funded capital improvement projects. Subject to CUC purchase exception, CDA shall not transfer any of its rights, title or interest to such preferred stocks. Further, the Agreement provides for deferral of the dividend payments for the first three years after issuance, with such deferred dividend payments being amortized, interest free, over a fifteen-year period. Dividends are to be paid to CDA beginning October 1, 2012. The Agreement cancels and discharges the indebtedness of CUC to CDA of \$61,568,750 in principal and \$138,670,797 in accrued interest, including related late charges and any other charges owed by CUC on the capital development loans.

CUC issued to CDA forty-five shares of preferred stock with a par value of \$1,000,000 per share for a total aggregate value of \$45,000,000 dated September 28, 2009. The preferred stock yields guaranteed dividends at two percent per annum payable quarterly in advance. The dividends of the preferred stock are cumulative from and after October 1, 2009 and bear no interest.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Preferred Stock Agreement, Continued

CUC has determined that GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, does not provide a structure to allow preferred stock to be displayed within net assets. As such, CUC and CDA have taken the position that the value of the preferred stock represents the net present value of the future stream of dividend payments required by CUC and not the face value of the stock itself. CUC has treated the Agreement as a troubled debt restructuring and has recorded a long-term liability based on the discounted cash flows of the future dividend payments at 6.27% per annum. At September 30, 2014, CUC has recorded dividends payable to CDA of \$4,500,000 and CDA has recorded an investment of \$11,309,651, with a corresponding 100% valuation allowance. Future receipts for dividends are as follows:

Year ending September 30,

2015	\$ 2,340,000
2016	180,000
2017	180,000
2018	180,000
2019	180,000
2020 - 2024	900,000
2025 - 2027	<u>540,000</u>
	<u>\$ 4,500,000</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2014, are as follows:

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Due Within One Year
Bonds payable:					
CPA	\$ 43,845,000	\$ -	\$ (1,780,000)	\$ 42,065,000	\$ 1,895,000
Notes payable:					
CPA	5,007,126	-	(249,687)	4,757,439	257,790
CUC	7,276,144	-	(3,902,581)	3,373,563	2,520,963
CDA	831,943	-	(109,903)	722,040	212,697
CHCC	<u>3,000,000</u>	<u>3,000,000</u>	<u>(3,000,000)</u>	<u>3,000,000</u>	<u>3,000,000</u>
	59,960,213	3,000,000	(9,042,171)	53,918,042	7,886,450
Deferred amounts:					
CPA:					
Discount	<u>(86,033)</u>	<u>-</u>	<u>4,780</u>	<u>(81,253)</u>	<u>-</u>
	59,874,180	3,000,000	(9,037,391)	53,836,789	7,886,450
Other liabilities:					
Obligations under preferred stock agreement	3,600,000	900,000	-	4,500,000	2,340,000
Due to Pension (and Other Employee Benefit) Trust Fund:					
CUC	3,388,379	349,818	(351,044)	3,387,153	-
PSS	23,767,066	591,570	(591,570)	23,767,066	-
Compensated absences	4,713,300	2,587,850	(2,197,124)	5,104,026	1,781,593
Unearned revenues	<u>10,878,636</u>	<u>2,359,275</u>	<u>(824,149)</u>	<u>12,413,762</u>	<u>4,056,946</u>
	<u>\$ 106,221,561</u>	<u>\$ 9,788,513</u>	<u>\$ (13,001,278)</u>	<u>\$ 103,008,796</u>	<u>\$ 16,064,989</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

The balances above do not include CUC's due to primary government and unearned purchase obligation rebate of \$6,754,086 and \$6,131,316, respectively, as details were not made available.

(10) Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	General	Grants Assistance	Saipan Amusement	Other Governmental Funds	Total
Non-spendable					
Inventories	\$ 232,387	\$ -	\$ -	\$ -	\$ 232,387
United Micronesia Development Association	1,500,000	-	-	-	1,500,000
Pacific Islands Development Bank	1,000,000	-	-	-	1,000,000
Restricted for:					
Capital projects	1,852,316	3,966,803	-	710,728	6,529,847
Public lands	-	-	-	4,819,529	4,819,529
Federal programs and projects	5,054,333	1,288,213	-	-	6,342,546
Debt service reserve	2,298,222	-	-	-	2,298,222
State Small Business Credit Initiative	4,023,336	-	-	-	4,023,336
Saipan Amusement Fund	6,653,580	-	5,478,413	-	12,131,993
Education fee (U.S. PL 110-223)	1,477,389	-	-	-	1,477,389
MVA Trust Fund	1,007,786	-	-	-	1,007,786
Local senatorial districts	-	-	-	5,278,544	5,278,544
Solid Waste Revolving	-	-	-	2,662,475	2,662,475
Tobacco Settlement Trust	-	-	-	1,371,622	1,371,622
Workers' Compensation Commission	-	-	-	2,105,058	2,105,058
Other purposes	4,531,667	-	-	1,320,043	5,851,710
Unassigned	<u>(111,082,266)</u>	<u>-</u>	<u>-</u>	<u>(127,604)</u>	<u>(111,209,870)</u>
	<u>\$ (81,451,250)</u>	<u>\$ 5,255,016</u>	<u>\$ 5,478,413</u>	<u>\$ 18,140,395</u>	<u>\$ (52,577,426)</u>

(11) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2014, are as follows:

Source/Recipient	Transfer Out	Transfer In
<u>General Fund</u>		
Grants Assistance Fund	\$ 6,457,638	\$ 890,641
Nonmajor governmental funds	<u>1,718,984</u>	<u>3,280,000</u>
	<u>8,176,622</u>	<u>4,170,641</u>
<u>Grants Assistance Fund</u>		
General Fund	890,641	6,457,638
Nonmajor governmental funds	<u>23,331</u>	<u>-</u>
	<u>913,972</u>	<u>6,457,638</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(11) Transfers In/Out, Continued

Operating Fund Transfers, Continued

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Nonmajor governmental funds</u>		
General Fund	3,280,000	1,718,984
Grants Assistance Fund	-	23,331
Nonmajor governmental funds	<u>10,000</u>	<u>10,000</u>
	<u>3,290,000</u>	<u>1,752,315</u>
	\$ <u>12,380,594</u>	\$ <u>12,380,594</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

The amount recorded as payments to component units from the primary government of \$47,934,708 does not equal the corresponding contributions from the primary government of \$46,218,030 by \$1,716,678. The difference of \$1,094,994 with NMC is due to timing differences. The difference of \$220,006 with PSS is due to amounts recorded by the CNMI as operating grants and revenue. The difference of \$806,997 with MVA is due to timing differences. The difference of \$1,208,675 with CHCC is due to unreconciled amounts.

(12) Commitments

Land Acquisitions

The CNMI has acquired certain properties from landowners for right-of-way or easement projects. The CNMI government's liability for future reimbursement costs associated with unknown land acquisitions is presently not determinable.

Dedicated Revenues and Pledges

CNMI has pledged all Judicial Building Fund (a Governmental Fund Type - Special Revenue Fund) revenues to repay a loan of \$15,000,000 to NMIRF pursuant to an agreement entered into in February 1995. On October 1, 2013, the loan was transferred from NMIRF to NMISF pursuant to Section 8 of the Settlement of Civil Case No. 09-00023. Total principal and interest remaining on this loan is approximately \$4,843,926 payable through March 2015. For the year ended September 30, 2014, principal and interest expense were \$4,977,581 and \$484,040, respectively, and total Judicial Building Fund revenues were \$761,798.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(12) Commitments, Continued

Discretely Presented Component Units

CPA has pledged future gross revenues to repay \$20,050,000 and \$33,775,000 in 1998 Senior Series A and \$7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds are \$63,951,184 at September 30, 2014. Pledged gross revenues received during the year ended September 30, 2014 were \$21,059,862. Debt service payments during the year ended September 30, 2014 amounted to \$4,501,958 representing 21% of pledged gross revenues.

Operating Lease

On August 18, 2003, NMC entered into an assignment of lease with a corporation (Assignor), whereby the Assignor assigns leases and leasehold estate and other rights on the La Fiesta property to NMC for a total payment of \$4,000,000 payable in annual installments of \$200,000 beginning October 29, 2004. On September 15, 2004, NMC and the CNMI entered into a Memorandum of Agreement for the transfer of the lease assignment. On January 7, 2005, NMC and the CNMI executed an Assignment of Contract Rights whereby NMC assigns and transfers to the CNMI all right, titles and interest to the assignment of leases dated August 18, 2003. Rental expense for this lease for the fiscal year ended September 30, 2014, is \$200,000.

CNMI's future rentals under the lease as of September 30, 2014, are as follows:

<u>September 30,</u>	
2015	\$ 200,000
2016	200,000
2017	200,000
2018	200,000
2019	200,000
2020 - 2024	1,000,000
2025	<u>200,000</u>
	\$ <u>2,200,000</u>

(13) Contingencies

Landfill Closure Costs

The CNMI operates a solid waste disposal site in Puerto Rico, Saipan, which is under administrative order from the U.S. Environmental Protection Agency to close in the near future. The disposal site was officially closed in 2003. The related costs will be funded through grant awards from the U.S. Department of the Interior.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (13) Contingencies, Continued

#### Landfill Closure Costs, Continued

State and federal laws and regulations require the CNMI to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although landfill closure and postclosure costs will be paid only near or after the date that the Marpi landfill stops accepting waste, the CNMI's governmental activities reports a portion of these closure and postclosure costs as an expense in each period based on landfill capacity used as of each balance sheet date. The \$4,580,841 liability reported as landfill closure and postclosure costs at September 30, 2014 within the accompanying financial statements, represents the cumulative amount reported based on 55% capacity used. The Marpi landfill has an estimated lifespan of eighteen years. The CNMI will recognize the remaining estimated cost of closure and post closure care of \$2,290,421 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2014. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

#### Questioned Costs Under Federally Funded Programs

The CNMI participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$26,187,584 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2014. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

#### Insurance Coverage

The CNMI does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, the CNMI may be self-insured to a material extent. The CNMI, however, maintains fidelity bonding insurance coverage over employees with access to cash. In the event of a loss through employee malfeasance, the CNMI will be self-insured for losses in excess of \$1,000,000.

#### Tax Returns

The CNMI is unable to estimate unfiled or unprocessed tax returns related to tax years 2010 and prior. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements. CNMI management does not believe that this will have a material impact on the financial statements.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (13) Contingencies, Continued

#### General Fund Financial Position

The CNMI's General Fund has sustained recurring operating deficits and has an unassigned fund deficit of \$111,082,266 at September 30, 2014. In addition, at September 30, 2014, the primary government's current liabilities exceed current assets by \$71,808,520, and total liabilities exceed total assets by \$239,276,505. On September 30, 2013, District Court approved a Settlement Agreement between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement Agreement includes the creation of NMISF to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court. As part of the Settlement Agreement, the CNMI agrees to make minimum annual payments to NMISF to allow for the payment of 75% of Class Members' full benefits annually during NMISF's expected life and as determined by an actuary appointed by a Trustee and approved by the District Court. The CNMI is awaiting the actuarial determination and the effect on the accompanying financial statements has not been determined.

Management believes that the actuarial determination will have a positive effect on the General Fund Financial Position and will commence the process of reducing the abovementioned General Fund deficit position.

#### Sick Leave

The CNMI records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during working hours arising from employee illness or injury. Sick leave accumulates at the rate of thirteen working days for each year of service, without limit. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2014, is \$38,265,961.

#### GHLITF

As of September 30, 2014, GHLITF has a net deficit of \$277,762. Under Public Law No. 10-19, liabilities of the GHLITF shall be liabilities of the primary government, and unless GHLITF becomes profitable, the General Fund could be liable for the net deficit of GHLITF. The outcome of this matter is presently not determinable; therefore, no provision has been made in the accompanying financial statements.

#### CHCC

Public Law 16-51 established CHCC as a public corporation with certain limitations on liability provided by the CNMI Government Liability Act (GLA) and immunity from seizure of its property to pay judgment debts. Public Law 15-22 amended the GLA, which provides that employees who have been personally sued for actions taken within the scope of their employment may have the government substituted as the defendant and the employee dismissed from the suit. In the event of loss due to employee malpractice action, the CNMI will be self-insured for the amount of judgment rendered against it.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (13) Contingencies, Continued

#### Discretely Presented Component Units

##### Stipulated Orders

The U.S. Environmental Protection Agency (EPA) sought to force CUC and the CNMI Government to comply with various regulations and requirements. To date, there have been two primary stipulated orders.

Stipulated Order One is intended to ensure that CUC's wastewater and drinking water systems achieve compliance with the Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA). The major components of Stipulated Order One are:

1. The reformation of CUC's management, finances and operations;
2. The development of a wastewater and drinking water Master Plan; and
3. The construction of wastewater infrastructure.

CUC is also required to take steps to comply with National Pollution Discharge Elimination System permits and compliance orders, comply with drinking water standards, and to eliminate spills from the wastewater system.

Stipulated Order Two is intended to ensure that CUC's power plant facilities achieve compliance with the CWA. These requirements include requiring CUC to eliminate oil spills, implement appropriate spill prevention measures, implement effective inspection procedures for its oil storage facilities, provide containment for oil storage facilities and prepare appropriate operating plans.

Fines and penalties related to these Stipulated Orders have accumulated to over \$76 million, but have not been billed to and paid for by CUC, with the exception of \$29,000 and \$140,000 which were paid by CUC to the United States Department of Justice on January 2010 and July 2010, respectively. On September 26, 2014, another Stipulated Order was entered into under which the United States and EPA waived all Stipulated Order Two penalties which have accumulated as of September 25, 2014. The amount waived was approximately \$40 million.

The parties appeared for status conferences and signed further stipulations dated August 12, 2010, in which CUC has agreed to specific performance dates for required projects. On the status conference on December 9, 2010, CUC had met its deadlines on 31 of 33 discrete deliverables, and had made substantial progress on the balance. Pursuant to the March 22, 2011 status conference stipulation, the parties agreed to further deadlines for meter change-outs and the pipeline project. The Federal District Court has expressed its satisfaction with CUC's progress on the water metering project.

There have been three major projects of the highest priority to the Federal District Court: the Pipeline, Tank 102, and the Rota Tanks. CUC completed the Rota Tanks in late December 2012. Tank 102 is progressing with an expected completion date sometime in 2015. The Pipeline design is stalled based on CUC's termination of the primary contractor.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(13) Contingencies, Continued

Discretely Presented Component Units, Continued

Stipulated Orders, Continued

The project will resume under the direction of an Engineering and Environmental Management Company pursuant to the provisions of the Stipulated Order entered on September 26, 2014. Any further penalties and fines are contingent on CUC's performance under both Stipulated Orders One and Two. CUC has chosen to accrue a liability under Stipulated Order One.

The cumulative balance payable at September 30, 2014 was \$36,041,000. These penalties continue to accrue on a daily basis.

(14) Risk Management

The CNMI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, CNMI management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the CNMI reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Total claims amounted to \$1,363,940, \$435,065 and \$714,603 for the years ended September 30, 2014, 2013 and 2012, respectively. Changes in the balance of claims liabilities during the past year are as follows:

	<u>Year ended September 30,</u>
Unpaid claims at beginning of year	\$ 34,641,494
Incurred claims	30,300,000
Claim payments	(1,363,940)
Reversals	<u>(4,895,228)</u>
Unpaid claims at end of year	\$ <u>58,682,326</u>

(15) Pension and Other Postemployment Benefits Trust Fund

The CNMI contributed to NMIRF's defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan established and administered by the CNMI. On September 30, 2013, the DB Plan was transferred to NMISF and the CNMI now contributes to NMISF. The CNMI also contributes to a defined contribution plan (DC Plan).

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (15) Pension and Other Postemployment Benefits Trust Fund, Continued

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. The CNMI has complied with GASB 45 by recording OPEB expense based on the statutory determined contribution rate of NMISF. The CNMI's OPEB liability is incorporated into the Due to Pension (and Other Employee Benefit) Trust Fund liability amount. It is the understanding of the management of the CNMI that the statutory determined contribution rate of NMISF incorporates both the pension liability and the OPEB liability. GASB 45 also requires detailed disclosure of information related to the OPEB plan and CNMI management was unable to obtain this information from NMIRF and NMISF's financial reports. CNMI management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from NMIRF and NMISF. It is the position of the management of the CNMI that NMIRF and NMISF are solely responsible for disclosure of OPEB information.

#### Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2, 16-36, 17-79, 17-82 and 18-02.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal year ended September 30, 2014 has yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2010 is 72.7215% of covered payroll based on an actuarial valuation as of October 1, 2010 issued in October 2012. The established statutory rate at September 30, 2014 is 72.7215% of covered payroll. Public Law No. 15-126, authorizes the CNMI Government to remit only 18% of covered payroll and accrue the remaining as liability to NMIRF for fiscal year 2009. The employer contribution remittance was further reduced by Public Law No. 16-2 to 11% of covered payroll. On June 29, 2009, the CNMI was ordered to pay employer contribution of 16% beginning August 2009. Effective November 2009, the employer contribution was increased to 20%. On November 10, 2010, the CNMI was ordered to remit the employer contribution rate of 30% effective October 1, 2010.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(15) Pension and Other Postemployment Benefits Trust Fund, Continued

Defined Benefit Plan (DB Plan), Continued

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. Authorization of participation has not been obtained from the U.S. Government. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

On March 11, 2013, Public Law 18-02 was enacted to amend certain provisions in Public Law 17-82. Public Law 18-02 requires class members who elect to terminate membership in the DB Plan to receive employee contributions with regular interest without penalty and without separating from government service. Further, Public Law 18-02 allows the CNMI Government to continue to withhold and remit the employee's portion to the employee's DB account with respect to employees who do not terminate membership in the DB Plan.

For the years ended September 30, 2014 and 2013, the CNMI contributed social security benefits of \$3,991,536 and \$3,764,229, respectively. In addition, all but fifty-two active employees voluntarily terminated membership in the DB Plan. For the year ended September 30, 2014, the CNMI recorded payment of interest of \$14,915,342 to active class members who terminated their membership in the DB Plan under Public Law 17-82, as amended by Public Law 18-02.

On August 7, 2013, District Court issued an order for the preliminary approval of Civil Case No. 09-00023, Class Action Settlement (the Settlement), between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement includes the creation of NMISF to accept the transfer of NMIRF assets, receive annual contributions and payments from the CNMI and to carry out the consent judgment entered by District Court. On September 30, 2013, District Court approved the Settlement.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (15) Pension and Other Postemployment Benefits Trust Fund, Continued

#### Defined Benefit Plan (DB Plan), Continued

As part of the Settlement, the CNMI agrees to make minimum annual payments to NMISF to allow for the payment of 75% of Class Members' full benefits annually during the NMISF's expected life and as determined by an independent actuary appointed by the NMISF Trustee and approved by the District Court. For the year ended September 30, 2014, the CNMI recorded payments to NMISF of \$25,000,000 and \$11,930,796, which relates to the fiscal year 2014 annual payment pursuant to Section 4 of the Settlement and payment of 25% of the class members full benefits, respectively.

In addition, Section 5 of the Settlement requires class members who are employed by the CNMI or an autonomous agency and who did not terminate from the DB Plan pursuant to Public Law 17-82, as amended by Public Law 18-02, to continue to pay employee contributions as required by the laws of the CNMI existing as of August 6, 2013. Required contributions are remitted to NMISF and the CNMI and autonomous agencies make supplemental payments to NMISF in the amount of the employer contributions at the same contribution rates they were paying as of June 26, 2013. Accordingly, NMIRF has no obligations or duties to pay retirement benefits to class members. For the year ended September 30, 2014, the CNMI recorded contributions to NMISF of \$859,102.

Further, Section 8.1 of the Settlement assigns the CNMI the rights to collect deficient employer contributions and related costs as of August 6, 2013 from autonomous agencies. At September 30, 2014, the CNMI has not determined the amount of receivables from autonomous agencies.

#### Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. The CNMI is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The CNMI's recorded DC contributions for the years ended September 30, 2014, 2013 and 2012 were \$553,304, \$588,012 and \$911,304, respectively, equal to the required contributions for each year.

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

The contribution requirements of plan members and the CNMI are established and may be amended by the Board of Trustees of NMIRF.

All component units of the CNMI government reporting entity also contribute to the Plan. Separate actuarial valuations have not been performed for these separate component units.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(16) Restatements

Subsequent to the issuance of the CNMI's 2013 financial statements, it was determined that the CNMI failed to record the transfer of the Workers' Compensation Commission fund from fiduciary funds to other governmental funds. As a result, ending fund balance of the governmental funds/governmental activities increased by \$1,929,209 and ending fund balance of fiduciary funds decreased by \$1,810,943. The following account balances have been subsequently included within other governmental funds and restated from the amounts previously recorded:

	<u>As Previously Reported</u>	<u>As Restated</u>
Restricted cash and cash equivalents	\$ 136,895	\$ 311,131
Restricted time certificate of deposit	\$ -	\$ 133,446
Restricted investments	\$ -	\$ 967,155
Other liabilities and accruals	\$ 1,328,007	\$ 673,635

In addition, it was determined that ending net position of the discretely presented component units were overstated by \$49,729,740. The overstatement related to the correction of prior year errors. As a result of this determination, ending net position of the discretely presented component units have been restated from amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Discretely presented component units:		
Commonwealth Utilities Corporation	\$ 94,390,130	\$ 56,726,663
Commonwealth Healthcare Corporation	\$ 10,414,930	\$ (1,651,343)

Further, it was determined that ending net position of the fiduciary component units were understated by \$16,797,739 due to prior year errors discovered in fiscal year 2014. As a result, ending net position of the fiduciary component units have been restated from amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Fiduciary component units:		
Northern Mariana Islands Retirement Fund	\$ 159,676,473	\$ 161,277,731
CNMI Group Health and Life Insurance Trust Fund	\$ (15,923,273)	\$ (726,792)

(17) Subsequent Events

On December 24, 2014, Public Law 18-71 was enacted to appropriate future MPLT interest distributions to meet the CNMI's obligations under the court order on SO2. Pursuant to the court order, the CNMI must deposit \$5,000,000 to the Registry no later than December 31, 2014 to fund the SO2. Public Law 18-71 authorized DPL to transfer \$5,000,000 to MPLT and MPLT to loan \$5,000,000 to the CNMI at an interest rate of 7% per annum. Public Law 18-71 authorized MPLT to withhold future interest income that would be remitted to the CNMI pursuant to Article XI § 6(d) of the Constitution beginning fiscal year 2016 and future fiscal years thereafter until the loan plus annual interest is fully paid. Further, Public Law 18-71 requires CUC to credit \$1,738,940 and \$3,261,060 for PSS and CHCC's past due utility bills, respectively. The \$1,738,940 credit for PSS satisfies the CNMI's outstanding obligation under the Maintenance of Effort Assurance.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(17) Subsequent Events, Continued

On December 29, 2014, DPL transferred \$5,000,000 to MPLT. On December 29, 2014, MPLT and the CNMI entered into a \$5,000,000 loan agreement to effectuate the requirements of Public Law 18-71. The loan earns interest of 7% per annum and has a five-year amortization period which will mature on September 30, 2020. On December 30, 2014, MPLT disbursed the \$5,000,000 to the CNMI and the CNMI transferred the amount to the Registry to satisfy its obligation for SO2.

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2014

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit  
- Budget and Actual - General Fund  
Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 145,404,724	\$ 145,404,724	\$ 150,181,692	\$ 4,776,968
Charges for sales and services	1,500,000	1,500,000	1,557,659	57,659
Licenses and fees	6,570,000	6,570,000	8,640,377	2,070,377
Contributions from component units	1,908,543	1,908,543	653,737	(1,254,806)
Other	2,204,045	2,204,045	1,843,295	(360,750)
Total revenues	<u>157,587,312</u>	<u>157,587,312</u>	<u>162,876,760</u>	<u>5,289,448</u>
<b>Expenditures - budgetary basis by function:</b>				
Executive branch	40,600,627	40,732,366	47,701,502	(6,969,136)
Second Senatorial District - Tinian	5,862,171	5,879,628	5,717,875	161,753
First Senatorial District - Rota	5,483,786	5,485,903	5,473,911	11,992
Government utilities	-	-	3,310,875	(3,310,875)
Legislative branch	5,476,890	5,476,882	5,413,977	62,905
Judicial branch	4,371,807	4,371,807	4,307,937	63,870
Independent programs	1,627,683	1,366,058	855,671	510,387
Third Senatorial District - Saipan	1,791,959	1,791,959	1,773,204	18,755
Office of the Public Auditor	1,466,590	1,464,398	1,667,327	(202,929)
Boards and commissions	658,267	604,976	614,668	(9,692)
Education (payment to Public School System, Northern Marianas College and Board of Education)	36,484,173	36,484,173	36,484,173	-
Tourism (payment to Marianas Visitors Authority)	8,490,149	8,490,149	8,894,439	(404,290)
Employee benefits (payment to Pension (and Other Employee Benefit) Trust Fund)	32,904,379	33,070,182	32,596,351	473,831
Health (payment to CHCC)	1,208,675	1,208,675	1,208,675	-
Public Law 17-7 (Marianas Public Land Trust funds diverted to Commonwealth Utilities Corporation)	689,312	689,312	-	689,312
Judgments	7,921	7,921	421,875	(413,954)
Debt service	8,554,000	8,554,000	12,946,899	(4,392,899)
Disaster expenditures	-	-	25,633	(25,633)
Miscellaneous/continuing appropriations	-	-	1,488,210	(1,488,210)
Unallocated	116,274	116,274	14,534	101,740
Total expenditures	<u>155,794,663</u>	<u>155,794,663</u>	<u>170,917,736</u>	<u>(15,123,073)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,792,649</u>	<u>1,792,649</u>	<u>(8,040,976)</u>	<u>(9,833,625)</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	292,000	292,000	-	(292,000)
Operating transfers out	(5,510,000)	(5,510,000)	(1,718,984)	3,791,016
Total other financing sources (uses), net	<u>(5,218,000)</u>	<u>(5,218,000)</u>	<u>(1,718,984)</u>	<u>3,499,016</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<u>\$ (3,425,351)</u>	<u>\$ (3,425,351)</u>	<u>\$ (9,759,960) *</u>	<u>\$ (6,334,609)</u>

\* See note 2.

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

### Notes to Required Supplementary Information - Budgetary Reporting September 30, 2014

#### (1) Budgetary Information

Under Public Law No. 3-68, as amended by Public Law No. 3-93, the Governor submits a proposed budget to the CNMI Legislature by April 1 for the fiscal year commencing the following October 1. By July 1, the CNMI Legislature sets limits on expenditures by House Concurrent Resolution (a resolution originating in the House of Representatives which is passed by both the House and Senate). By September 1, the budget is legally enacted by the CNMI Legislature through passage of Annual Appropriation Acts. If a balanced budget is not approved before the first day of the fiscal year, appropriations for government operations and obligations shall be at the same level for the previous fiscal year. Budgetary control is maintained at the department level. To the extent not expended or encumbered, General Fund appropriations generally lapse at the end of the fiscal year for which appropriations were made.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unassigned deficit of the Governmental Fund Balance Sheet within the other changes in unassigned deficit section of that statement.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

On September 18, 2013, the CNMI passed Public Law 18-18 as the Appropriations and Budget Authority Act of 2014 (the Act). The Act allocates local funds for the operations and activities of the Government of the CNMI, its agencies, its instrumentalities, independent agencies and political subdivisions and provides authority for government corporations for Fiscal Year 2014 commencing October 1, 2013 and ending September 30, 2014. On July 1, 2014, the CNMI passed Public Law 18-53 as the Supplemental Appropriations Act of 2014 (the Supplemental Act). The Supplemental Act identifies additional resources of \$12,386,000 to appropriate for the operations and activities of the CNMI and to meet the CNMI's obligations to the NMISF for fiscal year 2014.

Expenditures may not legally exceed budgeted appropriations at the program area level. Certain activity levels within the General Fund have over expended budgeted appropriations; however, the effect of such over expenditures, if any, is presently not determinable.

For the year ended September 30, 2014, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2014

(1) Budgetary Information, Continued

<u>Program Area</u>	<u>Excess</u>
Executive branch	\$ 6,969,136
Government utilities	\$ 3,310,875
Office of the Public Auditor	\$ 202,929
Boards and commissions	\$ 9,692
Tourism	\$ 404,290
Judgments	\$ 413,954
Debt service	\$ 4,392,899
Disaster expenditures	\$ 25,633
Miscellaneous/continuing appropriations	\$ 1,488,210

(2) Explanation of Differences

Total revenues of \$164,276,760 reported under GAAP basis does not equal total revenues of \$162,876,760 reported under budgetary basis due to \$1,400,000 of contract workers funds received from the U.S. Department of Homeland Security (USDHS) pursuant to US Public Law 110-229 for the purpose of funding ongoing vocational educational curricula and program development by the CNMI. The amount was included as other revenue in the governmental funds but was not included in the budgetary schedule. CNMI management has taken the position that these funds are not considered general funds to be reported in the budgetary basis but are treated as pass-through funds from the USDHS. Of this amount, \$500,000 was transferred to PSS; \$500,000 was transferred to NMC; and \$400,000 was transferred to the Northern Marianas Trade Institute.

The CNMI recognizes bad debts (recovery) based on identification of receivables. The CNMI budget does not reflect bad debts on the modified accrual basis. As of September 30, 2014, the recovery amounted to \$1,068,393.

The CNMI recognizes claims and judgment expenditures when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The CNMI budget does not reflect claims and judgment expenditures on the modified accrual basis. As of September 30, 2014, the claims and judgments expenditures accrued are \$2,493,072.

The amount reported as operating transfers in of \$4,170,641 under GAAP basis does not equal the amount reported as operating transfers in of \$-0- under budgetary basis by \$4,170,641 due to: (a) \$890,641 in Compact Impact funds; and (b) \$3,280,000 of transfers pursuant to Public Law 18-18 reported as operating transfers in the governmental fund financial statements but were reported as a reduction of expenditures for budgetary purposes.

The amount reported as operating transfers out of \$8,176,622 under GAAP basis does not equal the amount reported as operating transfers out of \$1,718,984 under budgetary basis due to \$6,457,638 in federal grants local match reported as transfers out in the governmental fund financial statements but were reported as expenditures for budgetary purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2014

(2) Explanation of Differences, Continued

The following reconciles budget to GAAP differences:

Net change in fund balance (deficit) - budgetary basis	\$ <u>(9,759,960)</u>
Recovery	1,068,393
Claims and judgments	<u>(2,493,072)</u>
Encumbrances not recognized under GAAP basis	<u>3,894,515</u>
	<u>2,469,836</u>
Net change in fund balance (deficit) - General Fund	\$ <u>(7,290,124)</u>

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2014

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2014

	General	Grants Assistance	Saipan Amusement	Other Governmental Funds	Total
Salaries and wages	\$ 40,338,512	\$ 9,655,524	\$ 93,448	\$ 2,673,204	\$ 52,760,688
Professional services	6,229,797	37,000,301	513,708	2,656,323	46,400,129
Food items	669,889	9,378,412	-	37,430	10,085,731
Employee benefits	12,897,887	1,235,224	14,377,632	414,914	28,925,657
Capital outlay:					
Road improvements	-	-	-	3,283,041	3,283,041
Vehicles	1,000	933,885	-	217,550	1,152,435
Machinery and equipment	61,252	938,637	993	124,468	1,125,350
Office equipment	119,707	810,784	-	-	930,491
Furniture and fixtures	52,886	214,865	-	8,944	276,695
Building improvements	102,381	112,783	-	-	215,164
Construction in progress	-	503,640	-	238,826	742,466
Other	137,890	419,834	-	65,748	623,472
Utilities	8,676,882	530,457	-	184,013	9,391,352
Scholarships/grants	950,689	267,075	-	1,725,691	2,943,455
Contributions/donations	961,716	705,540	14,183	1,549,833	3,231,272
Interest	4,041,040	-	-	-	4,041,040
Travel	2,020,441	1,524,463	-	445,614	3,990,518
Principal repayment	8,892,581	-	-	-	8,892,581
Education:					
Payments to Public School System	32,862,720	220,004	-	-	33,082,724
Payments to Northern Marianas College	4,621,452	86,762	-	-	4,708,214
Payments to Commonwealth Healthcare Corporation	1,208,675	653,075	-	-	1,861,750
Payments to Marianas Visitors Authority	8,894,440	-	-	-	8,894,440
Payments to Settlement Fund	25,000,000	-	11,930,796	-	36,930,796
Claims and judgments	2,493,072	-	25,000	10,000	2,528,072
Rentals	1,902,968	528,035	2,960	486,574	2,920,537
Supplies	723,239	1,652,626	14	311,746	2,687,625
Repairs and maintenance	935,464	877,174	1,200	455,266	2,269,104
Fuel and lubrication	1,208,872	396,296	9,043	186,130	1,800,341
Communications	1,083,417	493,704	2,222	109,965	1,689,308
Indirect costs	-	334,177	-	-	334,177
Advertising	20,434	396,499	-	30,385	447,318
Printing	113,838	213,911	-	12,851	340,600
Insurance	32,001	297,224	-	14,295	343,520
Miscellaneous services	103,075	109,987	-	19,990	233,052
Dues and subscriptions	310,029	53,885	-	5,247	369,161
Freight	55,291	48,182	-	2,030	105,503
Books and library materials	52,508	48,562	-	9,531	110,601
Official representation	124,757	-	-	3,582	128,339
Licenses and fees	12,354	11,685	-	-	24,039
Recovery	-	-	-	-	-
Other	716,140	713,795	-	708,856	2,138,791
	<u>\$ 168,629,296</u>	<u>\$ 71,367,007</u>	<u>\$ 26,971,199</u>	<u>\$ 15,992,047</u>	<u>\$ 282,959,549</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MAJOR GOVERNMENTAL FUND - GENERAL FUND

September 30, 2014

The General Fund is the CNMI's primary operating fund and is used to account for all financial transactions not accounted for in any other fund.

NMTIT Rebate Trust

This fund was created to account for at least 75% of amounts paid to the CNMI with respect to taxes. Amounts may be withdrawn from the trust fund only for the purpose of making rebates, payments into the General Fund (but only after a final determination that the amount in question is not validly subject to rebate), or payments into the General Fund of interest derived from the trust accounts.

Commonwealth Museum Fund

This fund was created by Public Law No. 10-5 to account for all funds received from legislative appropriations for the activities and operations of the Museum; fees generated by the Museum and all gifts, loans or other funds designated for any and all operations and activities of the Museum.

Human Resources Development Trust Fund

This fund was created by Public Law No. 5-3 to account for all revenues raised from the licensing of amusement machines. Public Law No. 5-3 was subsequently amended by Public Law No. 10-41, which required that funds collected under Public Law No. 5-3 to be transferred into the General Fund for general appropriation.

Micronesian Garment Manufacturing Fund

This fund accounts for settlement claims on behalf of certain garment workers.

Debt Service Fund

This fund accounts for the accumulation of resources, principally transfers from the General Fund for the payment of long-term debt principal and interest.

Judicial Building Fund

This fund was created by Public Law No. 7-25 to account for financing restricted to the construction and furnishing of the CNMI Supreme Court and Superior Court building. At September 30, 2014, the project was completed. Revenues generated by the court will be used to finance the debt service on the loan with NMISF.

Miscellaneous General Fund

The miscellaneous general fund combines the following:

- San Antonio Park Fund
- Smiling Cove Operations and Maintenance Fund
- Law Revision Commission Revolving Fund
- CRM Publication Fund
- Tinian Municipal School Fund
- Department of Corrections Revolving Fund
- Miscellaneous Expendable Trust Fund
- Agriculture Revolving Fund
- Public Utilities Commission Fund
- Soil and Water Conservation Fund
- Governor's Education Initiative Fund

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Balance Sheet Accounts  
General Fund  
September 30, 2014

	General	NMTIT Rebate Trust	Commonwealth Museum	Human Resources Development Trust	Micronesia Garment Manufacturing	Debt Service	Judicial Building	Miscellaneous	Eliminations	Total
<b>Assets</b>										
Cash and cash equivalents	\$ 3,761,849	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,761,849
Time certificates of deposit	92,195	-	-	-	-	-	-	-	-	92,195
Investments	2,500,000	-	-	-	-	-	-	-	-	2,500,000
Restricted cash and cash equivalents	24,600,407	-	-	-	-	2,298,222	-	-	-	26,898,629
Receivables, net:										
Federal agencies	-	6,461,422	-	-	-	-	-	-	-	6,461,422
Taxes	7,215,662	-	-	-	-	-	-	-	-	7,215,662
General	1,037,711	-	-	-	-	-	-	-	-	1,037,711
Due from other funds	-	-	-	-	-	-	-	-	3,058,169	3,058,169
Due to/from General Funds	(32,155,605)	36,586,931	(279,947)	(109,003)	456,655	-	(4,758,904)	259,873	-	-
Advances	489,318	-	-	-	-	-	-	-	-	489,318
Inventories	232,387	-	-	-	-	-	-	-	-	232,387
	<u>\$ 7,773,924</u>	<u>\$ 43,048,353</u>	<u>\$ (279,947)</u>	<u>\$ (109,003)</u>	<u>\$ 456,655</u>	<u>\$ 2,298,222</u>	<u>\$ (4,758,904)</u>	<u>\$ 259,873</u>	<u>\$ 3,058,169</u>	<u>\$ 51,747,342</u>
<b>Liabilities and Fund Balances (Deficit)</b>										
<b>Liabilities:</b>										
Accounts payable	\$ 4,286,400	\$ -	\$ 1,296	\$ -	\$ -	\$ -	\$ -	\$ 3,397	\$ -	\$ 4,291,093
Tax rebates payable	-	43,048,353	-	-	-	-	-	-	-	43,048,353
Recovery rebates payable	398,688	-	-	-	-	-	-	-	-	398,688
Other liabilities and accruals	5,611,414	-	6,168	59,425	-	-	-	-	-	5,677,007
Claims and judgments payable	35,882,326	-	-	-	-	-	-	-	-	35,882,326
Notes payable	4,814,903	-	-	-	-	-	-	-	-	4,814,903
Due to Pension (and Other Employee Benefit) Trust Fund	19,229	-	-	-	-	-	-	-	-	19,229
Due to other funds	25,207,282	-	-	-	-	-	-	373,520	1,667,035	27,247,837
Due to external parties	-	-	-	-	-	-	-	-	1,391,134	1,391,134
Due to component units	10,428,022	-	-	-	-	-	-	-	-	10,428,022
Total liabilities	<u>86,648,264</u>	<u>43,048,353</u>	<u>7,464</u>	<u>59,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>376,917</u>	<u>3,058,169</u>	<u>133,198,592</u>
<b>Fund balances (deficit):</b>										
Non-spendable	2,732,387	-	-	-	-	-	-	-	-	2,732,387
Restricted	24,600,407	-	-	-	-	2,298,222	-	-	-	26,898,629
Unassigned	(106,207,134)	-	(287,411)	(168,428)	456,655	-	(4,758,904)	(117,044)	-	(111,082,266)
Total fund balances (deficit)	<u>(78,874,340)</u>	<u>-</u>	<u>(287,411)</u>	<u>(168,428)</u>	<u>456,655</u>	<u>2,298,222</u>	<u>(4,758,904)</u>	<u>(117,044)</u>	<u>-</u>	<u>(81,451,250)</u>
	<u>\$ 7,773,924</u>	<u>\$ 43,048,353</u>	<u>\$ (279,947)</u>	<u>\$ (109,003)</u>	<u>\$ 456,655</u>	<u>\$ 2,298,222</u>	<u>\$ (4,758,904)</u>	<u>\$ 259,873</u>	<u>\$ 3,058,169</u>	<u>\$ 51,747,342</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
General Fund  
For the Year Ended September 30, 2014

	General	NMTIT Rebate Trust	Commonwealth Museum	Human Resources Development Trust	Micronesian Garment Manufacturing	Debt Service	Judicial Building	Miscellaneous	Eliminations	Total
<b>Revenues:</b>										
Taxes	\$ 150,181,692	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,181,692
Licenses and fees	8,238,180	-	-	-	-	-	402,197	-	-	8,640,377
Contributions from component units	653,737	-	-	-	-	-	-	-	-	653,737
Charges for sales and services	1,546,652	-	-	-	-	-	-	11,007	-	1,557,659
Interest and dividends	265,569	-	-	-	-	47	15	469	-	266,100
Other	2,543,345	-	5,700	-	-	-	359,586	68,564	-	2,977,195
	163,429,175	-	5,700	-	-	47	761,798	80,040	-	164,276,760
Recoveries	1,068,393	-	-	-	-	-	-	-	-	1,068,393
<b>Total revenues</b>	<b>164,497,568</b>	<b>-</b>	<b>5,700</b>	<b>-</b>	<b>-</b>	<b>47</b>	<b>761,798</b>	<b>80,040</b>	<b>-</b>	<b>165,345,153</b>
<b>Expenditures:</b>										
<b>Current:</b>										
Public safety and law enforcement	20,671,148	-	-	-	-	-	-	-	-	20,671,148
General government	11,495,042	-	-	-	-	-	-	-	-	11,495,042
Utilities	3,310,875	-	-	-	-	-	-	-	-	3,310,875
Other elected officials	8,713,985	-	-	-	-	-	-	-	-	8,713,985
Legislative branch	5,315,617	-	-	-	-	-	-	-	-	5,315,617
Health	7,635,203	-	-	-	-	-	-	-	-	7,635,203
Judicial branch	4,292,121	-	-	-	-	-	-	-	-	4,292,121
Lands and natural resources	3,328,440	-	-	-	-	-	-	24,280	-	3,352,720
Community and social services	3,187,713	-	98,774	113,359	-	-	-	-	-	3,399,846
Education	1,714,134	-	-	-	-	-	-	-	-	1,714,134
Economic development	812,252	-	-	-	-	-	-	-	-	812,252
Payments to:										
Public School System	32,362,720	-	-	-	-	-	-	-	-	32,362,720
Marianas Visitors Authority	8,894,439	-	-	-	-	-	-	-	-	8,894,439
Commonwealth Healthcare Corporation	1,208,675	-	-	-	-	-	-	-	-	1,208,675
Northern Marianas College	5,121,453	-	-	-	-	-	-	-	-	5,121,453
Pension (and Other Employee Benefit) Trust Fund	7,596,351	-	-	-	-	-	-	-	-	7,596,351
Settlement Fund	25,000,000	-	-	-	-	-	-	-	-	25,000,000
Debt service:										
Interest and fiscal charges	7,550	-	-	-	-	3,570,278	484,040	-	-	4,061,868
Principal retirement	-	-	-	-	-	3,915,000	4,977,581	-	-	8,892,581
Capital outlay:										
Public works	4,778,266	-	-	-	-	-	-	-	-	4,778,266
<b>Total expenditures</b>	<b>155,445,984</b>	<b>-</b>	<b>98,774</b>	<b>113,359</b>	<b>-</b>	<b>7,485,278</b>	<b>5,461,621</b>	<b>24,280</b>	<b>-</b>	<b>168,629,296</b>
Excess (deficiency) of revenues over (under) expenditures	9,051,584	-	(93,074)	(113,359)	-	(7,485,231)	(4,699,823)	55,760	-	(3,284,143)
<b>Other financing sources (uses):</b>										
Operating transfers in	4,170,641	-	-	-	-	8,513,028	-	-	(8,513,028)	4,170,641
Operating transfers out	(16,689,650)	-	-	-	-	-	-	-	8,513,028	(8,176,622)
<b>Total other financing sources (uses), net</b>	<b>(12,519,009)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,513,028</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,005,981)</b>
Net change in fund balances (deficit)	(3,467,425)	-	(93,074)	(113,359)	-	1,027,797	(4,699,823)	55,760	-	(7,290,124)
Fund balances (deficit) at beginning of year	(75,406,915)	-	(194,337)	(55,069)	456,655	1,270,425	(59,081)	(172,804)	-	(74,161,126)
Fund balances (deficit) at end of year	\$ (78,874,340)	\$ -	\$ (287,411)	\$ (168,428)	\$ 456,655	\$ 2,298,222	\$ (4,758,904)	\$ (117,044)	\$ -	\$ (81,451,250)

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MAJOR GOVERNMENTAL FUND - GRANTS ASSISTANCE FUND

September 30, 2014

The Grants Assistance Fund is used to account for all transactions related to grants received from various U.S. departments.

DOI Capital Projects Fund

This fund accounts for various capital projects funded through grant awards from the U.S. Department of the Interior.

Federal Grants Fund

This fund accounts for all financial transactions related to direct grants received from various U.S. departments.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet  
Grants Assistance Fund  
September 30, 2014

	<u>Federal Grants</u>	<u>DOI Capital Projects</u>	<u>Total</u>
<u>Assets</u>			
Restricted cash and cash equivalents	\$ -	\$ 2,295,045	\$ 2,295,045
Receivables, net of allowance for uncollectibles:			
Federal agencies	2,872,730	22,948	2,895,678
Other	-	12,831	12,831
Due from other funds	4,273,399	2,105,444	6,378,843
Inventories	1,001,000	-	1,001,000
	<u>\$ 8,147,129</u>	<u>\$ 4,436,268</u>	<u>\$ 12,583,397</u>
<u>Liabilities and Fund Balances (Deficit)</u>			
Liabilities:			
Accounts payable	\$ 4,560,750	\$ 469,465	\$ 5,030,215
Other liabilities and accruals	177,975	-	177,975
Due to other funds	1,119,191	-	1,119,191
Unearned revenues	1,001,000	-	1,001,000
Total liabilities	6,858,916	469,465	7,328,381
Fund balances (deficit):			
Restricted	1,288,213	3,966,803	5,255,016
	<u>\$ 8,147,129</u>	<u>\$ 4,436,268</u>	<u>\$ 12,583,397</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (Deficit)  
Grants Assistance Fund  
For the Year Ended September 30, 2014

	Federal Grants	DOI Capital Projects	Total
Revenues:			
Federal contributions	\$ 60,847,028	\$ 7,317,700	\$ 68,164,728
Licenses and fees	187,762	-	187,762
Interest and dividends	-	231	231
Other	271,643	-	271,643
Total revenues	<u>61,306,433</u>	<u>7,317,931</u>	<u>68,624,364</u>
Expenditures:			
Current:			
Health	30,221,055	321,520	30,542,575
Community and social services	16,885,548	-	16,885,548
General government	630,447	309,632	940,079
Lands and natural resources	6,678,871	-	6,678,871
Public safety and law enforcement	8,095,735	-	8,095,735
Utilities	-	405,733	405,733
Education	119,723	-	119,723
Economic development	20,580	1,532,225	1,552,805
Payments to:			
Public School System	220,004	-	220,004
Northern Marianas College	87,319	-	87,319
Capital outlay:			
Public works	1,090,025	2,305,837	3,395,862
Utilities - Capital Projects	-	2,442,753	2,442,753
Total expenditures	<u>64,049,307</u>	<u>7,317,700</u>	<u>71,367,007</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(2,742,874)</u>	<u>231</u>	<u>(2,742,643)</u>
Other financing sources (uses):			
Operating transfers in	6,457,638	-	6,457,638
Operating transfers out	(890,641)	(23,331)	(913,972)
Total other financing sources (uses), net	<u>5,566,997</u>	<u>(23,331)</u>	<u>5,543,666</u>
Net change in fund balances (deficit)	2,824,123	(23,100)	2,801,023
Fund balances (deficit) at beginning of year	<u>(1,535,910)</u>	<u>3,989,903</u>	<u>2,453,993</u>
Fund balances (deficit) at end of year	<u>\$ 1,288,213</u>	<u>\$ 3,966,803</u>	<u>\$ 5,255,016</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MAJOR GOVERNMENTAL FUND - SAIPAN AMUSEMENT FUND

September 30, 2014

This fund was created to account for funds collected for casino licensing fees and to allocate these funds pursuant to Public Law 18-38, as amended by Public Law 18-43 and further amended by Public Law 18-56. This fund also includes nonrefundable application fees to be expended by the Commonwealth Lottery Commission (CLC), without appropriation, for the investigation of license applicants pursuant to 1 CMC § 2318 and any other costs associated with reviewing the applications and granting or denying applications for the exclusive license. The expenditure authority for CLC is the Chairman.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2014

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Department of Public Lands

On February 22, 2006, Public Law 15-02 was enacted to repeal Executive Order 94-03 as codified, in Public Law 10-57, 12-33 and 12-71 to create the Department of Public Lands (DPL) within the Executive Branch of the CNMI Government and to transfer the obligations and responsibilities of the Marianas Public Lands Authority to DPL. DPL is responsible for administration, use, leasing, development and disposition all those lands defined as public lands by N.M.I. Const. Art.XI.1 or any other provision of law, subject to the provisions of P.L. 15-02 and except as limited by transfers of freehold interest to individuals, entities, or other government agencies. DPL's authority does not extend to the issuance of land use permits and licenses, except as specifically provided for in P.L. 15-02 and does not limit in any respect the authority of other Commonwealth agencies to issue permits and licenses pursuant to their respective enabling legislation.

Private Grants Fund

This fund accounts for all financial transactions related to miscellaneous grants that are not directly from the U.S. government. Included in this fund are transactions relating to grants from world organizations and private business organizations in the CNMI. The fund also includes State Small Business Credit Initiative (SSBCI), a federal program administered by the U.S. Department of Treasury to strengthen programs that support private financing to small businesses and small manufacturers. Funds received under SSBCI are not considered federal assistance or a grant for the purposes of Subtitle V of Title 31 of the U.S. Code.

Commonwealth Arts Council Fund

This fund was established through Executive Order No. 26 pursuant to Section 15 Article III of the Constitution. The fund accounts for financial transactions of the Commonwealth Arts Council related to the receipt of donations and gifts and the use of those funds.

Oil Overcharge Fund

This fund accounts for payments awarded to the 50 States, and U.S. territories and possessions, by the U.S. courts in settlement of charges against several U.S. oil companies that had violated U.S. Department of Energy price control regulations by overcharging their distributors and customers. The CNMI has received oil overcharge funds from the Warner, Exxon, and Stripper Well Cases that are restricted for use in several energy related approved programs.

Commonwealth Nonresident Workers' Fee Fund

This fund was created by Public Law No. 5-32, as amended by Public Law No. 10-66 to account for the collection of fees related to application and renewal certificates of nonresident workers and their immediate relatives. In accordance with the enabling legislation, the fees collected are to be appropriated by the CNMI Legislature for several educational and training programs administered through the Northern Marianas College and the Mayors' offices.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2014

Commonwealth Alien Deportation Fund

This fund was created by Public Law No. 10-1 to account for the collection of nonresident workers' fees designated for the fund and for the expenditure of those funds in detecting and deporting illegal aliens.

Local Revenue Fund

This fund accounts for revenues generated under local senatorial district laws for use by the local governments of Saipan, Rota and Tinian. Such revenues are based on Saipan local laws 11-1 and 11-2 and Rota local law 11-1.

Saipan Trust Fund

This fund accounts for funds from the United States Government to develop the Saipan Marine and Fishing Complex.

Tobacco Settlement Trust Fund

This fund was created by Public Law No. 13-37 to account for all monies received from the Master Settlement Agreement. The monies shall be used to implement programs and services to achieve the goals stated in Section 3 of Public Law 13-37.

Tobacco Control Fund

This fund was created by Public Law 13-38 to amend 4 CMC § 1402(A)(16) through (20) to restrict cigarette smoking and for other purposes.

Solid Waste Revolving Fund

This fund was created by Public Law 13-42 to provide financial support to the Commonwealth Solid Waste Management Systems and for other purposes.

Managaha Landing Fee Fund

This fund was created by Public Law 11-64 to account for revenues collected from commercial carriers who charge a fee to transport nonresident passengers to Managaha Island. Such fees are to be deposited into the Fund and will be expended exclusively on projects and for the construction, maintenance and operation of the Saipan Cultural and Performing Arts Center, the Saipan Youth Program, the Division of Public Lands, the Commonwealth Museum, and for the cultural heritage activities of the Indigenous and Carolinian Affairs Offices, in accordance with appropriations made by the Saipan and Northern Islands Legislative Delegation.

Qualifying Certificate Reserve Fund

This fund was created to account for the financial transactions of the Qualifying Certificate program.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2014

MVA Trust Fund

This fund was created by Public Law 18-01 to account for revenues entitled to the Marianas Visitors Authority pursuant to Title 4 CMC § 1803. However, the Secretary of Finance may withhold up to 2.5 percent of the funds deposited for the purpose of funding revenue and tax personnel to enforce the provisions of Public Law 18-01 and other CNMI tax laws.

CNMI Scholarship Fund

This fund was created by Public Law 18-40 to account for all funds appropriated, donated or accruing to the benefit of the CNMI Scholarship Office and for the payments made therefrom as directed by the Board of Directors.

CNMI Workers' Compensation Commission (WCC)

This fund was created by Public Law No. 6-33 which provides financial protection to both employers and employees for the catastrophic effects of work related injuries, illnesses or deaths. It is a social insurance plan that compensates employees for disabilities incurred from work related injuries regardless of fault. It is also a no-fault insurance program, solely paid for by the employer. The WCC ensures that private sector employers obtain and provide workers' compensation insurance coverage for their employees. The WCC also administers the CNMI government's workers' compensation self-insurance program. On November 9, 2012, Public Law 17-88 transferred administrative function of WCC from NMIRF to the CNMI Department of Commerce.

Miscellaneous Special Revenue Funds

The miscellaneous special revenue fund combines the following:

- Zoning Board Revolving Fund
- Joeten-Kiyu Library Revolving Fund
- Animal Health Revolving Fund
- Fish and Game Revolving Fund
- Tobacco License Fee Fund
- Probation Services Fund
- Outer Cover Marina Fund

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2014

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Commonwealth Development Authority Fund

This fund accounts for various capital projects funded by proceeds of general obligation bonds issued by the Commonwealth Development Authority.

Infrastructure Tax Fund

This fund was created by Public Law No. 8-23 which restricts the 2% Developers' Tax for funding of infrastructure by senatorial delegation.

Public Works Grants Fund

This fund accounts for various capital projects administered by the CNMI Department of Public Works and funded by the U.S. Department of Transportation.

American Memorial Park Fund

This fund accounts for capital projects at the American Memorial Park. These projects are partially funded by the earnings of the Marianas Public Land Trust - Park Fund, a nonexpendable trust fund.

Local Capital Projects Fund

This fund accounts for various capital projects funded by appropriations contained in Annual Appropriations Acts.

Private Capital Grants Fund

This fund accounts for various capital projects funded by various grants that are not directly from the U.S. government. Included in this fund are transactions relating to capital project grants from CNMI agencies and private business organizations in the CNMI.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2014

	Special Revenue Funds						
	Department of Public Lands	Private Grants	Commonwealth Arts Council	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Local Revenue
<u>Assets</u>							
Cash and cash equivalents	\$ 6,217,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	2,665,823	-	-	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-	-	-	-
Restricted time certificates of deposit	-	-	-	-	-	-	-
Restricted investments	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:							
Federal	-	284,562	-	-	-	-	-
General	447,217	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Due from other funds	-	3,731,205	14,838	48,003	-	-	5,335,067
Due from component units	-	-	-	-	-	-	-
	<u>\$ 9,330,749</u>	<u>\$ 4,015,767</u>	<u>\$ 14,838</u>	<u>\$ 48,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,335,067</u>
<u>Liabilities and Fund Balances (Deficit)</u>							
Liabilities:							
Accounts payable	\$ 219,518	\$ 110,378	\$ 9,789	\$ -	\$ -	\$ 9,268	\$ 56,523
Other liabilities and accruals	655,587	-	-	-	-	61	-
Due to other funds	1,825,839	-	-	-	-	-	-
Due to component units	1,155,594	-	-	-	-	-	-
Unearned revenues	654,682	3,905,389	-	47,498	-	-	-
Total liabilities	<u>4,511,220</u>	<u>4,015,767</u>	<u>9,789</u>	<u>47,498</u>	<u>-</u>	<u>9,329</u>	<u>56,523</u>
Commitments and contingencies							
Fund balances (deficit):							
Restricted	4,819,529	-	5,049	505	-	-	5,278,544
Unassigned	-	-	-	-	-	(9,329)	-
Total fund balances (deficit)	<u>4,819,529</u>	<u>-</u>	<u>5,049</u>	<u>505</u>	<u>-</u>	<u>(9,329)</u>	<u>5,278,544</u>
	<u>\$ 9,330,749</u>	<u>\$ 4,015,767</u>	<u>\$ 14,838</u>	<u>\$ 48,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,335,067</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
 Nonmajor Governmental Funds  
 September 30, 2014

Special Revenue Funds										
Saipan Trust	Tobacco Settlement Trust	Tobacco Control	Solid Waste Revolving	Managaha Landing Fee	Qualifying Certificate Reserve	MVA Trust	CNMI Scholarship	CNMI Workers' Compensation Commission	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,217,709
-	-	-	-	-	-	-	-	-	-	2,665,823
6,939	-	-	-	-	-	-	-	174,616	-	181,555
-	-	-	-	-	-	-	-	133,528	-	133,528
-	-	-	-	-	-	-	-	1,090,777	-	1,090,777
-	-	-	-	-	-	-	-	-	-	284,562
-	-	-	-	-	-	-	-	-	-	447,217
-	1,209,829	-	-	-	-	-	-	-	-	1,209,829
16,526	161,793	-	2,778,094	39,580	49,548	107,686	211,008	706,137	953,696	14,153,181
-	-	-	-	-	-	-	-	-	-	-
<u>\$ 23,465</u>	<u>\$ 1,371,622</u>	<u>\$ -</u>	<u>\$ 2,778,094</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 107,686</u>	<u>\$ 211,008</u>	<u>\$ 2,105,058</u>	<u>\$ 953,696</u>	<u>\$ 26,384,181</u>
\$ -	\$ -	\$ 5,620	\$ 57,619	\$ -	\$ -	\$ 31,895	\$ -	\$ -	\$ 18,859	\$ 519,469
19,338	-	-	58,000	-	-	-	-	-	402	733,388
-	-	112,491	-	-	-	-	-	-	-	1,938,330
-	-	-	-	-	-	-	-	-	-	1,155,594
-	-	-	-	-	-	-	-	-	-	4,607,569
<u>19,338</u>	<u>-</u>	<u>118,111</u>	<u>115,619</u>	<u>-</u>	<u>-</u>	<u>31,895</u>	<u>-</u>	<u>-</u>	<u>19,261</u>	<u>8,954,350</u>
4,127	1,371,622	-	2,662,475	39,580	49,548	75,791	211,008	2,105,058	934,435	17,557,271
-	-	(118,111)	-	-	-	-	-	-	-	(127,440)
<u>4,127</u>	<u>1,371,622</u>	<u>(118,111)</u>	<u>2,662,475</u>	<u>39,580</u>	<u>49,548</u>	<u>75,791</u>	<u>211,008</u>	<u>2,105,058</u>	<u>934,435</u>	<u>17,429,831</u>
<u>\$ 23,465</u>	<u>\$ 1,371,622</u>	<u>\$ -</u>	<u>\$ 2,778,094</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 107,686</u>	<u>\$ 211,008</u>	<u>\$ 2,105,058</u>	<u>\$ 953,696</u>	<u>\$ 26,384,181</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
 Nonmajor Governmental Funds  
 September 30, 2014

	Capital Projects Funds						Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants		
<u>Assets</u>								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,217,709
Time certificates of deposit	-	-	-	-	-	-	-	2,665,823
Restricted cash and cash equivalents	-	-	-	-	-	-	-	181,555
Restricted time certificates of deposit	-	-	-	-	-	-	-	133,528
Restricted investments	-	-	-	-	-	-	-	1,090,777
Receivables, net of allowance for uncollectibles:								
Federal	-	-	-	-	-	-	-	284,562
General	-	-	-	-	-	-	-	447,217
Other	-	-	-	-	-	-	-	1,209,829
Due from other funds	52,405	58,836	682,551	6,869	648	405,092	1,206,401	15,359,582
	<u>\$ 52,405</u>	<u>\$ 58,836</u>	<u>\$ 682,551</u>	<u>\$ 6,869</u>	<u>\$ 648</u>	<u>\$ 405,092</u>	<u>\$ 1,206,401</u>	<u>\$ 27,590,582</u>
<u>Liabilities and Fund Balances (Deficit)</u>								
Liabilities:								
Accounts payable	\$ -	\$ 58,836	\$ 288,349	\$ -	\$ -	\$ 31,573	\$ 378,758	\$ 898,227
Other liabilities and accruals	-	-	56,993	6,869	-	-	63,862	797,250
Due to other funds	-	-	-	-	648	-	648	1,938,978
Due to component units	-	-	-	-	-	-	-	1,155,594
Unearned revenues	52,569	-	-	-	-	-	52,569	4,660,138
Total liabilities	<u>52,569</u>	<u>58,836</u>	<u>345,342</u>	<u>6,869</u>	<u>648</u>	<u>31,573</u>	<u>495,837</u>	<u>9,450,187</u>
Fund balances (deficit):								
Restricted	-	-	337,209	-	-	373,519	710,728	18,267,999
Unassigned	(164)	-	-	-	-	-	(164)	(127,604)
Total fund balances (deficit)	<u>(164)</u>	<u>-</u>	<u>337,209</u>	<u>-</u>	<u>-</u>	<u>373,519</u>	<u>710,564</u>	<u>18,140,395</u>
	<u>\$ 52,405</u>	<u>\$ 58,836</u>	<u>\$ 682,551</u>	<u>\$ 6,869</u>	<u>\$ 648</u>	<u>\$ 405,092</u>	<u>\$ 1,206,401</u>	<u>\$ 27,590,582</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (Deficit)  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2014

	Special Revenue Funds						
	Department of Public Lands	Private Grants	Commonwealth Arts Council	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Local Revenue
Revenues:							
Federal contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	-
Licenses and fees	313,678	-	-	-	250	-	4,143,888
Interest and dividends	12,684	-	-	58	-	-	-
Charges for sales and services	4,059,166	-	-	-	-	-	-
Other	258,081	1,200,847	30,570	-	-	-	19,898
	<u>4,643,609</u>	<u>1,200,847</u>	<u>30,570</u>	<u>58</u>	<u>250</u>	<u>-</u>	<u>4,163,786</u>
Bad debts	(616,441)	-	-	-	-	-	-
Total revenues	<u>4,027,168</u>	<u>1,200,847</u>	<u>30,570</u>	<u>58</u>	<u>250</u>	<u>-</u>	<u>4,163,786</u>
Expenditures by account:							
Current:							
Education	-	-	-	-	-	-	1,939,908
Economic development	-	492,375	-	-	-	-	-
Public safety and law enforcement	-	513,314	-	-	142,952	-	-
Community and social services	-	269,377	28,161	-	-	-	223,209
Health	-	38,587	-	-	-	-	170,490
Lands and natural resources	4,449,685	10,385	-	-	-	-	-
General government	-	-	-	-	-	-	27,949
Other elected officials	-	-	-	-	-	-	24,148
Payment to Marianas Visitors Authority	-	-	-	-	-	-	-
Debt service:							
Interest and fiscal charges	-	-	-	-	-	-	-
Principal retirement	-	-	-	-	-	-	-
Capital outlay:							
Public works	-	-	-	-	-	-	110,501
Total expenditures	<u>4,449,685</u>	<u>1,324,038</u>	<u>28,161</u>	<u>-</u>	<u>142,952</u>	<u>-</u>	<u>2,496,205</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(422,517)</u>	<u>(123,191)</u>	<u>2,409</u>	<u>58</u>	<u>(142,702)</u>	<u>-</u>	<u>1,667,581</u>
Other financing sources (uses):							
Operating transfers in	-	508,771	-	-	152,533	-	-
Operating transfers out	-	-	-	-	-	-	(10,000)
Total other financing sources (uses), net	<u>-</u>	<u>508,771</u>	<u>-</u>	<u>-</u>	<u>152,533</u>	<u>-</u>	<u>(10,000)</u>
Net change in fund balances (deficit)	<u>(422,517)</u>	<u>385,580</u>	<u>2,409</u>	<u>58</u>	<u>9,831</u>	<u>-</u>	<u>1,657,581</u>
Fund balances (deficit) at beginning of year, as previously reported	5,242,046	(385,580)	2,640	447	(9,831)	(9,329)	3,620,963
Prior period adjustment	-	-	-	-	-	-	-
Fund balances (deficit) at beginning of year, as restated	<u>5,242,046</u>	<u>(385,580)</u>	<u>2,640</u>	<u>447</u>	<u>(9,831)</u>	<u>(9,329)</u>	<u>3,620,963</u>
Fund balances (deficit) at end of year	<u>\$ 4,819,529</u>	<u>\$ -</u>	<u>\$ 5,049</u>	<u>\$ 505</u>	<u>\$ -</u>	<u>\$ (9,329)</u>	<u>\$ 5,278,544</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (Deficit), Continued  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2014

Special Revenue Funds										
Saipan Trust	Tobacco Settlement Trust	Tobacco Control	Solid Waste Revolving	Managaha Landing Fee	Qualifying Certificate Reserve	MVA Trust	CNMI Scholarship	CNMI Workers' Compensation Commission	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	1,834,005	2,581,229	-	-	115,889	-	-	-	4,531,123
-	-	-	377,905	-	-	-	-	-	65,412	4,901,133
-	75	-	-	-	-	-	-	23,173	-	35,990
-	-	-	-	-	-	-	-	-	188,383	4,247,549
-	1,684,766	-	-	-	-	-	211,008	160,316	9,973	3,575,459
-	1,684,841	1,834,005	2,959,134	-	-	115,889	211,008	183,489	263,768	17,291,254
-	-	-	-	-	-	-	-	-	-	(616,441)
-	1,684,841	1,834,005	2,959,134	-	-	115,889	211,008	183,489	263,768	16,674,813
-	-	-	-	-	-	-	-	-	-	1,939,908
-	-	-	-	-	-	-	-	-	-	492,375
-	-	-	-	-	-	-	-	7,640	61,419	725,325
-	-	3,721	-	-	-	-	-	-	38,060	562,528
-	-	-	-	-	-	-	-	-	-	209,077
-	-	-	-	-	-	-	-	-	254,684	4,714,754
-	-	-	-	-	-	-	-	-	-	27,949
-	-	-	-	-	-	-	-	-	-	24,148
-	-	-	-	-	-	40,098	-	-	-	40,098
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	1,582,713	-	-	-	-	-	-	1,693,214
-	-	3,721	1,582,713	-	-	40,098	-	7,640	354,163	10,429,376
-	1,684,841	1,830,284	1,376,421	-	-	75,791	211,008	175,849	(90,395)	6,245,437
-	-	-	-	-	-	-	-	-	-	661,304
-	(1,622,207)	(1,657,793)	-	-	-	-	-	-	-	(3,290,000)
-	(1,622,207)	(1,657,793)	-	-	-	-	-	-	-	(2,628,696)
-	62,634	172,491	1,376,421	-	-	75,791	211,008	175,849	(90,395)	3,616,741
4,127	1,308,988	(290,602)	1,286,054	39,580	49,548	-	-	-	1,024,830	11,883,881
-	-	-	-	-	-	-	-	1,929,209	-	1,929,209
4,127	1,308,988	(290,602)	1,286,054	39,580	49,548	-	-	1,929,209	1,024,830	13,813,090
\$ 4,127	\$ 1,371,622	\$ (118,111)	\$ 2,662,475	\$ 39,580	\$ 49,548	\$ 75,791	\$ 211,008	\$ 2,105,058	\$ 934,435	\$ 17,429,831

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (Deficit), Continued  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2014

	Capital Projects Funds						Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants		
Revenues:								
Federal contributions	\$ -	\$ -	\$ 5,015,080	\$ -	\$ -	\$ -	\$ 5,015,080	\$ 5,015,080
Taxes	-	119,014	-	-	-	-	119,014	4,650,137
Licenses and fees	-	16,173	-	-	-	-	16,173	4,917,306
Interest and dividends	-	87	-	-	-	-	87	36,077
Charges for sales and services	-	-	-	-	-	-	-	4,247,549
Other	-	10,732	-	-	-	-	10,732	3,586,191
	-	146,006	5,015,080	-	-	-	5,161,086	22,452,340
Bad debts	-	-	-	-	-	-	-	(616,441)
Total revenues	-	146,006	5,015,080	-	-	-	5,161,086	21,835,899
Expenditures by account:								
Current:								
Education	-	62,783	-	-	-	-	62,783	2,002,691
Economic development	-	-	-	-	23,331	-	23,331	515,706
Public safety and law enforcement	-	22,635	-	-	129,965	-	152,600	877,925
Community and social services	-	46,183	-	-	-	-	46,183	608,711
Health	-	-	-	-	-	-	-	209,077
Lands and natural resources	-	-	-	-	-	-	-	4,714,754
General government	-	-	-	-	-	-	-	27,949
Other elected officials	-	-	-	-	-	-	-	24,148
Payment to Marianas Visitors Authority	-	-	-	-	-	-	-	40,098
Debt service:								
Interest and fiscal charges	-	-	-	-	-	-	-	-
Principal retirement	-	-	-	-	-	-	-	-
Capital outlay:								
Public works	-	48,994	5,015,080	-	213,700	-	5,277,774	6,970,988
Total expenditures	-	180,595	5,015,080	-	366,996	-	5,562,671	15,992,047
Excess (deficiency) of revenues over (under) expenditures	-	(34,589)	-	-	(366,996)	-	(401,585)	5,843,852
Other financing sources (uses):								
Operating transfers in	-	681,059	-	-	409,952	-	1,091,011	1,752,315
Operating transfers out	-	-	-	-	-	-	-	(3,290,000)
Total other financing sources (uses), net	-	681,059	-	-	409,952	-	1,091,011	(1,537,685)
Net change in fund balances (deficit)	-	646,470	-	-	42,956	-	689,426	4,306,167
Fund balances (deficit) at beginning of year, as previously reported	(164)	(646,470)	337,209	-	(42,956)	373,519	21,138	11,905,019
Prior period adjustment	-	-	-	-	-	-	-	1,929,209
Fund balances (deficit) at beginning of year, as restated	(164)	(646,470)	337,209	-	(42,956)	373,519	21,138	13,834,228
Fund balances (deficit) at end of year	\$ (164)	\$ -	\$ 337,209	\$ -	\$ -	\$ 373,519	\$ 710,564	\$ 18,140,395

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS

September 30, 2014

Pension and Other Employee Benefits Trust Funds

Pension and other employee benefit trust funds are used to account for a Public Employee Retirement System, health and life benefits and workers' compensation benefits. These funds use the accrual basis of accounting and have a capital maintenance measurement focus. The basic financial statements reflect the balances and activity of the pension and other employee benefit trust fund of the Government, which are described below.

Northern Mariana Islands Settlement Fund (NMISF)

On September 30, 2013, the Settlement Agreement for Civil Case No. 09-00023 was approved by District Court. Accordingly, the Settlement Agreement created the NMISF to accept the transfer of NMIRF assets, receive annual contributions and payments from the CNMI and to effectuate the terms of the Settlement Agreement. NMISF is governed by a Trustee appointed by District Court. As of September 30, 2014, NMISF was not included in the Pension Trust Fund due to the lack of available financial information.

Northern Mariana Islands Retirement Fund (NMIRF)

NMIRF was established as a public corporation on January 18, 1980, under Public Law No. 1-43, amended by Public Law Nos. 2-18, 2-47, 3-99 and 4-20, and Constitutional Amendment No. 19 to provide pension benefits to all government civil service employees including those working for government autonomous agencies, CNMI elected officials, and employees of the former Trust Territory of the Pacific Islands, who are U.S. citizens pursuant to the CNMI Constitution. On May 7, 1989, Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, repealed the above mentioned laws and re-established NMIRF as an autonomous agency and a public corporation of the CNMI to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system pursuant to the Agreement of the Special Representative on Future United States Financial Assistance for the Northern Mariana Islands, and in accordance with Constitutional provisions protecting the rights of government employees. Public Law No. 6-17 was later amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9 11-95, 13-60, 15-14, 15-70, 15-126, 16-2, 16-36, 17-79, 17-82 and 18-02. NMIRF is governed by the CNMI.

CNMI Group Health and Life Insurance Trust Fund (GHLITF)

GHLITF was created by Public Law No. 10-19 to ensure that CNMI Government employees are provided with medical and life insurance benefits, and that funds collected and disbursed for these purposes are administered in a fiscally sound and professionally accountable manner. GHLITF is governed by the CNMI. GHLITF health benefit administration was privatized on November 1, 2007.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Fiduciary Net Position  
Fiduciary Funds  
September 30, 2014

	Pension (and Other Employee Benefit) Trust Fund		
	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 2,224,844	\$ 220,377	\$ 2,445,221
Receivables:			
Loans	3,361,820	-	3,361,820
Notes	904,235	-	904,235
Other	7,236	-	7,236
	<u>4,273,291</u>	<u>-</u>	<u>4,273,291</u>
Due from component units	<u>-</u>	<u>1,923,735</u>	<u>1,923,735</u>
	<u>-</u>	<u>1,923,735</u>	<u>1,923,735</u>
Investments, at fair market value:			
Mutual funds	<u>22,550,222</u>	<u>-</u>	<u>22,550,222</u>
	<u>22,550,222</u>	<u>-</u>	<u>22,550,222</u>
Capital assets	<u>2,414,567</u>	<u>-</u>	<u>2,414,567</u>
Total assets	<u>31,462,924</u>	<u>2,144,112</u>	<u>33,607,036</u>
<u>Liabilities and Other Credits</u>			
Accounts payable	2,583,914	6,403	2,590,317
Other liabilities and accruals	155,657	2,415,471	2,571,128
Unearned revenue	893,468	-	893,468
Total liabilities and other credits	<u>3,633,039</u>	<u>2,421,874</u>	<u>6,054,913</u>
Net position:			
Held in trust for pension benefits	27,829,885	-	27,829,885
Held in trust for medical and life insurance benefits	<u>-</u>	<u>(277,762)</u>	<u>(277,762)</u>
Total net position	<u>\$ 27,829,885</u>	<u>\$ (277,762)</u>	<u>\$ 27,552,123</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year Ended September 30, 2014

	<u>Pension (and Other Employee Benefit) Trust Fund</u>		
	<u>Northern Mariana Islands Retirement Fund</u>	<u>CNMI Group Health and Life Insurance Trust</u>	<u>Total</u>
	<u>Additions</u>		
Contributions:			
Employer	\$ 1,292,033	\$ -	\$ 1,292,033
Employee	4,490,587	-	4,490,587
Revenues:			
Premiums	-	508,209	508,209
Rent income and other	617,565	1,245	618,810
Total contributions and revenues	<u>6,400,185</u>	<u>509,454</u>	<u>6,909,639</u>
Net investment earnings:			
Net change in fair value	1,476,909	-	1,476,909
Interest	90,711	-	90,711
Net investment earnings	<u>1,567,620</u>	<u>-</u>	<u>1,567,620</u>
Total additions	<u>7,967,805</u>	<u>509,454</u>	<u>8,477,259</u>
	<u>Deductions</u>		
Benefits	192,557	-	192,557
General and administrative	2,980,538	60,424	3,040,962
Loss on settlement	124,139,208	-	124,139,208
Refunds and withdrawals	14,103,348	-	14,103,348
Total deductions	<u>141,415,651</u>	<u>60,424</u>	<u>141,476,075</u>
Change in net position	<u>(133,447,846)</u>	<u>449,030</u>	<u>(132,998,816)</u>
Net position at beginning of year	159,676,473	(15,923,273)	143,753,200
Prior period adjustment (note 16)	1,601,258	15,196,481	16,797,739
Net position at beginning of year, as restated	<u>161,277,731</u>	<u>(726,792)</u>	<u>160,550,939</u>
Net position at end of year	<u>\$ 27,829,885</u>	<u>\$ (277,762)</u>	<u>\$ 27,552,123</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS - AGENCY

September 30, 2014

Tinian Land Condemnation Fund

As part of the U.S. Military's lease of Tinian, the CNMI Government, the former Marianas Public Land Corporation and the U.S. Government, setup an escrow fund pending the obtaining of all the private land holdings on Tinian within the leased area. Subsequently, the escrow was jointly terminated wherein it was mutually agreed the funds could be used by the CNMI to acquire the private land holdings through direct acquisition or legal condemnation proceedings. This agency fund represents the net amount available after the costs of land acquisitions. Land condemnation proceedings are still in process.

Security Deposit Fund

The Security Deposit Fund was established to account for security deposits received from persons licensed to engage in the business of selling foreign currency notes or receiving money for the purpose of transmitting the same or its equivalent to any country outside the CNMI (pursuant to 1 CMC 2, Section 2454 and 4 CMC 6, Sections 6351 and 6108) and for security deposits received from alien insurers (pursuant to Public Law No. 3-107).

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Assets and Liabilities  
 Fiduciary Funds - Agency  
 September 30, 2014

	<u>Tinian Land Condemnation</u>	<u>Security Deposit</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ -	\$ 1,643,840	\$ 1,643,840
Due from General Fund	1,391,134	-	1,391,134
Restricted assets	<u>-</u>	<u>1,575,245</u>	<u>1,575,245</u>
Total assets	<u>\$ 1,391,134</u>	<u>\$ 3,219,085</u>	<u>\$ 4,610,219</u>
<u>Liabilities</u>			
Claims and judgments payable	\$ 1,391,134	\$ -	\$ 1,391,134
Deposits payable	<u>-</u>	<u>3,219,085</u>	<u>3,219,085</u>
Total liabilities	<u>\$ 1,391,134</u>	<u>\$ 3,219,085</u>	<u>\$ 4,610,219</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2014

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

Honorable Eloy S. Inos  
Governor  
Commonwealth of the Northern Mariana Islands:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements, and have issued our report thereon dated June 29, 2015. Our report includes explanatory paragraphs concerning the correction of errors and going concern, and was modified due to our inability to determine the propriety of the Commonwealth Healthcare Corporation's receivables, inventories, due to/from CNMI, accounts payable, due to related parties, accrued payroll, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense), the financial statements of the Northern Mariana Islands Settlement Fund not being included in the financial statements and the financial statements for the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund) not being audited. Our report includes a reference to other auditors who audited the financial statements of the Commonwealth Utilities Corporation, Marianas Public Land Trust, the Northern Marianas College, the Public School System and the Marianas Visitors Authority, as described in our report on the CNMI's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Commonwealth Ports Authority, the Commonwealth Development Authority and the Commonwealth Healthcare Corporation which were audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the entities that were audited by us. Other auditors issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Northern Marianas College, the Public School System and the Marianas Visitors Authority. The findings, if any, included in those reports are not included herein.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the CNMI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 17 through 127), we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 2014-001 through 2014-004, 2014-008, 2014-009, 2014-012 and 2014-013 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 2014-005 through 2014-007, 2014-010, 2014-011 and 2014-014 through 2014-016 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the CNMI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-014 and 2014-015.

## **The CNMI's Responses to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Debitte + Janshe LLC*

June 29, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133

Honorable Eloy S. Inos  
Governor  
Commonwealth of the Northern Mariana Islands:

### **Report on Compliance for Each Major Federal Program**

We have audited the Commonwealth of the Northern Mariana Islands' (CNMI) 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 the CNMI's major federal programs for the year ended September 30, 2014. The CNMI's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 17 through 127).

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the CNMI's financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2014. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the CNMI's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the CNMI'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the CNMI's compliance.

### **Basis for Qualified Opinion on Each Major Federal Program**

As described in items 2014-018, 2014-20 through 2014-022, 2014-024 through 2014-032, 2014-034 through 2014-036, 2014-038 through 2014-040, 2014-042, 2014-044, 2014-045 and 2014-047 through 2014-052 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2014-018	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions
2014-020	11.419	Coastal Zone Management Administration Awards	Allowable Costs/Cost Principles
2014-051	11.419	Coastal Zone Management Administration Awards	Allowable Costs/Cost Principles
2014-021	11.419	Coastal Zone Management Administration Awards	Equipment and Real Property Management
2014-052	11.419	Coastal Zone Management Administration Awards	Equipment and Real Property Management
2014-022	11.419	Coastal Zone Management Administration Awards	Period of Availability of Federal Funds
2014-024	11.419	Coastal Zone Management Administration Awards	Program Income
2014-025	11.419	Coastal Zone Management Administration Awards	Reporting
2014-026	11.419	Coastal Zone Management Administration Awards	Special Tests and Provisions
2014-027	11.482	Coral Reef Conservation Program	Allowable Costs/Cost Principles
2014-051	11.482	Coral Reef Conservation Program	Allowable Costs/Cost Principles
2014-028	11.482	Coral Reef Conservation Program	Matching, Level of Effort, Earmarking
2014-029	11.482	Coral Reef Conservation Program	Period of Availability of Federal Funds
2014-030	11.482	Coral Reef Conservation Program	Procurement and Suspension and Debarment
2014-031	11.482	Coral Reef Conservation Program	Reporting
2014-032	11.482	Coral Reef Conservation Program	Special Tests and Provisions
2014-052	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Equipment and Real Property Management
2014-034	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Procurement and Suspension and Debarment
2014-035	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Subrecipient Monitoring
2014-036	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Special Tests and Provisions
2014-051	20.205	Highway Planning and Construction	Allowable Costs/Cost Principles
2014-052	20.205	Highway Planning and Construction	Equipment and Real Property Management
2014-051	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Allowable Costs/Cost Principles
2014-038	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Equipment and Real Property Management
2014-052	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Equipment and Real Property Management
2014-039	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Procurement and Suspension and Debarment
2014-040	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Reporting
2014-042	93.575	Child Care and Development Block Grant	Eligibility
2014-044	93.575	Child Care and Development Block Grant	Reporting
2014-045	93.575	Child Care and Development Block Grant	Special Tests and Provisions
2014-047	93.778	Medical Assistance Program	Allowable Costs/Cost Principles
2014-051	93.778	Medical Assistance Program	Allowable Costs/Cost Principles
2014-048	93.778	Medical Assistance Program	Eligibility
2014-049	93.778	Medical Assistance Program	Reporting
2014-050	93.778	Medical Assistance Program	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the CNMI to comply with the requirements applicable to each program.

### **Qualified Opinion on Each Major Federal Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Each Major Federal Program paragraph, the CNMI complied, in all material respects, with the types of 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, 2014.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-016, 2014-017, 2014-019, 2014-23, 2014-033, 2014-037, 2014-041, 2014-043, 2014-046, 2014-051, 2014-052 and 2014-053 regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2014-016	None	None	Other – SEFA
2014-017	10.551	Supplemental Nutrition Assistance Program	Cash Management
2014-019	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions
2014-023	11.419	Coastal Zone Management Administration Awards	Procurement and Suspension and Debarment
2014-033	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Period of Availability of Federal Funds
2014-037	20.205	Highway Planning and Construction	Procurement and Suspension and Debarment
2014-041	93.575	Child Care and Development Block Grant	Allowable Costs/Cost Principles
2014-043	93.575	Child Care and Development Block Grant	Equipment and Real Property Management
2014-046	93.778	Medical Assistance Program	Activities Allowed or Unallowed
2014-051	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Allowable Costs/Cost Principles
2014-052	10.551	Supplemental Nutrition Assistance Program	Equipment and Real Property Management
2014-052	93.575	Child Care and Development Block Grant	Equipment and Real Property Management
2014-053	97.036	Disaster Grants - Public Assistance	Reporting

Our opinion on each major federal program is not modified with respect to these matters.

The CNMI's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The CNMI's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of the CNMI is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the CNMI's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the CNMI'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-018, 2014-20 through 2014-022, 2014-024 through 2014-032, 2014-034 through 2014-036, 2014-038 through 2014-040, 2014-042, 2014-044, 2014-045 and 2014-047 through 2014-052 to be material weaknesses.

*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 2014-017, 2014-019, 2014-23, 2014-033, 2014-037, 2014-041, 2014-043, 2014-046, 2014-051 and 2014-052 to be significant deficiencies.

The CNMI's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The CNMI's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the CNMI as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements. We issued our report thereon dated June 29, 2015, which contained explanatory paragraphs concerning the correction of errors and going concern, and was modified due to our inability to determine the propriety of the Commonwealth Healthcare Corporation's receivables, inventories, due to/from CNMI, accounts payable, due to related parties, accrued payroll, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense), the financial statements of the Northern Mariana Islands Settlement Fund not being included in the financial statements and the financial statements for the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund) not being audited. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 8 through 13) 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Deloitte & Touche LLC*

June 29, 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor  
Federal Grants Fund  
Year Ended September 30, 2014

Federal Agency	Expenditures
U.S. Department of Agriculture	\$ 10,845,183
U.S. Department of Commerce	1,809,196
U.S. Department of Defense	85,193
U.S. Department of the Interior	5,045,396
U.S. Department of Justice	1,602,788
U.S. Department of Labor	1,570,511
U.S. Department of Transportation	2,755,728
U.S. National Endowment for the Arts	123,322
Institute of Museum and Library Services	95,155
U.S. Environmental Protection Agency	2,479,439
U.S. Department of Energy	2,319,615
U.S. Department of Education	1,012,629
U.S. Department of Health and Human Services	25,163,091
U.S. Department of Homeland Security	3,758,213
Unallocated cash receipts/expenditures	<u>(261,645)</u>
<b>TOTAL FEDERAL GRANTS FUND</b>	<b><u>\$ 58,403,814</u></b>

Note: All awards are received direct from the Federal agency.

Reconciliation:

Expenditures per above	\$ 58,403,814
Local match	<u>6,444,838</u>
	<b><u>\$ 64,848,652</u></b>
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 64,049,307
Operating transfers out	890,641
Expenditures accrued through proposed audit adjustment in fiscal year 2014	<u>(91,296)</u>
	<b><u>\$ 64,848,652</u></b>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2014

CFDA #	Federal Agency/Program	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
10.170	Specialty Crop Block Grant Program - Farm Bill	\$ 28,997
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	87,289
10.551	Supplemental Nutrition Assistance Program	10,310,765
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	(23,411)
10.664	Cooperative Forestry Assistance	421,512
10.676	Forest Legacy Program	7,798
10.914	Wildlife Habitat Incentive Program	12,233
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>		<u>10,845,183</u>
<b>U.S. DEPARTMENT OF COMMERCE</b>		
11.YA132309CN0062	2010 Census	17,647
11.300	Investments for Public Works and Economic Development Facilities	23,220
11.307	Economic Adjustment Assistance	52,055
11.419	Coastal Zone Management Administration Awards	817,470
11.437	Pacific Fisheries Data Program	249,540
11.454	Unallied Management Projects	61,033
11.482	Coral Reef Conservation Program	482,800
11.558	ARRA - State Broadband Data and Development Grant Program	105,431
<b>TOTAL U.S. DEPARTMENT OF COMMERCE</b>		<u>1,809,196</u>
<b>U.S. DEPARTMENT OF DEFENSE</b>		
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	981
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	84,212
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>		<u>85,193</u>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>		
Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration Program	1,006,246
15.611	Wildlife Restoration and Basic Hunter Education	409,764
Subtotal Fish and Wildlife Cluster		1,416,010
15.615	Cooperative Endangered Species Conservation Fund	67,542
15.634	State Wildlife Grants	118,005
15.657	Endangered Species Conservation Recovery Implementation Funds	5,269
15.875	Economic, Social, and Political Development of the Territories: Development of TTPI Islands	1,305,719
	Compact Impact	1,930,443
15.904	Historic Preservation Fund Grants-In-Aid	201,851
15.916	Outdoor Recreation_Acquisition, Development and Planning	557
<b>TOTAL U.S. DEPARTMENT OF THE INTERIOR</b>		<u>5,045,396</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>		
16.Unknown	State Justice Institute	50,000
16.017	Sexual Assault Services Formula Program	15,702
16.523	Juvenile Accountability Block Grants	26,484
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	62,256
16.550	State Justice Statistics Program for Statistical Analysis Centers	31,398
16.575	Crime Victim Assistance	303,707
16.588	Violence Against Women Formula Grants	658,909
16.727	Enforcing Underage Drinking Laws Program	94,193
16.738	Edward Byrne Memorial Justice Assistance Grant Program	203,968
16.750	Support for Adam Walsh Act Implementation Grant Program	156,171
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>		<u>1,602,788</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
Federal Grants Fund, Continued  
Year Ended September 30, 2014

CFDA #	Federal Agency/Program	Expenditures
<b>U.S. DEPARTMENT OF LABOR</b>		
WIA Cluster:		
17.258	WIA Adult Program	526,817
17.259	WIA Youth Activities	346,019
17.278	WIA Dislocated Worker Formula Grants	<u>217,108</u>
	Subtotal WIA Cluster	1,089,944
17.235	Senior Community Service Employment Program	267,412
17.260	WIA Dislocated Workers	7
17.273	Temporary Labor Certification for Foreign Workers	67,724
17.504	Consultation Agreements	<u>145,424</u>
	<b>TOTAL U.S. DEPARTMENT OF LABOR</b>	<u>1,570,511</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>		
20.600	State and Community Highway Safety	1,821,016
20.218	National Motor Carrier Safety	136,583
20.500	Federal Transit_Capital Investment Grants	63,832
20.509	Formula Grants for Rural Areas	713,107
20.514	Public Transportation Research	4,447
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	<u>16,743</u>
	<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>	<u>2,755,728</u>
<b>U.S. NATIONAL ENDOWMENT FOR THE ARTS</b>		
45.025	Promotion of the Arts_Partnership Agreements	<u>123,322</u>
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>		
45.310	Grants to States	<u>95,155</u>
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>		
66.040	State Clean Diesel Grant Program	26,677
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	2,341,234
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	76,452
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	14,728
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	<u>20,348</u>
	<b>TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY</b>	<u>2,479,439</u>
<b>U.S. DEPARTMENT OF ENERGY</b>		
81.041	State Energy Program	64,732
81.041	ARRA - State Energy Program	811,201
81.042	Weatherization Assistance for Low-Income Persons	108,332
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	<u>1,335,350</u>
	<b>TOTAL U.S. DEPARTMENT OF ENERGY</b>	<u>2,319,615</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>		
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	815,919
84.169	Independent Living_State Grants	46,458
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	35,429
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	(21,729)
84.224	Assistive Technology	119,722
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	<u>16,830</u>
	<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>	<u>1,012,629</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
Federal Grants Fund, Continued  
Year Ended September 30, 2014

CFDA #	Federal Agency/Program	Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
	Aging Cluster:	
93.044	Special Programs for the Aging_ Title III, Part B_ Grants for Supportive Services and Senior Centers	174,704
93.045	Special Programs for the Aging_ Title III, Part C_ Nutrition Services	305,142
93.053	Nutrition Services Incentive Program	44,154
	Subtotal Aging Cluster	<u>524,000</u>
93.041	Special Programs for the Aging_ Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	3,136
93.042	Special Programs for the Aging_ Title VII, Chapter 2_ Long Term Care Ombudsman Services for Older Individuals	3,061
93.043	Special Programs for the Aging_ Title III, Part D_ Disease Prevention and Health Promotion Services	5,150
93.052	National Family Caregiver Support, Title III, Part E	77,303
93.127	Emergency Medical Services for Children	144,872
93.136	Injury Prevention and Control Research and State and Community Based Programs	15,860
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	503,628
93.519	Affordable Care Act (ACA) Consumer Assistance Program Grants	112,652
93.556	Promoting Safe and Stable Families	292,118
93.568	Low-Income Home Energy Assistance	225,406
93.569	Community Services Block Grant	407,825
93.575	Child Care and Development Block Grant	2,277,288
93.590	Community-Based Child Abuse Prevention Grants	181,874
93.630	Developmental Disabilities Basic Support and Advocacy Grants	235,611
93.643	Children's Justice Grants to States	9,377
93.645	Stephanie Tubbs Jones Child Welfare Services Program	266,023
93.667	Social Services Block Grant	50,544
93.669	Child Abuse and Neglect State Grants	46,656
93.671	Family Violence Prevention and Services/ Domestic Violence Shelter and Supportive Services	118,458
93.719	ARRA - State Grants to Promote Health Information Technology	390,691
93.767	Children's Health Insurance Program	643,704
93.778	Medical Assistance Program	18,638,959
93.778	ARRA - Medical Assistance Program	(11,105)
		<u>24,639,091</u>
	<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>	<u>25,163,091</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>		
97.012	Boating Safety Financial Assistance	918,626
97.042	Emergency Management Performance Grants	653,137
97.044	Assistance to Firefighters Grant	324,579
97.056	Port Security Grant Program	1,327
97.067	Homeland Security Grant Program	745,894
97.073	State Homeland Security Program (SHSP)	600,128
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	264,507
97.089	Driver's License Security Grant Program	250,015
	<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>	<u>3,758,213</u>
	Unallocated cash receipts/expenditures	<u>(261,645)</u>
	<b>TOTAL FEDERAL GRANTS FUND</b>	<u>\$ 58,403,814</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
 Capital Projects Funds  
 Year Ended September 30, 2014

CFDA #	Federal Agency/Program	Expenditures
<b>U.S. DEPARTMENT OF THE INTERIOR</b>		
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects:	
	FY96 - FY02 Appropriations Act Grant	\$ 691,650
	FY04 Appropriations Act Grant	<u>7,037,947</u>
	<b>TOTAL CAPITAL PROJECTS FUND</b>	<b><u>\$ 7,729,597</u></b>
Reconciliation:		
	Federal awards expenditures, as stated above	<u>\$ 7,729,597</u>
	Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 7,317,700
	Operating transfers out	23,331
	Expenditures accrued in fiscal year 2013	<u>388,566</u>
		<b><u>\$ 7,729,597</u></b>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
 Public Works Grants Fund  
 Year Ended September 30, 2014

CFDA #	Federal Agency/Program	Expenditures
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>		
20.205	Highway Planning and Construction	\$ 5,090,564
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>		
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>98,802</u>
<b>TOTAL PUBLIC WORKS GRANTS FUND</b>		<u>\$ 5,189,366</u>
Reconciliation:		
Federal awards expenditures, as stated above		<u>\$ 5,189,366</u>
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)		\$ 5,015,080
Expenditures accrued in fiscal year 2013		<u>174,286</u>
		<u>\$ 5,189,366</u>
<b>GRAND TOTAL FEDERAL AWARDS</b>		<u><b>\$ 71,322,777</b></u>

See accompanying notes to schedule of expenditures of federal awards.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2014

### (1) Scope of Review

The Commonwealth of the Northern Mariana Islands (CNMI) is a governmental entity governed by its own Constitution. All significant operations of the CNMI 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 the CNMI's cognizant agency for the Single Audit.

#### Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each federal program related to the following agencies:

- U.S. Department of Agriculture (USDA)
- U.S. Department of Commerce (USDOC)
- U.S. Department of Defense
- U.S. Department of Energy (USDOE)
- U.S. Department of Education (USED)
- U.S. Department of Health and Human Services (USHHS)
- U.S. Department of Homeland Security (USDHS)
- U.S. Department of the Interior (USDOI)
- U.S. Department of Justice (USDOJ)
- U.S. Department of Labor (USDOL)
- U.S. Department of Transportation (USDOT)
- U.S. Environmental Protection Agency (USEPA)
- U.S. National Endowment for the Arts
- Institute of Museum and Library Services

### (2) Summary of Significant Accounting Policies

#### a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the CNMI and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. For federal direct assistance grants, authorizations represent the total allotment or grant award received. All expenditures and capital outlays are reported as expenditures.

#### b. Reporting Entity

The CNMI, for purposes of the financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the CNMI's reporting entity is defined in Note 1A to its September 30, 2014 basic financial statements; except that the Northern Mariana Islands Settlement Fund, the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the CNMI, as defined above, for the year ended September 30, 2014.

The CNMI's financial statements include the operations of the Commonwealth Ports Authority, the Northern Marianas Housing Corporation (a division of the Commonwealth Development Authority), the Northern Marianas College, the Public School System and the Commonwealth Healthcare Corporation which expended \$9,459,084, \$11,419,771, \$8,990,608, \$30,319,671 and \$11,765,932, respectively, in federal awards which are not included in the Schedule of Expenditures of Federal Awards during the year ended September 30, 2014. Our audit, described below, did not include the operations of the entities identified above as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

c. Subgrantees

Certain program funds are passed through the CNMI to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees, outside of the CNMI's control, utilized the funds. However, the CNMI is considered to have responsibility for any questioned costs which could result from Single Audits of these entities.

d. Indirect Cost Allocation

For fiscal year 2014, the CNMI has the following approved indirect cost rates:

Federal programs which require the use of a restricted rate as defined by 34 CFR 75.563 and 76.563	2.40%
Programs which directly charged utilities	2.86%
Programs not directly charging utilities	15.26%
ARRA programs which directly charged utilities	No rate
ARRA programs not directly charging utilities	No rate

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

e. CFDA #15.875

CFDA # 15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands, which is an agreement, and is not a federal program. Additionally, each funding component of the agreement is governed by varying rules and regulations, depending on the reason for the designated aid. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of determining major programs.

(3) CFDA # 10.551

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents the U.S. Department of Agriculture (USDA) from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 0.64 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2014

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

- |    |   |                                    |
|----|---|------------------------------------|
| 1. | Type of auditors' report issued:                          | Unmodified, Disclaimer and Adverse |
|    | 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:  |             |
|     | CFDA   |             |
|     | <u>Number</u> <u>Name of Federal Program</u>   |             |
|     | 10.551    Supplemental Nutrition Assistance Program  |             |
|     | 11.419    Coastal Zone Management Administration Awards  |             |
|     | 11.482    Coral Reef Conservation Program  |             |
|     | 20.205    Highway Planning and Construction  |             |
|     | 66.600    Environmental Protection Consolidated Grants for the Insular Areas - Program Support                         |             |
|     | 93.575    Child Care and Development Block Grant   |             |
|     | 93.778    Medical Assistance Program   |             |
|     | 15.875    Economic, Social, and Political Development of the Territories:<br>Capital Improvement Projects              |             |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs:   | \$2,139,683 |
| 11. | Auditee qualified as a low-risk auditee?   | No          |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

**SECTION II - FINANCIAL STATEMENT FINDINGS**

Reference Number	Findings	Refer Page #
2014-001	External Financial Reporting	19
2014-002	Revenue/Receipts - Tobacco Settlement Resources	20
2014-003-004	Cash and Cash Equivalents	21 - 25
2014-005-006	Receivables	26 - 27
2014-007	Advances	28 - 29
2014-008	Tax Rebates Payable	30 - 32
2014-009	Other Liabilities and Accruals	33
2014-010	Compensated Absences	34
2014-011	Fund Balance - Encumbrances	35 - 38
2014-012	Commonwealth Healthcare Corporation	39
2014-013	CNMI Workers' Compensation Commission	40
2014-014-015	CNMI Local Noncompliance	41 - 43
2014-016	Schedule of Expenditures of Federal Awards	44 - 45

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Reference Number	CFDA Number	Findings	Questioned Costs	Refer Page #
2014-016	-	Schedule of Expenditures of Federal Awards	\$ -	44 - 45
2014-017	10.551	Cash Management	-	46 - 47
2014-018-019	10.551	Special Tests and Provisions	\$ 270,373	48 - 50
2014-052	10.551	Equipment and Real Property Management	-	123 - 126
2014-020	11.419	Allowable Costs/Cost Principles	\$ 12,681	51 - 54
2014-021	11.419	Equipment and Real Property Management	-	55 - 56
2014-022	11.419	Period of Availability of Federal Funds	-	57
2014-023	11.419	Procurement and Suspension and Debarment	\$ 2,550	58 - 59
2014-024	11.419	Program Income	\$ 154,788	60 - 61
2014-025	11.419	Reporting	-	62
2014-026	11.419	Special Tests and Provisions	\$ 62,739	63 - 67
2014-051	11.419	Allowable Costs/Cost Principles	-	119 - 122
2014-052	11.419	Equipment and Real Property Management	-	123 - 126
2014-027	11.482	Allowable Costs/Cost Principles	\$ 3,468	68 - 69
2014-028	11.482	Matching, Level of Effort, Earmarking	\$ 160,789	70 - 71
2014-029	11.482	Period of Availability of Federal Funds	-	72 - 73
2014-030	11.482	Procurement and Suspension and Debarment	\$ 13,223	74 - 75
2014-031	11.482	Reporting	-	76
2014-032	11.482	Special Tests and Provisions	\$ 111,309	77 - 78
2014-051	11.482	Allowable Costs/Cost Principles	-	119 - 122
2014-033	15.875	Period of Availability of Federal Funds	\$ 4,896	79 - 80
2014-034	15.875	Procurement and Suspension and Debarment	\$ 1,060,520	81 - 86
2014-035	15.875	Subrecipient Monitoring	-	87 - 88
2014-036	15.875	Special Tests and Provisions	-	89 - 91
2014-051	15.875	Allowable Costs/Cost Principles	\$ 1,923	119 - 122
2014-052	15.875	Equipment and Real Property Management	-	123 - 126
2014-037	20.205	Procurement and Suspension and Debarment	-	92
2014-051	20.205	Allowable Costs/Cost Principles	-	119 - 122
2014-052	20.205	Equipment and Real Property Management	-	123 - 126
2014-038	66.600	Equipment and Real Property Management	-	93 - 94
2014-039	66.600	Procurement and Suspension and Debarment	\$ 12,912	95 - 97
2014-040	66.600	Reporting	-	98 - 99
2014-051	66.600	Allowable Costs/Cost Principles	-	119 - 122
2014-052	66.600	Equipment and Real Property Management	-	123 - 126
2014-041	93.575	Allowable Costs/Cost Principles	\$ 36,634	100 - 101
2014-042	93.575	Eligibility	\$ 10,242	102 - 104
2014-043	93.575	Equipment and Real Property Management	-	105
2014-044	93.575	Reporting	-	106
2014-045	93.575	Special Tests and Provisions	-	107
2014-052	93.575	Equipment and Real Property Management	-	123 - 126
2014-046	93.778	Activities Allowed or Unallowed	\$ 327,131	108 - 109
2014-047	93.778	Allowable Costs/Cost Principles	\$ 15,757	110 - 112
2014-048	93.778	Eligibility	\$ 105,299	113 - 116
2014-049	93.778	Reporting	-	117
2014-050	93.778	Special Tests and Provisions	-	118
2014-051	93.778	Allowable Costs/Cost Principles	-	119 - 122
2014-053	Nonmajor Program	Reporting	\$ 1,386,970	127

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

External Financial Reporting

Finding No. 2014-001

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 61, *the Financial Reporting Entity: Omnibus*, requires the financial statements of the reporting entity to include financial statements of component units for which the primary government is financially accountable or for which exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Condition: CNMI management determined that the Northern Mariana Islands Settlement Fund (NMISF) is a component unit of the CNMI; however, as of September 30, 2014, the CNMI's financial statements do not include the financial statements of NMISF.

Cause: The cause of the above condition is the lack of audited financial statements of NMISF.

Effect: The effect of the above condition is noncompliance with GASB Statement No. 61 and an adverse opinion on the financial statements of the CNMI.

Recommendation: We recommend that the CNMI obtain audited financial statements of NMISF for inclusion in the CNMI's financial statements.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Larrisa Larson, Secretary of Finance

**Corrective Action:** After consultation with the CNMI's auditors, NMISF was determined to be a component unit of the CNMI. NMISF was notified of this determination in March 2015 and initiated an audit as of 09/30/14 shortly thereafter. The audit has not been completed as of the date of the CNMI audit and no draft financial statements have been provided by NMISF. The CNMI expects NMISF audits for future years to be completed in time for inclusion of audited financial statements in the CNMI audit.

**Proposed Completion Date:** FY2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Revenues/Receipts - Tobacco Settlement Resources

Finding No. 2014-002

Criteria: GASB Technical Bulletin (TB) 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, clarifies recognition guidance for transactions and payments made to settling governments pursuant to the Master Settlement Agreement with major tobacco companies. GASB TB 2004-1 requires the recognition of estimated receivables and revenues based on domestic sales/shipments of cigarettes.

Condition: For fiscal year 2014, the CNMI recognized \$1,684,766 in tobacco settlement resources (TSR) revenues (ref. fund 7067; account 45640) based on cash received. The CNMI was unable to provide a relevant analysis or schedules to support compliance with GASB TB 2004-1.

Cause: The cause of the above condition is the lack of established estimation techniques to determine accrued tobacco settlement receivables and revenues.

Effect: The effect of the above condition is nonconformity with GASB TB 2004-1.

Recommendation: We recommend the CNMI take reasonable steps to meet the requirements of GASB TB 2004-1.

Prior Year Status: The lack of established estimation techniques to determine accrued tobacco settlement receivables and revenues was reported as a finding in the CNMI Single Audits for fiscal years 2009 through 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Larrisa Larson, Secretary of Finance

**Corrective Action:** The CNMI accepted proposed audit adjustments for FY2014 and will establish estimation techniques to determine accrued tobacco settlement receivables and revenues and record the transactions in the accounting records in future years.

**Proposed Completion Date:** FY2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Cash and Cash Equivalents

Finding No. 2014-003

Criteria: Bank reconciliations should be timely performed and reconciling items should be timely adjusted.

Condition: Tests of bank reconciliations noted the following:

1. Bank reconciliations for the following accounts were prepared two to four months after fiscal year end.

<u>Bank Code</u>	<u>Account Name</u>
11150	Superior Court NMI Imprest Fund
11170	Guam Medical Referral Imprest Fund
11220	Supreme Court Imprest Fund
11310	CHC Medical Referral
11420	Payroll Account
11430	General Fund
11480	CNMI Lottery Commission Imprest Fund
11520	CNMI Credit Card
11540	Capital Improvement Projects
11570	Federal Grants
11572	CNMI Government Federal Payroll
11820	Joeten-Kiyu Public Library
11830	Law Revision Commission Imprest Fund
11400	NMIT Rebate Trust Reconciliation
11130	LNO Hawaii - Medical Referral
11410	Special Disability Imprest Fund

2. Bank reconciling items for the following accounts were not recorded in the general ledger at September 30, 2014:

<u>Bank Code</u>	<u>Account Name</u>	<u>Amount of Reconciling Items</u>
11170	Guam Medical Referral Imprest Fund	\$ 460
11420	Payroll Account	\$ (1,333,139)
11430	General Fund	\$ 63,629,633
11480	CNMI Lottery Commission Imprest Fund	\$ 43,257
11520	CNMI Credit Card	\$ (64,522,053)
11570	Federal Grants	\$ (225,191)
11572	CNMI Government Federal Payroll	\$ 1,333,136
11410	Special Disability Imprest Fund	\$ 740

The above condition was corrected through a proposed audit adjustment.

3. The adjusted bank balance for the following bank account does not agree to the general ledger:

<u>Bank Account GL No.</u>	<u>Adjusted Bank Balance</u>	<u>Balance Per General Ledger</u>	<u>Variance</u>
1010.11610	\$ 400,041	\$ 500,001	\$ (99,960)

Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-003, Continued

Condition, Continued:

4. The following cash accounts maintained by the Superior Court are not recorded in the general ledger:

<u>Account Name</u>	<u>Bank Balance at September 30, 2014</u>
Office of the Clerk of Court Civil	\$ 518,030
Office of the Clerk of Court Criminal	\$ 76,457
Office Clerk Court Superior Court	\$ 134,015

An audit adjustment was proposed to record the above cash accounts.

5. At September 30, 2014, the CNMI recorded cash clearing accounts of \$191,227. These accounts are expected to be zero at fiscal year-end. An audit adjustment was proposed to correct \$212,945 of the amount; however, correcting entries for the remaining \$21,718 could not be determined. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.
6. At September 30, 2014, the CNMI recorded a cash account (GL #1010.11280) of \$24,593 related to returned checks that should have been recorded to the General Fund bank account (GL #1010.11430). An audit adjustment was proposed to reclassify the amount to the General Fund account.
7. At September 30, 2014, the CNMI recorded a \$131,368 cash account (GL #1010.11980) related to federal grants offset against CNMI's payable to the National Oceanic and Atmospheric Administration. Correcting entries could not be determined. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.

Cause: The cause of the above condition is the lack of adherence to policies and procedures related to timely preparation of bank reconciliations.

Effect: The effect of the above condition is the possibility of misstated cash balances throughout the year.

Recommendation: We recommend that the CNMI adhere to established policies and procedures over timely reconciliation of bank accounts and that reconciling items be timely adjusted. Further, we recommend that all cash accounts be recorded and that cash clearing accounts be adjusted and reconciled at fiscal year-end.

Prior Year Status: The lack of adequate policies and procedures related to timely preparation of bank reconciliations was reported as a finding in the CNMI Single Audits for fiscal years 2003 through 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Martha Camacho, Manager, Accounting Reconciliation and Bernadita Palacios, Director, Division of Finance & Accounting

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-003, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:** The CNMI Department of Finance (DOF) agrees that reconciliations should occur in a timely manner and is performing the reconciliations in as timely a manner as possible. Bank statements normally are received one month after the month closes at the earliest. Upon receipt of the bank statement, the reconciliation process begins. DOF will establish targets for completion for each of its accounts as a benchmark and work to stay within those targets for each of its accounts.

**Proposed Completion Date:** FY 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Cash and Cash Equivalents

Finding No. 2014-004

Criteria: A system of internal control provides for adequate monitoring of issued, unreleased, cancelled and voided checks. While the holding of checks is unavoidable at times, checks held at year-end should be identified and be reclassified as payables.

Condition: Tests of cut-off and bank reconciliations noted the following:

1. At September 30, 2014, \$457,559 of checks was held by the Division of Treasury. Of this amount, \$448,707 was reported as outstanding.

<u>Bank Code</u>	<u>Account Name</u>	<u>Check Dates</u>	<u>No. of Checks</u>	<u>Amount of Unreleased Checks</u>	<u>Amount Reported as Outstanding Checks</u>
11430	General Fund	October 2013 to September 2014	32	\$ 45,598	\$ 44,798
11570	Federal Fund	June 2014 to September 2014	28	84,042	84,042
11540	Capital Improvement Project	September 26, 2014	1	3,803	3,803
11420	General Payroll Account	July 2014 to September 2014	98	283,772	275,720
11572	Federal Payroll Account	September 30, 2014	<u>42</u>	<u>40,344</u>	<u>40,344</u>
			<u>201</u>	<u>\$ 457,559</u>	<u>\$ 448,707</u>

The above condition was corrected through proposed audit adjustments.

Additionally, the following were noted:

- a. Twelve General Fund (bank code 11430) and three NMTIT Rebate Trust Fund (bank code 11400) account checks, aggregating \$962,871, represent voided checks. The checks have dates ranging from July 2007 through September 2014. Of this amount, we noted the following:
  1. Approval to void six checks was not evident. Additionally, these checks were recorded as void in the general ledger in previous years; however, the physical checks were voided in fiscal year 2014:

<u>Bank Code</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Date Recorded as Void in the General Ledger</u>	<u>Amount</u>
11430	403112	05/08/13	05/08/13	\$ 403,474
11430	406268	08/29/13	08/29/13	\$ 406
11430	406273	08/29/13	08/29/13	\$ 5,166
11430	401166	03/20/13	03/20/13	\$ 908
11430	406267	08/29/13	08/29/13	\$ 108
11430	397453	11/30/12	11/30/12	\$ 3,190

2. Three checks were recorded as stale dated in the general ledger in a previous year; however, the physical checks were voided in fiscal year 2014:

<u>Bank Code</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>	<u>Date Recorded as Stale Dated in the General Ledger</u>
11430	385082	11/14/11	\$ 300	06/13/13
11400	256058	11/15/07	\$ 132	11/06/09
11400	250505	07/19/07	\$ 94	12/11/08

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-004, Continued

Condition, Continued:

- b. For forty outstanding checks tested, aggregating \$688,293, six were reported as outstanding as of year-end; however, the checks cleared the bank prior to September 30, 2014:

<u>Bank Code</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Date Cleared the Bank</u>	<u>Amount</u>
11420	696608	08/29/14	09/11/14	\$ 1,986
11420	697295	08/29/14	09/08/14	\$ 9,296
11420	696525	08/29/14	09/03/14	\$ 6,709
11420	696610	08/29/14	09/03/14	\$ 5,784
11420	698179	08/29/14	09/05/14	\$ 318
11420	697337	08/29/14	09/02/14	\$ 932

Cause: The cause of the above condition is the lack of policies and procedures to adequately monitor issued, unreleased, cancelled, stale dated and voided checks.

Effect: The effect of the above condition is the possibility of misstated cash balances throughout the year.

Recommendation: We recommend that the CNMI Division of Treasury establish policies and procedures to adequately monitor issued, unreleased, cancelled and voided checks. Further, we recommend that the CNMI Division of Treasury timely void checks requested for cancellation in the system.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Asuncion Agulto, Treasurer

**Corrective Action:** The Division of Treasury will establish policies and procedures to adequately monitor issued, unreleased, cancelled and voided checks. Included in the policy will be a standard to ensure timely voiding of checks.

**Proposed Completion Date:** FY 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Receivables

Finding No. 2014-005

Criteria: Receivables should be identified, recorded and reconciled. Further, transfers of assets from component units should be documented.

Condition: Section 8.1 of the Settlement Agreement for Civil Case No. 09-000023 assigns the CNMI rights to collect deficient employer defined benefit contributions and related costs as of August 6, 2013 from autonomous agencies. As of September 30, 2014, the Northern Mariana Islands Retirement Fund confirmed the transfer of receivables from autonomous agencies of \$46,051,656 to the CNMI. The CNMI has not obtained details of these receivables and has not assessed collectability. In addition, no written document supported the transfer. The transfer has not been recorded as of September 30, 2014. No audit adjustment was proposed due to the uncertainty of collection.

Cause: The cause of the above condition is the lack of established policies and procedures to identify, record and reconcile valid receivables and the lack of written documentation supporting the transfer of receivables.

Effect: The effect of the above condition is possible unrecorded receivables.

Recommendation: We recommend that policies and procedures be established to identify, record and reconcile valid receivables. Further, we recommend coordination with NMIRF to document the transfer.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Larrisa Larson, Secretary of Finance

**Corrective Action:** The CNMI will establish policies and procedures to identify, record and reconcile valid receivables. Work is currently underway to not only identify the receivables owed by this transfer, but also collect on these receivables.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Receivables

Finding No. 2014-006

Criteria: Receivables should be reconciled, assessed and monitored for collectability.

Condition: Public Law 9-66 requires public corporations or other autonomous agencies to pay to the CNMI Treasurer an amount no less than one percent of their total operations budget, and such funds will be deposited into a special account within the CNMI general fund to be solely used for the operations and activities of the Office of the Public Auditor (OPA). Receivables related to one percent of OPA fees recorded in the general ledger and reported in a schedule obtained from OPA did not agree to payables recorded in corresponding component units' financial statements. Further, collectability of these receivables was not assessed at year-end. Additionally, consideration of the application of the statute of limitations to these receivables has not occurred.

<u>Component Unit (CU)</u>	<u>Receivables Per OPA Schedule</u>	<u>Payables Reported in CU's Financial Statements</u>	<u>Difference</u>	<u>Comments</u>
Commonwealth Healthcare Corporation	\$ 1,326,133	\$ 1,147,691	\$ 178,442	
Northern Marianas College	1,416,464	-	1,416,464	not reported in CU's financial statements
Commonwealth Ports Authority	3,359,779	725,561	2,634,218	
Commonwealth Utilities Corporation	11,863,319	6,646,790	5,216,529	
Commonwealth Development Authority	46,296	-	46,296	not reported in CU's financial statements
	<u>\$ 18,011,991</u>	<u>\$ 8,520,042</u>	<u>\$ 9,491,949</u>	

As of September 30, 2014, receivables related to OPA fees are fully allowed for.

Cause: The cause of the above condition is the lack of established policies and procedures to reconcile receivables and to assess collectability.

Effect: The effect of the above condition is a possible misstatement of receivables and related revenue.

Recommendation: We recommend that the CNMI record receivables based on the updated calculation and reconcile to payable balances recorded by component units.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance, Michael Pai, Public Auditor and Edward Manibusan, Attorney General

**Corrective Action:** On June 12, 2015, OPA issued a letter to resolve some areas that had developed in attempts by OPA to collect on the 1% owed. In this letter, OPA stated that unobligated balances in the OPA budget revert to the General Fund and, therefore, collection efforts on arrears become the responsibility of the Central Government. OPA also stated that the arrears could be used to partially offset the amounts owed by the CNMI to CUC, as had been done in 2003 via an MOA with CUC. OPA further stated that there was ambiguity in the language of the law and they will be working on legislation to clarify these ambiguities. In that same letter, OPA assigned all rights, if any, to the arrears to DOF. DOF is currently reviewing this letter and will collaborate with OPA and the Office of the Attorney General to determine collectability of all arrears due to the CNMI. Further, DOF will also work with OPA on the legislation to ensure that agencies comply with the law and the mandated 1%.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Advances

Finding No. 2014-007

Criteria: Advances to vendors should be timely updated for goods/services already received.

Condition: Tests of vendor advances noted the following:

1. As of September 30, 2014, the General Fund recorded vendor advances of \$865,310, of which \$491,449 date to fiscal year 2013 and prior. An aging of vendor advances by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 50,918
2012	102,305
2011	71,719
2010	53,919
2009	70,325
2008	32,140
2007	24,732
2006	46,441
2005	28,540
2004	<u>10,410</u>
	\$ <u>491,449</u>

2. Of two advances tested aggregating \$147,375, one for \$3,500 (ref. no. 865166 PL) for the purchase of supplies, was received before September 30, 2014 and did not constitute a valid advance. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment. In addition, a disbursement of \$143,875 (check no. 27566) was made after September 30, 2014. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures to update advances upon receipt of related goods and/or services.

Effect: The effect of the above condition is the possibility of a misstatement of advances and related expenditures and encumbrances.

Recommendation: We recommend that vendor advances be monitored and be timely adjusted upon receipt of related goods and/or services. Further, we recommend review of existing procedures related to advances for those goods and/or services likely to be received within a short period of time.

Prior Year Status: The lack of adherence to established policies and procedures to update advances upon receipt of related goods and/or services was reported as a finding in the CNMI Single Audits for fiscal years 2008 through 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-007, Continued

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance and Bernadita Palacios, Director, Division of Finance & Accounting

**Corrective Action:** We believe that policies and procedures in place will address the problem of stale dated advances. Work continues on this finding to improve the timeliness of adjustments. Allowance for uncollectible advances of \$496,675 more than offset 2013 and prior open advances.

**Proposed Completion Date:** Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Tax Rebates Payable

Finding No. 2014-008

Criteria: The *Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America* (the Covenant) adopted the Internal Revenue Code of the United States of America as the local income tax. Percentages of income tax due to the CNMI from CNMI source income are rebated at 90%, 70% or 50%, based on specified tax brackets for corporate and individual income taxes paid. The rebate liability is therefore estimated at the end of each fiscal year.

In addition, in accordance with Public Law 9-22, §1713, Interest on Overpayments, interest allowed by NMTIT §6611 on an overpayment shall be calculated only on the amount not already rebated.

Condition: At September 30, 2014, tax rebates payable aggregated \$43,048,353. The balance consists of the following:

Estimated 2014 liability based on fiscal year 2014 collections	\$ 4,413,089
American Opportunity Tax Credit (AOTC)	24,505
Additional Child Tax Credit (ACTC)	6,389,763
2013 and prior rebates unpaid as of September 30, 2014	<u>32,220,996</u>
	<u>\$ 43,048,353</u>

Tests of rebate payable accounts noted the following:

1. For unpaid tax year 2013 and prior rebates, we noted the following:
  - a. Of twenty-nine unmatched filings relating to individual and corporate tax rebate payables of \$4,274,187, the following were noted:
    - i. Eight totaling \$789,767 did not agree to tax returns by \$78,426. The variances were substantially due to miscalculation of rebate taxes and pending amended returns.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C105	2002	\$ 148,883	\$ 77,595	\$ 71,288
C192	2003	10,312	15,768	(5,456)
C711	2010	43,581	12,936	30,645
C738	2011	521,512	539,960	(18,448)
C813	2013	7,909	(2,421)	10,330
I-25775	2006	9,400	9,650	(250)
I-33795	2009	896	496	400
I-37458	2011	<u>47,274</u>	<u>57,357</u>	<u>(10,083)</u>
		<u>\$ 789,767</u>	<u>\$ 711,341</u>	<u>\$ 78,426</u>

- ii. The tax return was not provided for C279 for tax year 2004 with a rebate payable of \$88,044.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-008, Continued

Condition, Continued:

- b. Of twenty-one assessed and matched filings tested relating to individual and corporate tax rebate payables of \$2,677,865, the following were noted:
- i. Six totaling \$658,998 did not agree to tax returns by \$43,438 pending review and evaluation by the Division of Revenue and Taxation.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C14-137	2002	\$ 111,688	\$ 119,956	\$ (8,268)
C728	2010	512,296	547,769	(35,473)
I-2426	2001	8,325	10,313	(1,988)
I-6213	2003	1,469	(3,361)	4,830
I-32920	2008	23,723	23,484	239
I-38565	2011	<u>1,497</u>	<u>4,275</u>	<u>(2,778)</u>
		<u>\$ 658,998</u>	<u>\$ 702,436</u>	<u>\$ (43,438)</u>

- ii. Tax returns were not provided for the following items:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C070	2001	\$ 46,096
C155	2002	\$ 29,175
C633	2008	\$ 7,659

2. Further, no interest is calculated or paid on overpayments. Additionally, no details or totals of rebate payables relating to tax years 2010 and prior are available from the Division of Revenue and Taxation.

Cause: The cause of the above condition is the lack of periodic review of rebate payable reports to determine accuracy and completeness and the lack of established policies and procedures to assess the reasonableness of estimated rebates payable. Further, there is a lack of compliance with Public Law 9-22 relating to interest calculations on tax overpayments.

Effect: The effect of the above condition is the possible misstatement of tax rebates payable; however, since the CNMI calculates an estimated tax liability based on current information, the amount recorded as tax rebate payable is a best estimate. In addition, the CNMI has taken the approach of recording unmatched return variances as liabilities until the items listed above are resolved. The effect is also mitigated by a corresponding permanent tax reserve to offset disputes or claims.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

### Finding No. 2014-008, Continued

**Recommendation:** We recommend that policies and procedures be established requiring periodic review of tax rebate payable reports to assess the accuracy and completeness. We also recommend that policies and procedures be established to assess the reasonableness of estimated rebates payable. Additionally, we recommend that the Division of Revenue and Taxation properly file and maintain tax forms. We also recommend that recorded rebates payable be reconciled with the liability indicated on the tax forms and significant variances, if any, be investigated, monitored, documented and timely addressed.

**Prior Year Status:** A lack of detailed reports supporting analyses performed and a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments was reported as a finding in the CNMI Single Audits for fiscal years 2004 through 2013.

### Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Maria T. White and Canice M. Diaz, Division of Revenue and Taxation

**Corrective Action:** In fiscal year 2009, the Division of Revenue and Taxation (DRT) implemented a rebate payable review procedure. Currently, technical personnel conduct reviews at least twice a year. The review of the summary and detailed reports includes tracing of amounts and verification of totals. In addition, samples are judgmentally selected for tracing to the tax return.

The CNMI Tax System has a payable processing routine to determine the reasonableness of payables based on pre-established threshold amounts and for returns with an initial status showing a tax due or payment made on a return. A second level of review shows the rebate payable amount as indicated on the return versus the amount of rebate in the rebate payable report. Any discrepancy outside a pre-established threshold amount would be flagged for review and resolution before a payment is made.

DRT has implemented the Electronic Document Management System (EDMS) that will eventually scan and image every return (including OCR/ICR) filed with DRT. The EDMS will permanently image and store the images in a database for future retrieval and reproduction. The images can be retrieved based on certain search and retrieval criterias (taxpayer name, tax period, tax form, etc.) The hard copies will be permanently filed/stored until ordered disposed by the Secretary of Finance. The EDMS will become the standard method to access and review information on returns unless special circumstances require retrieval of the hard copy. Due to budgetary constraints, DRT experienced a set-back in the scanning and imaging process. This project is ongoing.

As part of DRT's payable processing routines, the CNMI Tax System software is designed to compare the summary of tax liabilities against the summary of all payment credits and the recorded rebate payable to determine any significant discrepancy based on established threshold amounts. The payable subsystem will automatically flag any payable that falls outside the threshold amount and classify the payable as "Requires Review". A report can be generated and the examination branch is tasked to conduct the review.

**Proposed Completion Date:** Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Other Liabilities and Accruals

Finding No. 2014-009

Criteria: An effective system of internal control includes policies and procedures to record liabilities in the appropriate fiscal year.

Condition: Tests of subsequent disbursements noted \$1,278,118 of unrecorded General Fund liabilities at September 30, 2014. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of appropriate cut-off procedures and controls.

Effect: The effect of the above condition is a misstatement of liabilities and expenditures.

Recommendation: We recommend that DOF implement appropriate policies and procedures to record liabilities in the correct fiscal year.

Prior Year Status: Lack of appropriate cut-off procedures and controls was reported as a finding in the CNMI Single Audits for fiscal years 2008 through 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance and Bernadita Palacios, Director, Division of Finance & Accounting

**Corrective Action:** We agree with the finding and will review cut-off procedures and controls.

**Proposed Completion Date:** Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Compensated Absences

Finding No. 2014-010

Criteria: Accrued annual leave is limited to 45 days or 360 hours, as amounts in excess of 45 days transfer to sick leave at the end of the leave year. Further, an effective system of internal control requires that accrued annual leave for employees who are separated from the entity are identified and reviewed for validity. The payroll records should be timely updated for annual leave balances that do not represent valid obligations.

Condition: At September 30, 2014, compensated absences payable per the subsidiary ledger aggregated \$8,388,711. Of this amount, \$1,230,300 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$1,026,259 represents accrued leave in excess of the 45 days/360 hours limit. The balance at September 30, 2014 is net of individual debit balances of \$132,343.

The above condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of adequate procedures and controls to determine that accrued annual leave is reviewed for validity and the lack of timely update of payroll records.

Effect: The effect of the above condition is the misstatement of compensated absences payable and related expenditures.

Recommendation: We recommend DOF record valid charges in compensated absences payable.

Prior Year Status: The lack of adequate procedures and controls to determine that accrued annual leave balances are reviewed for validity and the lack of timely updating of payroll records was reported as a finding in the CNMI Single Audits for fiscal years 2008 through 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Eloida Macaranas, Payroll Supervisor and Bernadita Palacios, Director, Division of Finance & Accounting

**Corrective Action:** Review of leave balances is underway to determine validity of balances in the system. CNMI regulations require DOF to maintain leave balances for a specific period of time in the event that former employees return to government service. Adjustments are also necessary for those with excess of maximum balances which will be transferred to sick leave on an annual basis. We agree with the audit adjustments above.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Fund Balance - Encumbrances

Finding No. 2014-011

Criteria: A system of internal control provides for adequate monitoring and tracking of commitments related to open purchase orders and unfulfilled contracts. Amounts reserved for encumbrances should be reviewed and adjusted for balances that are no longer valid.

Condition: Tests of encumbrance reserves noted the following:

1. For DOI Capital Projects Fund encumbrances:
  - a. At September 30, 2014, the subsidiary ledger for DOI Capital Project Fund encumbrances of \$20,782,386 is net of \$2,522,312 of debit balances. Debit balances result when the original encumbrance is not directly debited or when debits are recorded related to expenditures for which encumbrances were never established. Debit balances also result from encumbrance cancellations and/or contract change orders. The subsidiary ledger balance was corrected for debit balances resulting in a general ledger control account which was \$8,777,342 lower than the corrected subsidiary ledger balance. This condition was corrected through a proposed audit reclassification.
  - b. An aging of the reserve for encumbrances, excluding debit balances, by fiscal year indicates encumbrances of \$2,321,967 have been outstanding for more than five years. We did not evidence DOF review of long outstanding encumbrances.
  - c. Of sixteen DOI Capital Projects Fund encumbrances tested, aggregating \$13,418,611, the following exceptions were noted:
    - i. The following DOI Capital Projects Fund encumbrances recorded in general ledger account no. 64100 did not indicate activity for more than three years:

<u>Fund</u>	<u>Business Unit No.</u>	<u>Document Number</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
4049	5834	400 OS	\$ 93,209	02/13/08
4058	5615	452 OS	\$ 89,981	10/22/08
4058	5634	487 OS	\$ 96,240	03/02/09
4058	5654	534 OS	\$ 661,279	07/28/10
4058	5654	536 OS	\$ 249,800	08/04/10
4058	5648	543 OS	\$1,385,277	09/16/10

- ii. The following fiscal year 2014 expenditures were not accrued at year-end but had been deducted from the related encumbrance:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
4052/5225/64100.64280	624 OS	1204403	\$ 69,722
4058/5646/64100.64320	595 OS	1200936	\$ 95,085
4058/5646/64100.64320	595 OS	1204395	\$ 104,601
4058/5679/64100.64320	609 OS	1203301	\$ 429,333
4058/5659A/64100.64320	632 OS	1201195	\$ 169,997

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-011, Continued

Condition, Continued:

2. Tests of Federal Grants Fund encumbrances noted the following:
  - a. At September 30, 2014, the subsidiary ledger balance of the Federal Grants Fund encumbrances of \$7,138,478 differs from the general ledger balance of \$15,589,870. The general ledger was corrected for these differences through a proposed audit adjustment.
  - b. An aging of the encumbrance reserve by fiscal year indicates \$150,362 have been outstanding for more than five years. We did not see evidence of DOF review of long outstanding encumbrances.
  - c. One (document no. 581337) of six Federal Grants Fund encumbrances tested, aggregating \$1,255,877, has related fiscal year 2014 expenditures of \$654,987 that were not deducted.
3. At September 30, 2014, the subsidiary ledger balance of General Fund encumbrances of \$3,748,289 differs from the general ledger balance of \$4,624,095. This difference was corrected through a proposed audit reclassification.
4. Of twenty Special Revenue Fund encumbrances tested, aggregating \$4,117,035, the following were noted:
  - a. At September 30, 2014, the subsidiary ledger balance of the Special Revenue Fund encumbrances of \$5,039,346 differs from the general ledger balance of \$1,327,085. The difference was corrected through a proposed audit reclassification.
  - b. An aging of the encumbrance reserve by fiscal year indicates \$167,237 have been outstanding for more than five years. We did not see evidence of DOF review of long outstanding encumbrances.
  - c. The following fiscal year 2014 expenditures were not accrued at year-end but had been deducted from the related encumbrance:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
2043/3399H/62470	582537 OP	1201135	\$ 2,500
2080/2082/62060	535967 OC	1200962	\$ 7,658
2080/2082/62060	535967 OC	1200964	\$ 7,658
2080/2082/62060	564732 OC	1200609	\$ 20,411
2080/2082/62060	564732 OC	1200959	\$ 20,411
2080/2082/62060	564732 OC	1204463	\$ 20,411
2080/2082/62060	569246 OC	1200611	\$ 31,356
2080/2082/62470	582875 OC	1204573	\$ 33,700
2030/3022/63020	552899 OC	661331	\$ 32,320

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-011, Continued

Condition, Continued:

- d. The following Special Revenue Fund encumbrances did not indicate activity for more than three years:

<u>Fund</u>	<u>Business Unit No.</u>	<u>General Ledger Account No.</u>	<u>Document Number</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
2030	3042F	62060	522686 OC	\$ 3,000	02/24/11
2030	3027	63050	527821 OA	\$ 100,957	12/22/10

This condition was corrected through a proposed audit reclassification.

5. Tests of nonmajor Capital Projects Fund encumbrances noted the following:

- a. At September 30, 2014, the subsidiary ledger balance of encumbrances of \$7,220,969 differs from the GL balance of \$13,397,878. The difference was corrected through a proposed audit reclassification.
- b. An encumbrance aging by fiscal year indicates \$1,305,525 have been outstanding for five years or more.
- c. Of eighteen encumbrances tested, aggregating \$6,216,555, the following were noted:
- i. The following encumbrances did not indicate activity for more than three years:

<u>Fund</u>	<u>Business Unit No.</u>	<u>General Ledger Account No.</u>	<u>Document Number</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
4043	T85164	64100	333747 OC	\$ 879,707	02/20/02
4043	T2205K	62060	384927 OC	\$ 49,483	03/10/03
4046	5643	64100	70356 OS	\$ 24,389	07/06/98

This condition was corrected through a proposed audit reclassification.

- ii. The following fiscal year 2014 expenditures were not accrued at year-end but had been deducted from the applicable encumbrances:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
4043/T9205J/62060	532048 OC	1207837	\$ 22,852
4043/T0205M/64670	559991 OC	1211634	\$ 246,033
4043/T9205J/64670	561168 OC	1204626	\$ 356,081
4043/T4205K/64100	571916 OC	1207838	\$ 41,035
4043/T4205L/62060	572808 OC	1204628	\$ 14,960
4043/T4205H/64100	575536 OC	1202462	\$ 40,050
4043/T02050/64670	575542 OC	12058280	\$ 27,597

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-011, Continued

Cause: The cause of the above condition is the lack of established policies and procedures to monitor recorded encumbrance reserves and inadequate file maintenance.

Effect: The effect of the above condition is the potential misstatement of disclosure requirements relative to the reserve for encumbrances and may result in incorrect budgetary financial statements.

Recommendation: We recommend that DOF support all encumbrances with encumbering documents and update encumbrances for actual expenditures. Long outstanding encumbrances and debit balances should be examined for validity. DOF should take reasonable steps to timely adjust the subsidiary ledger to include valid encumbrances at year end.

Prior Year Status: The lack of policies and procedures to monitor recorded reserves for encumbrances and inadequate file maintenance was reported as a finding in the CNMI Single Audits for fiscal years 2009 through 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Larrisa Larson, Secretary of Finance

**Corrective Action:** We agree that encumbrances need to be reviewed and adjusted and we are in the process of reviewing and correcting these balances, including reconciling advance payments and travel encumbrances with the outstanding advance accounts.

**Proposed Completion Date:** Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Commonwealth Healthcare Corporation

Finding No. 2014-012

Criteria: Transfers of assets and liabilities that attach to discretely presented component units should be documented.

Condition: CNMI Public Law 16-51 created the Commonwealth Healthcare Corporation (CHCC), which is responsible for providing healthcare services in the CNMI, as of October 1, 2011. Healthcare services had previously been accounted for within the General Fund. As of September 30, 2014, transfers of receivables, inventory and obligations had not been documented.

Cause: The cause of the above condition is the lack of coordination of the transfer of assets and liabilities.

Effect: The effect of the above condition is the potential lack of transfer of valid assets and liabilities.

Recommendation: We recommend that the transfer of receivables, inventory and obligations as of October 1, 2011 be documented in writing between the CNMI and CHCC.

Prior Year Status: The lack of coordination of the transfer of assets and liabilities by CNMI and CHCC officials was reported as a finding in the CNMI Single Audits for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Larrisa Larson, Secretary of Finance

**Corrective Action:** Pursuant to Public Law 16-51 that created CHCC, the CNMI and CHCC have been working to transition CHCC from the Executive Branch to an independent corporation. Fixed asset transfers have been documented and receivables, inventory and obligations will be documented in the coming year.

**Proposed Completion Date:** 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

CNMI Workers' Compensation Commission

Finding No. 2014-013

Criteria: Transfers of assets and liabilities from component units should be documented. In addition, an effective system of internal control over financial reporting includes maintenance of a separate general ledger system that records transactions and generates timely, reliable, and relevant financial information.

Condition: On November 9, 2012, Public Law 17-88, transferred administrative functions of the CNMI Workers' Compensation Commission (WCC) from the Northern Mariana Islands Retirement Fund to the CNMI Department of Commerce. CNMI management determined that WCC be included within its Special Revenue Funds. As of September 30, 2014, transfer of WCC's cash and cash equivalents, certificates of deposit, investments and receivable accounts were not documented or recorded within CNMI's financial statements.

In addition, tests of WCC accounts noted the following:

1. The CNMI does not maintain a separate general ledger for WCC funds. Accordingly, WCC's fiscal year 2014 transactions were not recorded, reconciled and monitored.
2. September 30, 2014 bank reconciliations were not prepared for two WCC cash accounts aggregating \$308,144.
3. WCC maintains an investment with a market value of \$1,090,777 as of September 30, 2014; however, an investment policy was not provided.

Audit adjustments were proposed to record the transfer of WCC's assets and to record WCC's transactions during fiscal year 2014.

Cause: The cause of the above condition is the lack of coordination of the transfer of WCC accounts between NMIRF and the CNMI and the lack of established procedures over financial reporting.

Effect: The effect of the above condition is the possible misstatement of WCC's funds.

Recommendation: We recommend that transfer of WCC's assets be documented in writing and the CNMI establish or assign separate general ledger accounts for WCC funds. Further, bank reconciliations should be prepared for all cash accounts. Lastly, we recommend that an investment policy be established.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Larrisa Larson, Secretary of Finance

**Corrective Action:** We agree with the recommendations and have established the accounting structure for WCC. Bank reconciliations will be incorporated into the regular reconciliation process. We will review current CNMI investment policies as they apply to WCC.

**Proposed Completion Date:** 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

CNMI Local Noncompliance

Finding No. 2014-014

Criteria: Chapter 2, Section 8411 of Public Law No. 8-11, Government Ethics Code Act of 1992, requires the following reporting individual(s) to file by May 1 of each year, a verified written statement of financial interests, unless the reporting individual(s) have already filed a statement in that calendar year:

1. Elected Commonwealth Official;
2. Appointed Commonwealth Official and Judicial Officer;
3. Commonwealth Public Employee who receives additional compensation either for professional services rendered to, or as an independent contractor for the Commonwealth Government;
4. An Elected Commonwealth Official at the time of taking his/her oath of office;
5. A person whose appointment to office is subject to confirmation by the legislature at the time when his or her name is submitted to the legislature for consideration; and
6. Any other person at the time he or she becomes a reporting individual

Further, Section 8414 of the Public Law requires the Director of Finance to certify to the Public Auditor a list (current as of the prior January 1) of the names and mailing addresses of the persons described in Section 8411 who are required to file a statement of financial interests, no later than February 1 of each year.

Condition: The certified listing of the names and mailing addresses of the individuals who are required to file a statement of financial interests covering calendar year 2014, has not been submitted to the CNMI Public Auditor. Accordingly, we were unable to determine whether the following government employees filed or are required to file a written statement of financial interests pursuant to Public Law No. 8-11.

<u>Business Unit</u>	<u>Employee No.</u>
1033	101757
1050	102422
1100	402505
1490	102218
1690	339031
1762	101666
6030G	316187
3386	400756

Cause: The cause of the above condition is the lack of established policies and procedures to comply with Public Law No. 8-11.

Effect: The effect of the above condition is noncompliance with Public Law No. 8-11.

Recommendation: We recommend that the certified listing of the names and mailing addresses of the individuals who are required to file a statement of financial interests be submitted to the CNMI Public Auditor in accordance with Public Law No. 8-11.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-014, Continued

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Larrisa Larson, Secretary of Finance

**Corrective Action:** DOF will establish policies and procedures to improve tracking of individuals and compliance with this deadline.

**Proposed Completion Date:** FY 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

CNMI Local Noncompliance

Finding No. 2014-015

**Criteria:** Budgets are a vital tool for establishing public policy and maintaining control over the management of public resources.

**Condition:** On September 18, 2013, the CNMI passed Public Law 18-18 as the Appropriations and Budget Authority Act of 2014. On July 1, 2014, the CNMI passed Public Law 18-53 as the Supplemental Appropriations Act of 2014 (the Supplemental Act). The Supplemental Act identified resources of \$12,386,000 for operations and activities and to meet fiscal year 2014 CNMI obligations to the Northern Mariana Islands Settlement Fund. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2014.

	Budgeted Level of Expenditures	Actual Expenditures	Over Expenditure
Executive branch	\$ 40,732,366	\$ 47,701,502	\$ 6,969,136
Government utilities	\$ -	\$ 3,310,875	\$ 3,310,875
Office of the Public Auditor	\$ 1,464,398	\$ 1,667,327	\$ 202,929
Boards and commissions	\$ 604,976	\$ 614,668	\$ 9,692
Tourism (payment to Marianas Visitors Authority)	\$ 8,490,149	\$ 8,894,439	\$ 404,290
Judgments	\$ 7,921	\$ 421,875	\$ 413,954
Debt service	\$ 8,554,000	\$ 12,946,899	\$ 4,392,899
Disaster expenditures	\$ -	\$ 25,633	\$ 25,633
Miscellaneous/continuing appropriations	\$ -	\$ 1,488,210	\$ 1,488,210

**Cause:** The cause of the above condition is the authorization of expenditures in excess of budget allotments.

**Effect:** The effect of the above condition is expenditures in excess of budget allotments.

**Recommendation:** We recommend that DOF examine issues attendant to the over expenditures and assess the propriety of budgeted levels.

**Prior Year Status:** Expenditures in excess of budget allotments was reported as a finding in the CNMI Single Audits for fiscal years 2000 through 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance and Virginia C. Villagomez, Special Assistant for Management & Budget

**Corrective Action:** The CNMI agrees with the finding. Adjusting entries are needed for many of these balances. Balances need to be adjusted to record the correct year of payment and remove legislative mandates such as hotel occupancy and beverage container taxes that are mandated by law, but are not part of the budget appropriation.

**Proposed Completion Date:** Ongoing.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

### Schedule of Expenditures of Federal Awards

#### Finding No. 2014-016

**Criteria:** In accordance with applicable federal regulations, the auditee shall prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

**Condition:** The September 30, 2014 SEFA includes an unallocated amount of \$261,645 for the Federal Grants Fund. The amount relates to unidentified grant revenue. CFDA or other identifying numbers could not be provided for the difference.

**Cause:** The cause of the above condition is the lack of awareness and incorporation of applicable regulations.

**Effect:** The effect of the above condition is noncompliance with federal SEFA requirements. No questioned costs are presented as the amounts are negative.

**Recommendation:** We recommend that the SEFA be prepared in accordance with federal requirements.

**Prior Year Status:** The lack of awareness and incorporation of applicable regulations on the SEFA was reported as a finding in the CNMI Single Audits for fiscal years 2011 through 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-016, Continued

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Larrisa Larson, Secretary of Finance

**Corrective Action:** We will review SEFA preparation procedures in order to meet federal requirements. The lack of adequate accounting personnel within DOF contributed to this finding. Staff training is ongoing to fill in gaps caused by the loss of key personnel.

**Proposed Completion Date:** 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-017  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Grant Number: 7NM4004NM  
Area: Cash Management  
Interest Liability: \$224  
Questioned Costs: \$-0-

Criteria: Terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed. Additionally, the CMIAA states that the CNMI shall be liable for interest on refunds from the date the refund is credited to the CNMI's account until the date the refund is debited from the CNMI's account for program purposes. The allowable clearance pattern is four days.

Further, a written policy should exist that includes, 1) those programs covered by the agreement, 2) the method of funding to be used, 3) the method used to calculate interest, and 4) procedures for determining check clearing patterns. In addition, compliance with Treasury-State agreements should be reviewed.

Condition: Of twenty-seven transactions tested, thirteen (or 48%) were paid after the allowable clearance pattern:

<u>Document Number</u>	<u>Amount</u>	<u>Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
1155512	\$ 607,683	11/26/13	10/21/13	32
1157328	\$ 556,651	12/23/13	11/04/13	45
1157322	\$ 115,878	11/26/13	10/21/13	32
1160901	\$ 185,938	12/23/13	11/04/13	45
1160904	\$ 695,723	05/07/14	01/03/14	120
1184656	\$ 531,482	06/16/14	05/05/14	38
1192574	\$ 196,805	06/16/14	05/05/14	38
1192577	\$ 691,576	07/14/14	06/04/14	36
1194944	\$ 42,165	07/14/14	06/04/14	36
1194947	\$ 556,044	08/14/14	07/02/14	39
1198741	\$ 71,336	08/14/14	07/31/14	10
1202803	\$ 654,987	10/29/14	09/03/14	52
1156713	\$ 11,667	01/14/14	12/31/13	10

Cause: The cause of the above condition is the lack of procedures governing timely disbursement of cash in accordance with CMIAA requirements.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. Interest earned on the advances is \$324 and an interest liability of \$224 exists; however, no questioned costs result as the projected interest liability is less than \$10,000.

Recommendation: We recommend compliance with clearance patterns specified in the CMIAA.

Prior Year Status: The lack of procedures for timely disbursement of cash advanced from the grantor agency in accordance with the requirements of the CMIAA was reported as a finding in the CNMI Single Audits for fiscal years 2012 and 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-017, Continued  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Grant Number: 7NM4004NM  
Area: Cash Management  
Interest Liability: \$224  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance and Asuncion Agulto, Treasurer

**Corrective Action:** The USDA NAP approved the draw-down of estimated food stamp issuance so that funds would be available when benefits were issued to recipients. We will review the Treasury State agreement to determine if it needs to be amended.

**Proposed Completion Date:** 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-018  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Grant Number: 7NM4004NM  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: The Nutrition Assistance Program's (NAP) Manual of Operations on Monitoring of Retailer Compliance, item J, states that on a quarterly basis, Retail and Redemption Unit personnel shall conduct a compliance visit on each of the top twenty stores appearing on the High Redeemer List within thirty days following the end of each quarter.

Condition: No visits were conducted on the High Redeemer List for the quarter ended September 30, 2014.

Cause: The cause of the above condition is the lack of required documents from retailers to conduct the quarterly compliance visits.

Effect: The effect of the above condition is noncompliance with the Manual of Operations requirements. No questioned costs result as we are unable to quantify the extent of noncompliance.

Recommendation: We recommend that procedures be strengthened and compliance visits be performed.

Prior Year Status: The lack of required documents from retailers to conduct quarterly compliance visits was reported as a finding in the CNMI Single Audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Elizabeth Palacios-Olouachel, Retail & Redemption Officer

**Corrective Action:** The Retail & Redemption Unit (RRU) agrees with the finding that the compliance visits for the fourth quarter High Redeemer List were not performed during the fiscal year.

Each quarter consists of three months. The retailer has 30 days after the quarter ends to file its business gross revenue tax return to the Division of Revenue and Taxation. The retailer has the first week of the following month to report their gross income to NAP. After retailers submit their quarterly income to the RRU, the RRU then prepares the Retailer's High Redeemer List and identifies the top twenty redeemers, prepares the Retailer's Redemption Record for file and for the retailer's copy before proceeding with the compliance visits.

Due to delays with retailers complying with the Division of Revenue and Taxation requirements, the RRU is unable to timely perform its duties and responsibilities as required.

**Proposed Completion Date:** Compliance visits for fourth quarter 2014 were performed and completed on December 5, 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-019  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Grant Number: 7NM4004NM  
Area: Special Tests and Provisions  
Questioned Costs: \$270,373

Criteria: According to the Memorandum of Understanding (MOU) between the Food and Nutrition Service (FNS) and the CNMI NAP Program, the CNMI shall develop a system for the recoupment of over issued benefits and to classify the type of errors for each over issuance or under issuance. The CNMI shall issue a notice to participants for claims for over issuance or under issuance. The CNMI shall collect and issue at least three reminder notices requiring repayment. Failure to respond, pay the claim or request a fair hearing shall prompt the CNMI NAP Program to file a claim against the participant in the CNMI Superior Court, Small Claims Court. The CNMI shall develop a record system that maintains accurate data of notices and payment receipts.

Condition: Tests of the Automated Data Processing (ADP) System requirement to automatically cut off households from the Supplemental Nutrition Assistance Program (SNAP) at the end of their certification period unless the household is recertified determined participants whose authorization to participate (ATP) terminated due to income exceeding the maximum gross monthly income and over issued benefits totaling \$270,373 could not be performed because either no notices were issued or notices were not consistently prepared. Thus, claims cannot be filed against participants.

Cause: The cause of the above condition is lack of procedures to monitor and file notices to participants for over issuances, promptly and timely.

Effect: The effect of the above condition is noncompliance with the MOU and questioned costs of \$270,373.

Recommendation: We recommend that policies and procedures be established that include methods that promptly and timely file participant notices..

Prior Year Status: The lack of procedures to monitor and promptly and timely file notices to participants for over issuances was reported as a finding in the CNMI Single Audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Merced Muna, Benefit Issuance & Claims Accountability (BICA) Unit Supervisor

**Corrective Action:** Due to a lack of personnel, there are only two staff in the Claims, Issuance and Collection Section who devote their time to the monthly distribution of benefits during the first week of each month and the reporting of Authorization to Participate coupons by manually calculating and verifying each booklet to be distributed and issued.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-019, Continued  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Grant Number: 7NM4004NM  
Area: Special Tests and Provisions  
Questioned Costs: \$270,373

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Requests for overtime to work on claims were not successful. Upon hiring of new personnel, we will work to bring claims up to date. I recommend that the Claims Section be separate from the Benefit Issuance and Coupons Section so that personnel can dedicate 100% of their time to the claim process.

**Proposed Completion Date:** September 30, 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-020  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$12,681

Criteria: In accordance with applicable allowable costs/cost principles requirements, employee certifications are required at least semi-annually from employees working for one federal program. Further, in accordance with OMB Circular A-87, to be allowable under federal awards costs should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

In accordance with the grants terms and condition, for awards in which the Federal share of the project exceeds \$100,000, transfer of funds among direct cost categories must be approved in writing by the Grants Officer when the cumulative amount of such transfers exceed 10 percent of the total Federal and non-Federal funds authorized by the Grants Officer. This transfer authority does not authorize the recipient to create new budget categories within an approved budget unless the Grants Officer has provided prior approval.

Condition: Tests of expenditures noted the following:

1. Of fifty-six payroll expenditures aggregating \$75,507, of a population of \$591,106, the following were noted:

a. For ten (or 18%), we were not provided an approved leave form for the following employee annual and/or sick leave.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Leave Type</u>	<u>Leave Dates</u>	<u>Questioned Costs</u>
103209	10/05/13	Annual	10/03/13	\$ 17
676763	10/19/13	Annual	10/17/13 and 10/18/13	7
402142	10/19/13	Annual	10/07/13	5
402142	11/02/13	Annual	10/25/13 and 10/28/13	19
101268	11/16/13	Annual	11/08/13	36
814740	12/14/13	Annual	12/02/13	8
559395	12/28/13	Annual	12/27/13	23
373557	12/28/13	Annual	12/26/13	46
402142	10/19/13	Sick	10/18/13	67
103207	02/08/14	Sick	01/31/14	<u>34</u>
				\$ <u>262</u>

b. One (or 2%) compensatory time-off taken was not supported by a time-off form which indicates time earned and approval from an immediate supervisor.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Leave Date</u>	<u>Questioned Costs</u>
676763	10/05/13	09/28/13	\$ 43

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-020, Continued  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$12,681

Condition, Continued:

- c. For two (or 4%), employee timecards do not justify that the employee worked for the Program (related timecards were blank or the employee did not time in or out). We were not provided documents evidencing that employees worked for the Program.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Questioned Costs</u>
814740	06/14/14	\$ 1,212
167651	06/28/14	<u>154</u>
		\$ <u>1,366</u>

2. Of twenty-five nonpayroll expenditures tested aggregating \$59,462, of a population of \$232,052, the following were noted:

- a. For one (or 4%) funded by grant no. NA11NOS4190153, the approved grant application and budget for task 306-3 (Permitting and Federal Consistency) does not include utility charges; however, the program charged \$7,000 to business unit C1419E (PV # 1195328; dated 08/25/14) related to the task. Also, we were not provided grantor approval to reprogram funds and create new budget categories within the previously approved budget of task 306-3.
- b. For one (or 4%) funded by grant no. NA12NOS4190178, the approved grant application and budget does not include costs for chairs; however, program income was used to purchase chairs totaling \$4,010 (PV # 236422; dated 09/29/14).
- c. Two (or 8%) expenditures related to \$10,444 of moving expenses (PV #s 1184164 and 1191030) were approved by the grantor to be charged to business unit C2419G (NA12NOS4190178) and were charged to business units C1419I (NA11NOS4190153) and C8419P (prior year program income account). Such expenditures were not transferred to appropriate accounts and we were not provided approved journal vouchers. No questioned costs result as the expenditures were approved by the grantor in the Program's reprogramming request.

Cause: The cause of the above condition is the lack of control over review and approval of employee timecards, timesheets, leave forms and compensatory time-off forms, the lack of systematic filing of documents and the lack of adherence to applicable award terms and conditions.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-020, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$12,681

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$12,681 exist for Conditions 1(a), 1(b), 1(c), 2(a) and 2(b).

Recommendation: We recommend that procedures be implemented to comply with the above criteria.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, Division of Coastal Resources Management (DCRM), Frank M. Rabauliman, Administrator, Bureau of Environmental and Coastal Quality (BECQ) and Eloida Macaranas, Payroll Supervisor

**Corrective Action:**

Condition 1: In response to these findings, BECQ-DCRM is taking appropriate actions to implement procedures to comply with payroll and nonpayroll expenditure management and reporting to correct the causes of these findings moving forward. BECQ-DCRM will implement and comply with CNMI regulations to include: ensuring that all timecards are signed, flex-time requests are filed and approved, timecard adjustments are documented, and any other required information is included to ensure completion of and necessary support of time records. Timekeeping will be managed to meet federal and CNMI requirements. BECQ-DCRM corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

Condition 2a: The grantor approved expenditure of funds to cover utility charges in the initial grant allocation request. Funds were reprogrammed for PV # 1195328 using the 10% rule to cover additional utility charges, and program income was applied to pay the outstanding balance. Use of program income does not result in a cost impact to the Program for audit assessment purposes.

Condition 2b: BECQ-DCRM was informed by the NOAA liaison that program income secured by CRM "is not NOAA grant money" and "is free for the CRM Program to utilize as it sees fit. NOAA has no interest or stake in the independent CRM program income" and that program income "is NOT considered federal funds". Accordingly, DCRM treated program income as such. If this guidance is incorrect, BECQ-DCRM will adjust existing policies and implement new policies to address any relevant Federal requirements moving forward. Use of program income does not constitute a cost impact to the Program for audit assessment purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-020, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$12,681

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 2c: As noted, these expenditures were approved by the grantor, and vouchers are included. Program income from C8419P was used for a portion of this expenditure. BECQ-DCRM was informed by the NOAA liaison that program income secured by DCRM "is not NOAA grant money" and "is free for the CRM Program to utilize as it sees fit. NOAA has no interest or stake in the independent CRM program income" and that program income "is NOT considered federal funds". Accordingly, DCRM treated program income as such. If this guidance is incorrect, BECQ-DCRM will adjust existing policies and implement new policies to address any relevant Federal requirements moving forward. Use of program income does not result in a cost impact to the Program for audit assessment purposes.

**Proposed Completion Date:** September 1, 2015

Auditor Response:

Condition 2a: The approved grant application and budget does not include an allocation for utilities for Task 306-3. Further, per the grant terms and conditions, the 10% threshold does not authorize the recipient to create new budget categories within an approved budget unless the Grants Officer has provided prior approval. We were not provided with grantor approval; thus, this condition is reportable.

Condition 2b: We understand that NOAA provided the quoted guidance in an email dated August 19, 2010. However, in a recent email dated June 8, 2015, NOAA clarified that 15 CFR Part 24 expressly states that program income must be used for grant purposes.

Condition 2c: A memo dated 04/07/15 that was submitted to the Acting Director of Finance was only a journal voucher request to transfer the expenditures but this was neither approved nor entered in the JD Edwards system.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-021  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
 Area: Equipment and Real Property Management  
 Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a control system must be developed to adequately safeguard property to prevent loss, damage, or theft. Any loss, damage, or theft shall be investigated.

Condition: Tests of twenty-nine capital assets noted the following:

1. Eleven (or 38%) could not be located:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Cost</u>
09/12/97	US-31028CM	\$ 250
07/25/00	US-34078CM	15,000
07/26/02	MP-03649CM	180
07/29/03	MP-05979CM	478
07/14/04	MP-08624CM	2,847
08/22/05	MP-10912CM	210
11/03/05	ITEM-35733	442
09/20/07	MP-15722CM	360
10/29/10	MP-22895CM	1,598
04/01/11	MP-23139CM	2,348
09/26/12	MP-25272CM	535
		<u>\$ 24,248</u>

2. One \$21,200 item (or 3%) (FA-00144US) was included in the property listing and was indicated to be in working condition but is unserviceable and cannot be used for Program activities.
3. We were not provided a list of items disposed and surveyed in fiscal year 2014.

We are unable to assess the overall cumulative monetary value of the deficiencies above; however, total capital outlays for fiscal years 2014, 2013, 2012, 2011 and prior were \$13,766, \$6,338, \$48,531, \$18,174 and \$369,189, respectively.

Cause: The cause of the above condition is the lack of adherence with established policies and procedures regarding applicable equipment and real property management requirements.

Effect: The effect of the above condition is noncompliance with applicable equipment and real property management requirements. No questioned costs result since the overall monetary value could not be determined.

Recommendation: We recommend that the CNMI comply with applicable equipment and real property management policies and procedures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-021, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Herman Sablan, Director, P&S

**Corrective Action:** In response to these findings, BECQ-DCRM is taking appropriate actions to implement procedures to comply with applicable CNMI equipment and real property management policies and procedures. To begin this process, BECQ-DCRM has submitted a letter to the Office of Procurement requesting a detailed listing of all property that is current listed and being controlled. Corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

**Proposed Completion Date:** Ongoing, by September 1, 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-022  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Grant Number: NA11NOS4190153  
 Area: Period of Availability of Federal Funds  
 Questioned Costs: \$-0-

**Criteria:** Expenditures should be incurred within grant performance period. The grantee should liquidate all obligations incurred under the award no later than 90 days after the end of the funding period.

**Condition:** Of seven subsequent grant expenditures tested aggregating \$43,918, of a total population of \$80,581, two (or 29%) were liquidated after 90 days of the grant expiration date.

<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Bank Clearance Date</u>	<u>Amount</u>
236913	12/12/14	28856	01/06/15	01/23/15	\$ 9,498
1206563	12/16/14	28800	12/31/14	01/13/15	<u>20,964</u>
					\$ <u>30,462</u>

**Cause:** The cause of the above condition is the lack of established policies and procedures governing recording expenditures incurred beyond the period of availability.

**Effect:** The effect of the above condition is the lack of compliance with period of availability requirements. No questioned costs result as the applicable Federal funds were not received as of 09/30/14.

**Recommendation:** We recommend compliance with period of availability requirements.

**Auditee Response and Corrective Action Plan:**

**Name of Contact Persons:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

**Corrective Action:** BECQ-DCRM makes every effort to process payments to vendors on a timely basis through CNMI P&S procedures. We will continue to work closely with DOF to ensure that checks are processed in a timely manner, but ultimately DOF is charged with the issuance of payments necessary to liquidate outstanding accounts. In response to this finding, BECQ-DCRM will continue to make efforts to expedite the processing of all subcontracts and expenditures in order to liquidate funds within the period of availability of Federal funds. BECQ-DCRM corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

**Proposed Completion Date:** Ongoing, SOP update anticipated by September 1, 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-023  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$2,550

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

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the Procurement and Supply (P&S) Director for approval.
- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.

Condition: For seven (or 28%) of twenty-five nonpayroll expenditures tested aggregating \$59,462, of a population of \$232,052, only one quotation was provided for the following:

	<u>Grant Number</u>	<u>Obligating Document No.</u>	<u>Amount</u>	<u>Questioned Costs</u>	<u>APV No.</u>	<u>Business Unit</u>	<u>General Ledger Date</u>
1.	NA13NOS4190148	306334 OT	\$ 2,550	\$ 2,550	1164458	C3419D	03/12/14
2.	NA13NOS4190148	308214 OT	2,126	-	1188718	C3419K	07/03/14
3.	NA12NOS4190178	562639 OP	941	-	1152262	C2419D	10/04/13
4.	NA11NOS4190153	574863 OP	209	-	1196023	C1419K	08/27/14
5.	NA13NOS4190148	571837 OP	844	-	1163116	C3419K	02/26/14
6.	NA12NOS4190178	567621 OP	1,624	-	1155086	C2419L	11/08/13
7.	NA11NOS4190153	573287 OP	<u>867</u>	<u>-</u>	1172035	C1419C	06/06/14
			<u>\$ 9,161</u>	<u>\$ 2,550</u>			

For items 2 through 7 above, no questioned costs are presented because CNMI is technically compliant with CNMI procurement procedures, which do not require competition for purchases of less than \$2,500. This procedure appears to circumvent the intent of applicable Federal procurement requirements, which is to provide full and open competition in the procurement of federally funded property and services. Transaction details for fiscal year 2014 do not demonstrate an equitable distribution among available vendors.

Cause: The cause of the above condition is failure to comply with applicable procurement regulations and the absence of competitive procurement for items less than \$2,500.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-023, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$2,550

Effect: The effect of the above condition is noncompliance with procurement regulations, and questioned costs of \$2,550 as the projected questioned cost exceeds \$10,000.

Recommendation: We recommend that the CNMI comply with procurement regulations.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Herman Sablan, Director, P&S

**Corrective Action:** BECQ-DCRM will continue its practice of obtaining three price quotations from various vendors and will base its selection on competitive price and quality for procurement of goods and services valued at \$2,500 to \$10,000. For small purchases not exceeding the amount established herein, BECQ-DCRM will require at least two price quotations from vendors in order to provide for full and open competition as appropriate and feasible. BECQ-DCRM corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

**Proposed Completion Date:** Ongoing, SOP update anticipated by September 1, 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-024  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Grant Number: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
 Area: Program Income  
 Questioned Costs: \$154,788

**Criteria:** In accordance with applicable Federal requirements, grantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments from the grantor.

**Condition:** Program income as of 09/30/14 was not expended for Program activities and projects prior to obligating grant funds:

<u>Business Unit</u>	<u>Beginning of Grant Period</u>	<u>Program Income for the Period Ended 09/30/14</u>	<u>Program Expenditures for the Period Ended 09/30/14</u>	<u>Unspent</u>
C8419P	10/01/07	\$ 317,115	\$ 300,917	\$ 16,198
C9419K	10/01/08	\$ 77,000	\$ 65,917	11,083
C0419K	10/01/09	\$ 46,400	\$ 38,389	8,011
C0419U	10/01/10	\$ 38,230	\$ 30,888	7,342
C1419K	10/01/11	\$ 73,575	\$ 53,145	20,430
C2419L	10/01/12	\$ 52,984	\$ 28,129	24,855
C3419L	10/01/13	\$ 74,219	\$ 7,350	<u>66,869</u>
				\$ <u>154,788</u>

**Cause:** The cause of the above condition is the lack of adherence with program income requirements.

**Effect:** The effect of the above condition is noncompliance with program income requirements and questioned costs of \$154,788.

**Recommendation:** We recommend that the Program take reasonable steps to implement controls to comply with applicable regulations.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

**Corrective Action:** BECQ-DCRM was informed by the NOAA liaison that “NOAA has no interest or stake in the independent CRM program income” and that program income “is NOT considered federal funds”. Accordingly, DCRM treated program income as such. If this guidance is incorrect BECQ-DCRM will adjust existing policies and implement new policies to address any relevant Federal requirements moving forward. As noted, no questioned costs result from this occurrence.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-024, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Number: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
Area: Program Income  
Questioned Costs: \$154,788

Auditee Response and Corrective Action Plan, Continued:

**Proposed Completion Date:** Ongoing.

Auditor Response: 15 CFR Part 24 expressly states that program income must be used for the purposes and under the conditions of the grant agreement.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-025  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Number: NA11NOS4190153  
Area: Reporting  
Questioned Costs: \$-0-

Criteria: The Program is required to submit an SF-425, Federal Financial Report that is accurately prepared.

Condition: Tests of reporting requirements noted that program income was not reported in the required fields:

Grant number	NA11NOS4190153
Reporting period end date tested	9/30/2014
Program income earned	\$ 73,575
Program income expended	(53,145)
Unexpended program income	\$ <u>20,430</u>

Cause: The cause of the above condition is the lack of controls over compliance with reporting requirements.

Effect: The effect of the above condition is noncompliance with reporting requirements. No questioned costs result as the amount was already questioned at Finding No. 2014-024.

Recommendation: We recommend that controls be implemented to comply with the criteria.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

**Corrective Action:** Moving forward, BECQ-DCRM will take reasonable steps to implement controls to comply with applicable reporting regulations by coordinating with DOF to ensure inclusion of program income in the SF-425 submission.

**Proposed Completion Date:** Ongoing.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-026  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
Area: Special Tests and Provisions  
Questioned Costs: \$62,739

Criteria: The Program must comply with grant Special Award Conditions (SAC):

1. In accordance with SAC #3 of NA11NOS4190153 and SAC #5 of NA12NOS4190178, for awards that provide federal funds for collection or production of geospatial data, the recipient will provide relevant information to NOAA as early as practicable before data collection commences.

This information will be shared with the National Oceanic and Atmospheric Administration (NOAA) office(s) having an interest in these types of data and the appropriate NOAA staff will work with the recipient to ensure the data and the planned acquisition activities are registered in Geospatial One-Stop (geodata.gov) and comply with OMB Circular A-16, Coordination of Geographic Information and Related Spatial Data Activities.

The Program shall document all new geospatial data it collects or produces using the metadata standards developed by the Federal Geospatial Data Committee (FGDC), and make that standardized documentation electronically accessible to NOAA, if requested.

2. In accordance with SAC #5 of NA11NOS4190153, within 30 days of receipt of this award, the Program will provide NOAA/Office of Coastal Resources Management (OCRM) detailed scopes of work for all the technical positions that are funded with federal Coastal Zone Management (CZM) funds. The scopes of work shall include but not be limited to the products or outputs expected of each of these positions, and the minimum eligibility requirements for each position.
3. In accordance with SAC #6 of NA11NOS4190153, SAC #7 of NA12NOS4190178 and SAC #13 of NA13NOS4190148, prior to hiring any staff in the Program with federal CZM funds, the program shall consult with NOAA/OCRM.
  - a. providing to the NOAA federal program officer for review and approval, a detailed scope of work for the vacant/new position including but not limited to minimum eligibility requirements for the position and the products and outputs expected of staff occupying that position; and
  - b. provide to the NOAA federal program officer for review and input, the resume, curriculum vitae, or other application documents needed to determine the eligibility of the top three candidates being considered for the position. Also, prior to promoting or transferring staff into Program positions that are being paid with federal CZM funds, the program shall consult with NOAA/OCRM to ensure that transferred staff meet the eligibility requirements for that position. Failure to consult with NOAA/OCRM on hires, transfers or promotions of persons in positions being paid for with federal CZM funds may disqualify the Program from using federal CZM funds to pay the salary or fringe of that position.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-026, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
Area: Special Tests and Provisions  
Questioned Costs: \$62,739

Criteria, Continued:

4. In accordance with SAC #9 of NA12NOS4190178, task 306-5 fiscal year 2012 funds shall not be expended until a detailed scope of work outlining specific outcomes of this GIS task has been submitted to NOAA/OCRM for review and approval. The detailed scope of work must be submitted within 30 days of the start of this award.
5. In accordance with SAC #3 of NA12NOS4190178 and SAC #12 of NA13NOS4190148, the Program shall make available an amount of funds necessary for new or revised tasks that are negotiated, as a result of findings and recommendations in any 312 evaluation issued during the period covered by the award.
6. In accordance with SAC #8 of NA12NOS4190178, funds in the amount of \$10,000 for task 306-2, Marine Protected Area Law Enforcement Compliance Training shall not be expended until the Program submits additional details to NOAA/OCRM for review and approval. These shall include formalized budget details, travel details, and training deliverables.
7. In accordance with SAC #14 of NA12NOS4190178, a detailed budget is required for the other costs category. This should also describe the basis of this cost estimate.
8. In accordance with SAC #6 of NA13NOS4190148, funds in the amount of \$37,800 in Section 306 and \$16,200 in Section 309 cannot be expended for other budget class costs until the recipient can demonstrate that payments for communication, utilities-power, office rental and other rental costs are not included in indirect costs being charged to the award.
9. In accordance with SAC #7 of NA13NOS4190148, funds in the amount \$31,982 shall not be expended for fringe benefits for task 306-04 until the recipient can justify or demonstrate the expense of \$31,982 in fringe benefits for the Chief Enforcement officer.

Condition: Tests of the above conditions noted the following:

1. Data collected from the beginning of the grant until 09/30/14 was not submitted to the Federal Program Officer as of the test date. No questioned costs result as we are unable to assess the monetary value of the deficiency.
2. For grant NA11NOS4190153 dated 08/25/11, the scope of work for technical positions were not submitted within the thirty day timeline. No questioned costs result as we are unable to assess the monetary value of the deficiencies above.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-026, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
Area: Special Tests and Provisions  
Questioned Costs: \$62,739

Condition, Continued:

3. We were not provided a detailed scope of work, a resume, a curriculum vitae, or other application documents submitted to the grantor for a transferred employee (employee # 795793). Questioned costs of \$8,369 relate to the employee's salary from the date of hire (02/24/14).
4. We were not provided a detailed scope of work submitted and approved by the grantor related to task 306-5 (C2419H). No questioned costs result as there was a related negative expenditure incurred in fiscal year 2014.
5. We were not provided a fiscal year 2015 budget, reprogramming request or program income allotment advice that indicated that the Program made funds available for new and revised tasks as a result of findings and recommendations in the 312 evaluation released in January 2015. No questioned costs result as we are unable to assess the monetary value of the deficiency.
6. We were not provided evidence that required formalized budget details, travel details and training deliverables were accepted and approved by the grantor prior to incurrence of the following costs for task 306-2 (C2419E):

<u>Date</u>	<u>PV #</u>	<u>Amount</u>
04/03/14	1166412	\$ 3,840
04/17/14	1167715	96
03/17/14	1164716	436
03/25/14	1165354	296
03/25/14	1165331	1,124
04/29/14	1168505	1,138
04/29/14	1168508	1,138
04/29/14	1168642	1,141
		<u>\$ 9,209</u>

7. We were not provided a detailed budget submitted and approved by the grantor required for the other costs category of grant no. NA12NOS4190178. Total fiscal year 2014 expenditures charged to the other costs category are \$26,415.

<u>Other Costs</u>	<u>Actual Fiscal Year 2014 C2419K</u>	<u>Actual Fiscal Year 2014 C2419D</u>
Insurance (62280)	\$ -	\$ 2,172
Fuel (63030)	1,200	5,923
Utilities (62710)	-	13,374
Communication (62250)	-	-
Printing (62300)	215	1,059
Repairs and Maintenance (62660)	-	2,472
Advertising (62030)	-	-
	<u>\$ 1,415</u>	<u>\$ 25,000</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-026, Continued  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
 Area: Special Tests and Provisions  
 Questioned Costs: \$62,739

Condition, Continued:

8. The supplemental SAC related to task 306 and 309 (other costs) was not submitted prior to the incurrence of communication and utilities-power costs below:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>PV #</u>	<u>Amount</u>
C3419D	12/20/13	1157847	\$ 96
C3419D	12/26/13	1158187	1,253
C3419D	12/26/13	1158188	355
C3419D	01/14/14	1159478	350
C3419D	01/14/14	1159486	817
C3419D	01/21/14	1159922	97
C3419D	01/23/14	1160326	243
C3419D	02/26/14	1163188	191
C3419D	04/04/14	1166579	94
C3419D	04/16/14	1167561	183
C3419D	05/08/14	1169333	3,030
C3419D	05/22/14	1170466	179
C3419D	08/07/14	1193694	89
C3419D	08/20/14	1195126	984
C3419D	09/10/14	1197296	54
C3419K	03/11/14	1164339	<u>1,200</u>
			<u>\$ 9,215</u>

9. The supplemental SAC related to task 306-04 was not submitted prior to incurrence of fringe benefits for employee #103207. Total fringe benefits for the employee are \$9,531.

Cause: The cause of the above condition is the lack of controls over the requirements and the lack of established policies and procedures to maintain documents to support compliance with the requirements.

Effect: The effect of the above condition is noncompliance with special tests and provision requirements and questioned costs of \$62,739 as follows:

<u>Condition</u>	<u>Questioned Costs</u>
1	\$ -
2	-
3	8,369
4	-
5	-
6	9,209
7	26,415
8	9,215
9	<u>9,531</u>
	<u>\$ 62,739</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-026, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148  
Area: Special Tests and Provisions  
Questioned Costs: \$62,739

Recommendation: We recommend procedures be implemented to monitor compliance with grant special award conditions.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

**Corrective Action:** Moving forward, BECQ-DCRM will take reasonable steps to implement controls to comply with all applicable Special Award Conditions. BECQ-DCRM corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

**Proposed Completion Date:** Ongoing. SOP update anticipated by September 1, 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-027  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009 and NA13NOS4820010  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$3,468

Criteria: In accordance with applicable allowable costs/cost principles requirements, costs should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit. Furthermore, the approved grant application specifies the allowable tasks in line item budgets.

Condition:

1. Tests of thirty-eight payroll expenditures aggregating \$46,452, of a population of \$251,790, noted the following:

a. Three (or 8%) timecards were not signed by employees. We were not provided evidence that the employees certified their time as correct. No questioned costs result as the immediate supervisor certified the employee time.

<u>Employee No.</u>	<u>Payroll Period Ended</u>
793891	05/17/14
710912	07/12/14
793891	06/14/14

b. For one (or 3%), we were not provided an approved leave form for annual leave taken by an employee.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Leave Date</u>	<u>Questioned Costs</u>
816110	12/14/13	12/04/13	\$ 7

c. One (or 3%) approved leave taken was reflected as regular time per the timesheet and the payroll register. No questioned costs result as the payroll expenditure was supported by an approved leave form.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Leave Date</u>
710912	07/12/14	07/10/14

d. Three (8%) employee timecards did not justify that the employee worked for the program (the related timecards were blank or the employee did not time/in or out). We were not provided documents evidencing that the employee worked for the program on the specified dates below:

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Dates in Question</u>	<u>Questioned Costs</u>
372818	04/05/14	03/25/14 through 03/28/14, 03/31/14, 04/01/14 and 04/02/14	\$ 750
372818	09/20/14	09/12/14, 09/18/14 and 09/19/14	346
816110	07/26/14	09/22/14	<u>115</u>
			\$ <u>1,211</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-027, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009 and NA13NOS4820010  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$3,468

Condition, Continued:

- e. Two (5%) compensatory time-off taken was not supported by time-off forms indicating time earned and approval from the immediate supervisor.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Questioned Costs</u>
775055	10/05/13	\$ 763
775055	12/28/13	<u>87</u>
		\$ <u>850</u>

2. For one (or 4%) of twenty-five non-payroll expenditures tested aggregating \$116,119, of a population of \$195,802, we noted that the approved grant application and budget for task 1 (CNMI Coordination and Representation) does not include travel for the Marine Biologist. However, we noted that the program charged \$1,400 to BU# C2482A (PV #s 1167804 and 1169224) related to the task. Also, we were not provided with grantor approval for the specific activity.

Cause: The cause of the above condition is the lack of control over review and approval of employee timecards and compensatory time and leave forms.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$3,468 for Conditions 1.b., 1.d., 1.e. and 2 as projected questioned costs exceed the \$10,000 threshold.

Recommendation: We recommend procedures be implemented to comply with the above criteria.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Eloida Macaranas, Payroll Supervisor

**Corrective Action:** In response to these findings, BECQ-DCRM is taking appropriate action to correct moving forward. BECQ-CRM will make sure to handle timekeeping accordingly. We will implement and comply with CNMI regulations to ensure that all timecards are signed, flex-times are filed and approved, adjustments are documented and any other information to support completion of support of time records.

**Proposed Completion Date:** Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-028  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009 and NA13NOS4820010  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$160,789

Criteria: In accordance with the cooperative agreement for NA11NOS4820009 and NA13NOS4820010, the recipient's share of costs is \$130,000 and \$65,600 respectively, for the year ended September 30, 2014.

In accordance with 15 CFR Part 24 Subpart C Section 24.24, costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantees or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.

Condition: Tests of matching requirements noted deficiencies in the required recipient share for the period ended 09/30/14:

	<u>NA11NOS4820009</u>	<u>NA13NOS4820010</u>
Required matching contribution	\$ 130,000	\$ 65,600
Actual match per test	<u>34,811</u>	<u>-</u>
	<u>\$ 95,189</u>	<u>\$ 65,600</u>

Further, we noted the following:

1. Represented personnel match of \$29,100 for NA13NOS4820010 was based on budget and allocation percentages and was not supported by actual time logs and timesheets of employees that support actual time spent on the project.
2. Tests of volunteer services of \$114,302 for NA11NOS4820009 noted the following:
  - a. We were not provided a list of events and related sign-up sheets or applications for \$57,962 of volunteer services.
  - b. The Program applied a \$12 rate per hour to value 4,695 hours of volunteer services which is more than 100% of the minimum wage in the CNMI throughout the duration of the project. We were not provided a cost study or the basis of the \$12 rate.
3. We were not provided schedules or a breakdown of expenditures or documents supporting the recipient's share of costs for the following grants:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-028, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009 and NA13NOS4820010  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$160,789

Condition, Continued:

<u>Nature of Match</u>	<u>NA11NOS4820009</u>	<u>NA13NOS4820010</u>
Supplies	\$ 1,083	\$ 1,800
Contractual services	750	-
Transportation and travel	2,327	18,200
Maintenance	1,064	16,000
Media services	5,000	-
Insurance	335	-
Utilities	-	500
Total	\$ <u>10,559</u>	\$ <u>36,500</u>

Cause: The cause of the above condition is the lack of established policies and procedures to facilitate compliance with matching, level of effort, and earmarking requirements.

Effect: The effect of the above condition is noncompliance with matching, level of effort, and earmarking requirements and questioned costs of \$160,789.

Recommendation: We recommend compliance with the above criteria.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

**Corrective Action:** The grant recipient had not been advised that the match needed to be documented in this extensive manner. Moving forward, recipients and partners will be diligent in documenting the in-kind match, and will include match updates in their standing semi-annual progress reports.

**Proposed Completion Date:** Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-029  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009  
Area: Period of Availability of Federal Funds  
Questioned Costs: \$-0-

Criteria: Expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award no later than ninety days after the end of the funding period.

Condition: Of thirteen subsequent expenditures tested aggregating \$156,982, of a total population of \$201,081 for the grant that expired on September 30, 2014, the following were noted:

1. One (or 7%) was obligated after the period of performance and was liquidated ninety days after the grant expiration date:

<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Bank Clearance Date</u>	<u>Amount</u>
1204559	11/18/14	28790	12/31/14	not yet cleared	\$ 10,000

2. Four (or 31%) were liquidated ninety days after the grant expiration date.

<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Bank Clearance Date</u>	<u>Amount</u>
1206319	12/15/14	28788	12/31/14	02/05/15	\$ 64,250
1206385	12/15/14	28788	12/31/14	02/05/15	64,250
1200660	10/02/14	28108	11/17/14	01/09/15	2,430
1203850	11/07/14	28789	12/31/14	01/23/15	3,420
					<u>\$ 134,350</u>

Cause: The cause of the above condition is the lack of established policies and procedures governing expenditures incurred beyond the period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements. No questioned costs result as the specified federal funds were not received as of 09/30/14.

Recommendation: We recommend that compliance with period of availability requirements occur.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-029, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009  
Area: Period of Availability of Federal Funds  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:** BECQ-DCRM makes every effort to process payments to vendors on a timely basis through the CNMI Procurement and Supply procedures. We will continue to work closely with DOF to ensure that checks are processed timely, but, ultimately, DOF is charged with the issuance of payments necessary to liquidate outstanding accounts.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-030  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009 and NA13NOS4820010  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$13,223

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

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the P&S Director for approval.
- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.

Condition: For eleven (or 44%) of twenty-five nonpayroll expenditures tested, aggregating \$116,119, of a total population of \$195,802, only one quotation was provided for the following:

	<u>Grant Number</u>	<u>Obligating Document #</u>	<u>Amount</u>	<u>Questioned Costs</u>	<u>APV #</u>	<u>BU</u>	<u>General Ledger Date</u>
1.	NA13NOS4820010	TA 308031	\$ 242	\$ -	1186715	C3482F	06/25/14
2.	NA11NOS4820009	TA 307245	460	-	1167804	C2482A	04/17/14
3.	NA11NOS4820009	574480 OP	615	-	1187285	C2482F	06/27/14
4.	NA11NOS4820009	579840 OP	1,000	-	1195262	C2482D	08/22/14
5.	NA13NOS4820010	572539 OP	2,000	-	1163392	C3482H	02/28/14
6.	NA11NOS4820009	TA 309593	2,221	-	1197897	C2482A	09/15/14
7.	NA13NOS4820010	TA 309592	2,227	-	1197894	C3482A	09/15/14
8.	NA11NOS4820009	576264 OP	2,473	-	1188700	C2482F	07/03/14
9.	NA13NOS4820010	TA 304963	4,200	4,200	1155484	C3482A	11/15/13
10.	NA11NOS4820009	TA 309696	4,250	4,250	1198776	C2482J	09/19/14
11.	NA11NOS4820009	TA 305221	<u>4,773</u>	<u>4,773</u>	1155571	C2482A	01/04/14
			<u>\$ 24,461</u>	<u>\$ 13,223</u>			

For items 1 through 8 above, no questioned costs are presented because the CNMI is technically compliant with CNMI procurement procedures, which do not require competition for purchases of less than \$2,500. This procedure appears to circumvent the intent of applicable Federal procurement requirements, which is to provide full and open competition in the procurement of federally funded property and services. Transaction details for fiscal year 2014 do not demonstrate an equitable distribution among available vendors.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-030, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009 and NA13NOS4820010  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$13,223

Cause: The cause of the above condition is the failure to comply with applicable Federal procurement regulations and the absence of competitive procurement for items less than \$2,500.

Effect: The effect of the above condition is noncompliance with procurement regulations, and questioned costs of \$13,223.

Recommendation: We recommend that compliance with procurement regulations occur.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Herman Sablan, Director, P&S

**Corrective Action:**

When procuring property under federal grants, the state follows the same policies and procedures it uses for procurements for its non-federal funds. In reference to the four (4) purchase orders: 579840 OP, 576264 OP, 572539 OP, 574480 OP, all questionable purchase orders are for procurement valued below \$2,500, thus, not exceeding the amount established herein of \$2,500 to \$10,000 to obtain three (3) quotations as required by the CNMI procurement regulations and policy.

In making purchases referenced by obligating documents numbered: TA 309696, TA 304963, TA 305221, TA 307245, TA 308031, TA 309592, and TA 309593, referenced in these findings, BECQ followed the CNMI procurement regulations and policies in place, which do not require obtaining quotations for travel. Transportation is not specifically addressed in the CNMI Procurement Regulations and DOF established uses, or written DOF policies when procuring government travel.

**Proposed Completion Date:** Ongoing

Auditor Response:

Although the Program is in compliance with CNMI procurement regulations, such regulations allow for restricted competition for purchases less than \$2,500. This appears to circumvent the intent of applicable federal procurement requirements, which is to provide for full and open competition regardless of price. Therefore, the finding is reportable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-031  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009  
Area: Reporting  
Questioned Costs: \$-0-

Criteria: A final comprehensive Federal Financial Report must be submitted, within ninety days after award expiration. The report shall cover the entire project period from the start date through the end date of the original award, or approved extended end date of the award, and must include the cumulative total of indirect costs charged to the award.

An effective system of internal control includes policies and procedures so that transactions reported as federally funded costs and recipient share of expenditures are substantiated by accounting records.

Condition: Tests of final Federal Financial Reports for grant no. NA11NOS4820009 noted that the recipient's share of expenditures of \$108,754 is not supported by detailed schedules or invoices and billing statements supporting the final SF-425 submitted.

Cause: The cause of the above condition is the lack of conformance with existing procedures that require adequate documentation supporting federal financial reports.

Effect: The effect of the above condition is noncompliance with applicable reporting requirements. No questioned costs result as the related matching requirement is questioned at Finding 2014-028.

Recommendation: We recommend that procedures be strengthened to maintain adequate accounting records supporting the recipient's share of expenditures.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Agnes Cepeda, Federal Grants Supervisor

**Corrective Action:** BECQ-DCRM will work closely with DOF to ensure the reporting of all program income earned and expended on the Federal Financial Report (SF-425) is timely submitted and transactions reported are substantiated by accounting records.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-032  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009 and NA13NOS4820010  
Area: Special Tests and Provisions  
Questioned Costs: \$111,309

Criteria: The Program agrees to comply with Special Award Conditions (SAC) of the grants as follows:

1. In accordance with SAC # 4 of grant no. NA11NOS4820009, for any Coral Reef Conservation Program (CRCP) award that provides federal funds for collection or production of geospatial data (e.g., GIS data layers), the recipient will comply, to the maximum extent practicable, with Executive Order 12906-Coordinating Geographic Data Acquisition and Access: the National Spatial Data Infrastructure, Federal Register Vol. 59, Number 71, pp. 17671-17674. The award recipient shall document all new geospatial data it collects or produces using the metadata standards developed by the Federal Geospatial Data Center, and make that standardized documentation electronically accessible to CRCP for incorporation into Coral Reef Information System.

Data collected through the support of this funding opportunity must be provided to the Federal Program Officer within one year of collection. The specific format of the collected/submitted data is project-dependent and may include raw data and/or summary data. Requirements for all submitted data will be specified by the Federal Program Officer (e.g., Excel, Access, GIS shape files, etc.). The submitted data shall be accompanied by a description of the type of information contained in each data field, what is commonly referred to as a "data dictionary".

2. In accordance with SAC # 10 of grant no. NA13NOS4820010, no federal funds shall be expended on any projects that involve the collection of environmental data and information until the recipient has submitted and obtained NOAA/CRCP approval for a Data and Information Sharing Plan (DISP). A DISP explains how data and information collected or created under NOAA grants or cooperative agreements will "be made visible, accessible, and independently understandable to general users, free of charge or at minimal cost, in a timely manner (typically no later than two years after the data is collected or created), except where limited by law, regulation policy or by security requirements." The provision of a DISP by grant recipients is a new NOAA-wide requirement (NOAA Administrative Order 212-15) that was implemented in 2012 and requires that award recipients submit a DISP of no more than two pages as part of the application for this competition (see the Federal Funding Opportunity, Section IV(B) Content and Form of Application, element 13). NOAA's approval of the DISP must be satisfied before the award commences, but not later than November 1, 2013. The CRCP will work with applicants in the meantime to ensure that they are able to fulfill this requirement and make data and information products resulting from their federally-funded project widely available.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-032, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Grant Numbers: NA11NOS4820009 and NA13NOS4820010  
Area: Special Tests and Provisions  
Questioned Costs: \$111,309

Condition: Tests of grant conditions noted the following:

1. Data collected from the beginning (10/01/11) to the end of the grant period (09/30/14) was not submitted to the Federal Program Officer as of the test date.
2. The DISP was submitted on 01/28/15 and has not been approved or accepted by the grantor as of the test date. Total expenditures incurred during fiscal year 2014 attendant to the long-term monitoring program (business unit no. C3482F) are \$111,309.

Cause: The cause of the above condition is the lack of monitoring of SAC and the lack of established policies and procedures to comply with special conditions.

Effect: The effect of the above condition is noncompliance with special tests and provisions requirements and questioned costs of \$111,309. No questioned costs result from Condition 1 as we are unable to quantify the effect of the noncompliance.

Recommendation: We recommend that the CNMI establish controls and procedures to monitor compliance with a grant's SAC.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Frances Castro, Director, DCRM and Frank M. Rabauliman, Administrator, BECQ

**Corrective Action:** Moving forward, grant recipients will establish controls and procedures to monitor compliance and deadlines with a grant's SAC. We will work closely with the granting agency to timely comply with SAC criteria.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-033  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Grant Numbers: CNMI-CIP-2007-1 and CNMI-CIP-2010-4  
 Area: Period of Availability of Federal Funds  
 Questioned Costs: \$4,896

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Of nine awards tested, aggregating \$2,460,437 of a population of \$7,753,220, we noted the following:

- Two grants (grant nos. CNMI-CIP-2007-1 and CNMI-CIP-2010-4) (or 22%) expired on 09/30/13 and 09/30/14, respectively and the following expenditures were liquidated after 90 days of the grant expiration date.

<u>Business Unit</u>	<u>Grant No.</u>	<u>PV No.</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Days Beyond Liquidation</u>	<u>Amount</u>	<u>Questioned Costs</u>
5617	CNMI-CIP-2007-1	1162858	6104	03/17/14	76	\$ 1,088	\$ 1,088
5617	CNMI-CIP-2007-1	1164692	6127	04/01/14	91	544	544
5617	CNMI-CIP-2007-1	1164694	6127	04/01/14	91	544	544
5617	CNMI-CIP-2007-1	1171416	6333	09/19/14	262	544	544
5617	CNMI-CIP-2007-1	1171419	6333	09/19/14	262	544	544
5617	CNMI-CIP-2007-1	1191016	6333	09/19/14	262	544	544
5617	CNMI-CIP-2007-1	1195292	6333	09/19/14	262	544	544
5617	CNMI-CIP-2007-1	1195293	6333	09/19/14	262	544	544
5659	CNMI-CIP-2010-4	1194456	6320	09/02/14	72	<u>33,862</u>	-
Total						\$ <u>38,758</u>	\$ <u>4,896</u>

Regarding check number 6320, although the check was written within the period of availability, it was not released until 03/13/15. Therefore, liquidation occurred after the 12/31/14 expiration date. However, no questioned cost results for this item since the grantor subsequently approved the late liquidation.

- Two expenditures were obligated but have not been liquidated after 90 days of the grant expiration date. No questioned costs result as associated drawdowns have not been made.

<u>Grant No.</u>	<u>Grant Expiration Date</u>	<u>PV No.</u>	<u>PV Date</u>	<u>Amount</u>
CNMI-CIP-2007-1	09/30/13	1200638	10/02/14	\$ 544
CNMI-CIP-2010-4	09/30/14	1198291	09/16/14	\$ 66,730

Cause: The cause of the above condition is the lack of established policies and procedures for the proper recording of expenditures incurred beyond the period of availability.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-033, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Grant Numbers: CNMI-CIP-2007-1 and CNMI-CIP-2010-4  
Area: Period of Availability of Federal Funds  
Questioned Costs: \$4,896

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$4,896. Although known questioned costs are below \$10,000, the projected questioned cost exceeds the threshold; therefore, this finding is reportable.

Recommendation: We recommend compliance with period of availability requirements.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Virginia C. Villagomez, CIP Administrator

**Corrective Action:**

Condition 1: The Office of Capital Improvement Program has attained the time extension for expenditures beyond the initial grant expiration date for BU 5659 for the Tinian medical equipment.

Condition 2: The Office of Capital Improvement Program obligated PV#1198291 in the amount of \$66,730 dated 9/16/14. A grant extension was necessary to drawdown the funds required to liquidate this obligation. Drawdown was approved by the grantor and check processed on 3/17/15.

In addition, the Office of Capital Improvement Program is developing policies and procedures to ensure compliance with period of availability requirements.

**Proposed Completion Date:** Immediate

Auditor Response: In accordance with 43 CFR 12.70 (d) (2), grantees or subgrantees must obtain prior approval of the awarding agency whenever it is anticipated that there is a need to extend the period of availability of funds. Further, 43 CFR 12.43 states that prior approval means documentation evidencing consent prior to incurring the specific cost. Grantor approval to extend the CNMI-CIP-2010-4 grant until 03/01/15 was received on 05/29/15 only after we identified the deficiency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-034  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$1,060,520

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

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the P&S Director for approval.
- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirement shall not be artificially divided so as to constitute a small purchase.
- Price or cost to the government shall be included as an evaluation factor in every solicitation of proposals, including professional services.
- Grantee and subgrantee contracts must include, among others, provisions for federal access to contractor's records.

The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (43 CFR Section 12.76(d)(4)(i)(A-D)) stipulates that "procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids, or competitive proposals and one of the following circumstances applies: A) The items is available only from a single source; B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation; C) The awarding agency authorizes noncompetitive proposals; or D) After solicitation of a number of sources, competition is determined inadequate." Furthermore, federal regulations stipulate that grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-034, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$1,060,520

Criteria, Continued:

In addition, in accordance with 70-30.3-305, the P&S Director and the Technical Services Division of the Department of Public Works (DPW) shall jointly maintain files of current statements of qualifications of architect-engineer firms. After public announcement of requirement for architect-engineer services, current statements shall be reviewed together with those that may be submitted by other firms in response to the announcement. Discussions shall be conducted with at least three (3) of the firms regarding the contract requirements and technical approach and selection made therefrom, in order of preference, of no less than three (3) firms determined to be the most highly qualified to perform the services required. Fee proposals may be solicited upon public announcement; however, this information shall not be considered in the selection of the most highly qualified firms. Such fee proposals may be used by the P&S Director in determining a fair and reasonable contract price.

In accordance with Emergency Purchasing under CNMI Procurement regulations Section 3-107 (a) Notwithstanding any other provision of the regulations in this subchapter, the government may make emergency procurement when there exists a threat to public health, safety or welfare under emergency conditions. An emergency procurement must be as competitive as practicable under the circumstances. (b) A written justification of the basis for the emergency and for the selection of the particular contractor must be made by the official with expenditure authority. (c) If the P&S Director is satisfied, he shall state his approval in writing.

Condition: Of twenty-one nonpayroll expenditures tested aggregating \$6,307,529, of a population of \$7,523,025, the following were noted:

1. Four contracts (or 19%) did not contain provisions for federal access to contractor records:

<u>Grant No.</u>	<u>Business Unit</u>	<u>Contract No.</u>
CNMI-CIP-2009-2	5637	571 OS
CNMI-CIP-2013-7	5649B	606 OS
CNMI-CIP-2013-2	5659A	634 OS
CNMI-CIP-2008-3	5627	544 OS

No questioned costs result as contractors were selected in accordance with procurement regulations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-034, Continued  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$1,060,520

Condition, Continued:

2. One contract (or 5%) (business unit 5649B; contract no. 606-OS with a \$52,000 contract price) to provide architectural and engineering services, was procured through a request for qualification (RFQ). A written justification noted that the selection was based on the fact that the vendor is the only certified architect who submitted an RFQ. All other proposers were certified engineers. However, the RFQ specified that either a certified architect or a certified engineer would qualify. Further, although justification was provided for selection of the vendor, we were not provided documentation to support the vendor evaluation process including a review of qualification statements and discussions with qualified firms as required by 70-30.3-305 of the Procurement Regulations. Total related federal expenditures incurred for fiscal year 2014 are \$74,946.
3. For four contracts (or 19%) for procurement of architectural and engineering services, discussions were not conducted with the required number of architectural and engineering firms regarding contract requirements and the technical approach as required by the 70-30.3-305 (c). Further, procurement files do not contain documentation that current statements of qualifications of architect and engineering firms from P&S and the Technical Services Division of the Department of Public Works were reviewed along with those that may be submitted by other firms in response to the announcement to meet the required number of proposals:

<u>Grant No.</u>	<u>Business Unit</u>	<u>Contract No.</u>	<u>FY 2014 Expenditures</u>
CNMI-CIP-2009-2	5659A	610 OS	\$ 76,646
CNMI-CIP-2013-7	5679A	630 OS	58,000
CNMI-CIP-2013-2	5624	613 OS	588,305
CNMI-CIP-2008-3	5690	617 OS	<u>232,200</u>
		Total	<u>\$ 955,151</u>

4. For one expenditure (or 5%), price quotations from at least three vendors were not obtained for PV # 1159629 (grant no. CNMI-CIP-2011-3, business unit 5664A) for \$2,999.
5. For one architect & engineering contract (or 5%) (contract #617), emergency procurement was used for change order # 2 to procure construction management service that increased the contract cost by \$233,600 or 74% of the original contract price. This procurement was not in accordance with 70-30.3-230, Emergency Procurement. Written justification (dated 03/12/14) does not support that the demand for the requirement will not permit a delay resulting from competitive proposals. Further, the procurement does not meet any of the circumstances under 43 CFR Section 12.76(d)(4)(i)(A-D) to qualify for noncompetitive procurement method. Total federal expenditures incurred for contract # 617, change order # 2 is \$27,424.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-034, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$1,060,520

Cause: The cause of the above condition is failure to comply with applicable procurement regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations, and questioned costs of \$1,060,520.

<u>Condition</u>	<u>Questioned Costs</u>
2	\$ 74,946
3	955,151
4	2,999
5	<u>27,424</u>
	\$ <u>1,060,520</u>

Recommendation: We recommend that compliance with procurement regulations occur.

Prior Year Status: The lack of compliance with procurement regulations was reported as a finding in the CNMI Single Audits for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Virginia C. Villagomez, CIP Administrator

**Corrective Action:**

Condition 1: The Office of Capital Improvement Program agrees with this finding. To implement corrective action, our office has initiated discussions with the Attorney General's Office to set standards to include applicable laws, regulations and provisions in contracts for future use.

Condition 2: The Proposal Opening Summary Sheet of 12/03/12 reveals three (3) proposers responding to the RFQ. RFQ13-GOV-008 entitled "RFQ for Provisions of Architect and Engineering Services". All (3) three proposers were evaluated according to the set evaluation criteria(s), selected and awarded two of the three to be most qualified. Selection criteria 1) Past Experience as Project Manager 70% 2) Interview 30%.

Statements of qualifications were reviewed by the Contracting Officer and pre-qualified all three proposers and awarded two contracts on as-needed basis; One Engineer and one Architect. The justification stated "no other candidate was a registered architect" and perhaps an advantage to the CIP Office. At the time, it was a sensible decision to capture 2 distinct professionals that can provide and maximize project efficiency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-034, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$1,060,520

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Going forward, the CIP office has implemented evaluation procedures in procuring project managers that will ensure fairness in the selection process and compliance with procurement regulations.

Proposed Completion Date: Immediate

Condition 3: For contract no. 613 OS, business unit 5624, the Proposal Opening Summary Sheet dated 03/20/13 revealed two proposers responding to the RFQ. Both proposers were evaluated according to the set evaluation criteria(s) and one was selected to be most qualified.

For the remaining contracts, although these procurements did not meet the required number (3) of architectural and engineering services responses, it is incumbent that the CIP Office render a decision to meet project accomplishments and award a contract to the most qualified firm. Furthermore, it is a practice of CIP to further comply with the silence of procurement regulations in dealing with less than three proposers by relying on the Board of Professional Licensing list of professionals and Certifications of Authority (COA) Registry which lists 34 COAs. It is our intention to adopt such registry in compliance with future audit findings.

Condition 4: The CIP office obtained three (3) price quotations for PV # 1159629. Please see attachment.

Condition 5: During design, the Program planned to have periodic inspections performed and reporting by the Project Manager. At this stage, we would not have known the complexity and immediate need of a Construction Manager. At the conclusion of the design work, the CIP Office strategically discussed and decided to procure a Construction Management Team and hence, the justification letter dated March 12, 2014. The CIP Office did comply with procurement regulations with respect to procuring under emergency circumstances.

**Proposed Completion Date:**

Condition 1: Immediate

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-034, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$1,060,520

Auditor Response:

- Condition 2: We were not provided documentation to support the vendor evaluation process, including a reviews of qualification statements and discussions with qualified firms as required by 70-30.3-305 of the Procurement Regulations. Thus, the finding remains.
- Condition 3: In accordance with 70-30.3-305, statements from the firms who responded to the announcement should be reviewed together with current statements of qualifications from DPW so discussions could be conducted with at least three architect-engineering firms. We were not provided evidence that current statements from DPW or from the Board of Professional Licensing were reviewed or considered to meet the required number of architect-engineering firms. Thus, the finding remains.
- Condition 4: Quotations from other vendors were lower than the quoted price of the selected vendor. We were not provided evidence that the quotations and written justification on vendor selection were submitted and approved by the P&S Director. Thus, the finding remains.
- Condition 5: Although justification was provided and approved, the written justification does not support procurement under emergency condition in accordance with NMIAC 70-30.3-230 and does not support that the emergency will not permit a delay resulting from competitive proposals to comply with 43 CFR Section 12.76(d)(4)(i)(b). Further, we noted that there was no effort sought to obtain competition in accordance with NMIAC Section 70-30.3-230 (a) on change order #2. Thus, the finding is reportable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-035  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Grant Numbers: CNMI-CIP-2014-2, CNMI-CIP-2013-3, CNMI-CIP-2013-1, CNMI-CIP-2013-6, CNMI-CIP-2012-8, CNMI-CIP-2012-7, CNMI-CIP-2011-1 and CNMI-CIP-2010-3  
Area: Subrecipient Monitoring  
Questioned Costs: \$-0-

Criteria: Pass-through entities must establish and implement subrecipient monitoring policies and procedures. Further, in accordance with OMB Circular A-133, Part III Compliance Requirements - Subrecipient Monitoring, a pass-through entity is responsible for:

- At the time of the award, identifying the subrecipient of the federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of federal awarding agency) and applicable compliance requirements.
- Monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Condition: Tests of subrecipient monitoring noted the following:

1. A subrecipient agreement was executed with Commonwealth Utilities Corporation (CUC) on 12/12/14 for subgrants from 2010 to 2014.
2. No control procedures are in place to monitor CUC's compliance with applicable laws, regulations, and provisions of contracts and grant agreements. Further, no monitoring procedures are performed to verify that subrecipient reimbursement requests are allowed and that required financial status and narrative reports are accurate and timely submitted.
3. CUC is a component unit of the CNMI and separately satisfies the requirements of OMB Circular A-133; however, such report was not available as of fieldwork. Therefore, we are unable to determine subgrant amounts for FY 2014. Based on CUC's data collection forms for the past three years, annual expenditures under CFDA 15.875 approximated \$3M for FY 2013, \$4.8M for FY 2012, and \$8.9M for FY 2011.

Cause: The cause of the above condition is failure to enforce compliance with subrecipient monitoring requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-035, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Grant Numbers: CNMI-CIP-2014-2, CNMI-CIP-2013-3, CNMI-CIP-2013-1, CNMI-CIP-2013-6, CNMI-CIP-2012-8, CNMI-CIP-2012-7, CNMI-CIP-2011-1 and CNMI-CIP-2010-3  
Area: Subrecipient Monitoring  
Questioned Costs: \$-0-

Effect: The effect of the above condition is the lack of compliance with subrecipient monitoring requirements. No questioned costs result as we are unable to quantify the extent of the noncompliance.

Recommendation: We recommend compliance with subrecipient monitoring requirements.

Prior Year Status: Noncompliance with subrecipient monitoring requirements was reported as Finding Nos. 2009-42, 2010-32, 2011-31, 2012-30 and 2013-025 in the CNMI Single Audits for fiscal years 2009 through 2013, respectively.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Virginia C. Villagomez, CIP Administrator

**Corrective Action:**

- Condition 1: We agree with this finding that the subrecipient monitoring agreement was executed with the Commonwealth Utilities Corporation on 12/12/14 for subawarded grants from 2010 to 2014.
- Condition 2: We agree with this finding. To implement corrective action, we will develop control procedures to monitor compliance of subrecipients to ensure the applicable laws, regulations, and provisions of contracts and grant agreements are within the terms and conditions with federal awards.
- Condition 3: We agree with this finding. To implement corrective action, we will obtain copies of all SF-425s for projects listed as part of the attachment to the subrecipient monitoring agreement for the auditors to test compliance. We will also require the subrecipient to provide all drawdown requests to the grantee whenever they are submitted to the grantor to ensure drawdowns made are consistent with the payment requests and the level of work accomplished.

**Proposed Completion Date:** September 30, 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-036  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Grant Number: CNMI-CIP-2013-2 and CNMI-CIP-2008-2  
Area: Special Tests and Provisions  
Questioned Costs: \$0

Criteria: The following grant terms and conditions are applicable:

1. For construction activities on new sites, the grantee shall present evidence to OIA that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land upon which new capital improvement projects are to be constructed.
2. Any substantial change in the project budget must be submitted to the Grant Manager. The project revisions shall not be implemented until the OIA Grant Manager sends written approval to the CNMI.

Condition: Of eighteen projects tested aggregating \$6,321,729 of a population of \$7,523,025, we noted the following:

- a. For one (or 6%), there is no leasehold agreement or other equivalent evidence that the CNMI had clear title or legal authority prior to using the land for the following project, which commenced in September 2013.

<u>Business Unit</u>	<u>Project</u>	<u>Grant Award Ref.</u>	<u>FY 2014 Federal Expenditures</u>
5659A	Tinian Health Center Renovations	CNMI-CIP-2013-2	\$ 220,928

However, no questioned cost is presented as the land certification document was subsequently obtained on 06/03/15.

- b. For one (or 6%) (business unit 5629, grant no. CNMI-CIP-2008-2), grantor approval to reprogram the budget from construction to architect and engineering for \$335,178 was not obtained prior to the revision in FY 2014. Fiscal year 2014 expenditures related to the reprogrammed funds are \$56,562.

However, no questioned cost is presented as grantor approval was subsequently obtained on 04/14/15.

Cause: The cause of the above condition is the lack of systematic filing of evidence that the CNMI has clear title or legal authority to use the land for construction projects and has obtained written approval from the grantor.

Effect: The effect of the above condition is noncompliance with grant terms and conditions.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-036, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Grant Number: CNMI-CIP-2013-2 and CNMI-CIP-2008-2  
Area: Special Tests and Provisions  
Questioned Costs: \$0

Recommendation: Monitoring controls over compliance with applicable special tests and provisions requirements contained in grant terms and conditions should be strengthened. Responsible personnel should not approve program charges for new construction unless required certifications are obtained and presented to OIA. The responsible personnel should not implement budget revisions unless written approval from the OIA Grant Manager is documented.

Prior Year Status: The lack of systematic filing of evidence that the CNMI has clear title or legal authority to use the land for construction projects and has obtained written approval from the grantor was reported as a finding in the CNMI Single Audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Virginia C. Villagomez, CIP Administrator

**Corrective Action:**

Condition a: The Office of Capital Improvement Program made efforts to obtain land certification for the specified project to ensure compliance to the audit findings. The Tinian Health Center Improvements is a renovation project of an existing government facility. The Capital Improvement Office proceeded with the renovations and improvements under the assumption that the Confirmation Deed granted by the Trust Territory of the Pacific Islands, Office of the High Commissioner, dated November 08, 1980, and later provided by the Tinian Health Center through the Department of Public Lands (DPL), was sufficient as evidence of land title. To further justify the land ownership by the C.N.M.I government, the Capital Improvement Office obtained a Land Certification, dated June 03, 2015, from the Commonwealth Healthcare Corp., Tinian Health Center and Tinian Municipality.

To ensure future compliance the Capital Improvement Office has developed a comprehensive check list for all projects that includes the submission of land title certification requirement.

Condition b: The Office of Capital Improvement Program made efforts to obtain grantor approval for the reprogramming of \$335,178 under BU 5629 for the Tinian International Airport improvements project.

**Proposed Completion Date:** Immediate

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-036, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
Grant Number: CNMI-CIP-2013-2 and CNMI-CIP-2008-2  
Area: Special Tests and Provisions  
Questioned Costs: \$0

Auditor Response:

43 CFR 12.70 (c) (1) (ii) is not cited in the criteria. As the efforts made to obtain grantor approval for reprogramming, as well as for the land certification, occurred only after we identified the deficiencies, the finding remains.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-037  
Federal Agency: U.S. Department of Transportation  
CFDA Program: 20.205 Highway Planning and Construction  
Grant Numbers: CM-NH-0021(003), CM-NH-0030(010), CM-NH-0031(015), CM-NH-0033(021), CM-NH-0202(001), CM-NH-0302(002) and CM-NH-3000(018)  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$-0-

Criteria: In accordance with applicable procurement regulations, grantee and subgrantee contracts must include provision for federal access to contractor records. Further, in accordance with CNMI Procurement Regulations, contractors shall not be allowed to continue working beyond the expiration term of an 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 and submitted to the federal grantor agency for approval.

Condition: Of twelve contracts tested aggregating \$3,952,091 of a total population of \$5,090,564, One (contract no. 503660 OC, approximating \$1.4M) (or 8%) did not contain provisions allowing federal access to contractor records. No questioned cost results as the vendor selection complied with procurement regulations.

Cause: The cause of the above condition is the lack of procedures to include required contract clauses and weak controls over change order processing and approval procedures.

Effect: The effect of the above condition is noncompliance with required contract provisions.

Recommendation: We recommend that the CNMI comply with applicable procurement regulations. Specifically, we recommend that the CNMI establish procedures that will determine whether all required federal contract provisions are included. We further recommend that the CNMI continue to monitor timely processing and approval of change orders and improve its filing system.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** James A. Ada, Secretary of Public Works, Anthony Camacho, Acting Director of Technical Services Division and Geralyn C. Dela Cruz, Highway Administrator

**Corrective Action:** The project contract executed was in the old format which did not include this provision. DPW is currently routing a contract change order to include this provision in the said contract.

**Proposed Completion Dates:**

Condition a: Effective immediately.  
Condition b: July 31, 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-038  
Federal Agency: U.S. Environmental Protection Agency  
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support  
Grant Number: M-00915614  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a control system must be developed to adequately safeguard property to prevent loss, damage, or theft. Any loss, damage, or theft shall be investigated.

Condition: Of forty-seven capital assets tested, four (or 9%) could not be located:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Cost</u>
02/27/07	ITEM-38533	Undetermined
04/28/08	ITEM-41817	Undetermined
04/28/08	MP-18547CM	Undetermined
05/07/08	MP-18060CM	\$ 124

We are unable to assess the overall cumulative monetary value of the deficiencies above; however, total capital outlays for fiscal years 2014, 2013 and 2012 were \$802,902, \$145,748 and \$174,140, respectively.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding applicable equipment and real property management requirements.

Effect: The effect of the above condition is noncompliance with the applicable equipment and real property management requirements. There are no questioned costs since the overall monetary value cannot be determined.

Recommendation: We recommend that the CNMI comply with applicable equipment and real property management policies and procedures.

Prior Year Status: The lack of adherence to established policies and procedures regarding applicable equipment and real property management requirements was reported as a finding in the CNMI Single Audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Gloria S. Castro, Administrative Service Manager, BECQ

**Corrective Action:** Of the four items that could not be located by the auditor, BECQ found item MP-18547CM (a PH meter) in the chemistry lab. ITEM-38533 (a battery backup) was surveyed and received by P&S on 05/12/14. ITEM-41817 (a labeling machine and MP18060CM (a Printer/Deskjet 5750) were surveyed and received by P&S on 11/14/13.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-038, Continued  
Federal Agency: U.S. Environmental Protection Agency  
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular  
Areas - Program Support  
Grant Number: M-00915614  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

In accordance with applicable equipment and real property management requirements, BECQ has developed a control system to adequately safeguard property to prevent loss, damage or theft through the implementation of the inventory bar coding database system. This system allows for tracking of inventory by its location, serial number or bar code number.

BECQ has completed a preliminary in-house physical inventory report and has provided the report to P&S.

**Proposed Completion Date:** Ongoing

Auditor Response: The fixed assets could not be located when audit fieldwork was conducted. Also, these items have an "IV" or inventories status in the list provided by P&S. Reconciliations should be performed. The finding remains.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-039  
 Federal Agency: U.S. Environmental Protection Agency  
 CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support  
 Grant Number: M-00915614  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$12,912

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Grantor procurement guidelines also state that open or “blanket” purchase orders or contracts are authorized and encouraged for frequent-procured categories of items. Acceptable documentation for full and open competition under purchase orders can be demonstrated in one of two ways: open separate purchase orders in equal amounts with multiple vendors in the same category; or obtain quotes on a representative sample from multiple vendors and award the open purchase order to the vendor with the overall lowest price. 40 CFR Appendix A to Part 33 states that each procurement contract signed by an EPA financial assistance agreement recipient, including those for an identified loan under an EPA financial assistance agreement capitalizing a revolving loan fund, must include the following terms and condition:

The contractor shall not discriminate on the basis of race, color, national origin or sex in the performance of this contract. The contractor shall carry out applicable requirements of 40 CFR Part 33 in the award and administration of contracts awarded under EPA financial assistance agreements. Failure by the contractor to carry out these requirements is a material breach of this contract which may result in the termination of this contract or other legally available remedies.

Condition: Tests of procurement and suspension and debarment requirements noted the following:

1. Of twenty-seven nonpayroll expenditures tested aggregating \$752,878, five (or 19%) did not meet federal procurement requirements or grantor procurement guidelines for full and open competition.

<u>Document Type</u>	<u>Document No.</u>	<u>Contract No.</u>	<u>Date</u>	<u>Questioned Costs</u>
PV	1169003	307266 OT	05/02/14	\$ 1,950
PV	1192021	308990 OT	07/25/14	3,816
PV	1154604	304945 OT	11/01/13	2,550
PV	1167934	574081 OP	04/22/14	2,496
PV	1197724	575880 OP	09/12/14	<u>2,100</u>
				\$ <u>12,912</u>

2. Tests of four contracts (or 100%) (contract nos. 556615 OC, 567038 OC, 538598 OC and 577142 OC) noted none contained provisions per 40 CFR Appendix A to Part 33.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding compliance with procurement requirements and the lack of procedures to include required contract clauses.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-039, Continued  
Federal Agency: U.S. Environmental Protection Agency  
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support  
Grant Number: M-00915614  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$12,912

Effect: The effect of the above condition is noncompliance with procurement requirements and contract provisions and questioned costs of \$12,912.

Recommendation: We recommend that the CNMI comply with the above criteria. Specifically, we recommend that the CNMI establish procedures that determine whether required federal contract provisions are included.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Gloria S. Castro, Administrative Service Manager, BECQ

**Corrective Action:**

Condition 1: BECQ ordinarily tries to get multiple quotations for purchases of goods and services. BECQ followed the CNMI procurement regulations and policies in place, which do not require obtaining quotations for travel. Transportation is not specifically addressed in the CNMI Procurement Regulations and DOF uses established, written DOF policies when procuring government travel.

Moreover, BECQ has complied with the grantor's requirements for off-island travel for all three expenditures listed with respect to document nos. 1169003, 1192021 and 1154604. In accordance with EPA's April 15, 2015 letter regarding BECQ's approved procurement practices and in accordance with programmatic condition P1 of the cooperative agreement, BECQ has satisfied this finding where EPA's PIO Program Manager has approved the travel expenses.

Condition 2: All four BECQ contracts (contract nos. 556615 OC, 567038 OC, 538598 OC and 577142 OC) already contain the following terms and conditions:

"Contractor will comply ... with Executive Order 11246 of September 24, 1965 entitled "Equal Employment Opportunity," as amended by Executive Order 11375 of October 13, 1967 and as supplemented in the Department of Labor regulations (41 CFR Chapter 60) (all contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees)."

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-039, Continued  
Federal Agency: U.S. Environmental Protection Agency  
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular  
Areas - Program Support  
Grant Number: M-00915614  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$12,912

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 2, Continued:

BECQ has made the changes to all new contracts to include the language required by the 40 CFR Part 33 after the 2013 audit to ensure compliance of non-discrimination. However, the four contracts reviewed this year by the auditor pre-date the 2013 audit and unfortunately, they did not include the language of the 40 CFR Part 33.

The subsequent contract (contract no. 578958-0C) completed by BECQ was provided that is in compliance with the above terms and conditions.

**Proposed Completion Date:** Ongoing

Auditor Response:

Condition 1: We were not provided with an adequate number of quotations to support compliance with procurement requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-040  
 Federal Agency: U.S. Environmental Protection Agency  
 CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support  
 Grant Number: M-00915614  
 Area: Reporting  
 Questioned Costs: \$-0-

Criteria: The Program is required to submit an SF-425, Federal Financial Report that is accurately prepared.

Condition: Program income earned and unexpended was incorrectly reported:

	<u>Program Income Earned</u>	<u>Unexpended Program Income</u>
Amount per General Ledger	\$ 196,384	\$ 104,201
Amount reported	<u>78,084</u>	<u>(14,099)</u>
	<u>\$ 118,300</u>	<u>\$ 118,300</u>

The variance relates to program income earned in prior years:

<u>Year</u>	<u>Amount</u>
2013	\$ 54,760
2012	19,925
2011 and prior	<u>43,615</u>
	<u>\$ 118,300</u>

Cause: The cause of the above condition is a lack of controls over compliance with reporting requirements and monitoring of program income.

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

Recommendation: We recommend that the Program take reasonable steps to effectively comply with applicable regulations and monitor program income.

Prior Year Status: The lack of controls over compliance with reporting requirements was reported as a finding in the CNMI Single Audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Gloria S. Castro, Administrative Service Manager, BECQ

**Corrective Action:** In accordance with programmatic condition P5 of the cooperative agreement, BECQ retained and made available all program income generated to support the activities associated with the consolidated environmental program. BECQ maintained records which account for program income.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-040, Continued  
Federal Agency: U.S. Environmental Protection Agency  
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular  
Areas - Program Support  
Grant Number: M-00915614  
Area: Reporting  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Accordingly, BECQ provided the EPA project officer an accounting of all program income received and a description of how those funds have or will be utilized to support the overall environmental program.

The Office of Finance & Accounting is the agency responsible for all SF-425 reporting requirements. The Office of Finance & Accounting has provided BECQ a copy ensuring that the program income reporting requirement is in compliance to date.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-041  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.575 Child Care and Development Block Grant  
 Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$36,634

**Criteria:** In accordance with applicable allowable costs/cost principles requirements, indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Additionally, the results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. The agreed upon rates shall be made available to all Federal agencies for their use.

**Condition:** Tests of indirect costs noted a variance between amounts recorded against our expectation:

Total expenditures	\$ 2,277,288
Less program income expenditures:	
H8575P	(3,995)
H9575P	(25,280)
Less indirect cost	<u>(98,123)</u>
Total indirect cost base	2,149,890
Indirect cost rate	<u>2.86%</u>
Expected indirect cost	61,489
Actual indirect cost	<u>98,123</u>
Excess indirect cost charged over expectation	\$ <u>(36,634)</u>

**Cause:** The cause of the above condition is the lack of monitoring of indirect costs.

**Effect:** The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$36,634.

**Recommendation:** We recommend that the CNMI implement procedures to comply with the above criteria.

**Auditee Response and Corrective Action Plan:**

**Name of Contact Persons:** Maribel Loste, Child Care and Development Fund (CCDF) Administrator and Roselle Teregeyo, CCDF Accountant

**Corrective Action:** The CCDF Program relies solely on DOF for guidance for the most appropriate and latest negotiated indirect cost rates. Upon discussion with DOF on the finding, DOF has the following as an explanation:

Indirect cost rate	2.86%
Expected indirect cost	\$ 61,765
Indirect cost per the general ledger	<u>98,123</u>
Excess of indirect cost charged over expected IC	\$ <u>36,358</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-041, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.575 Child Care and Development Block Grant  
Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$36,634

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

There is a difference of \$276. The approved indirect cost rate for FY2014 was received on 12/12/14. The general ledger was adjusted in December 2014 only for accounts under business unit H3575A-F and not H2575A-F as reports were finalized in September 2014.

**Proposed Completion Date:** Ongoing.

Auditor Response: Computation of indirect cost excludes expenditures paid through program income and actual indirect cost. In addition, indirect cost includes the expenditures of business unit H2575A-F.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-042  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.575 Child Care and Development Block Grant  
 Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF  
 Area: Eligibility  
 Questioned Costs: \$10,242

Criteria: In accordance with the applicable CNMI Administrative Code (the Code), applicants must be eligible according to the requirements of the Code and the Child Care and Development Fund State Plan (the State Plan) prior to receiving child care and development fund assistance. The State Plan provides that eligibility of recipients are monitored on a semi-annual basis.

In addition, per Section 55-60-101, *Application Process of the CNMI Administrative Code*, the date of the eligibility shall be determined by the Child Care Program once all required documentation is received and verified and the Child Care Program determines that the family is eligible for subsidized care.

Additionally, the following documents are required to process the applicant's application:

1. The application form prescribed by the Child Care Program;
2. A copy of a passport, a CNMI's driver's license, a Mayor's identification card or a notarized affidavit of being a single parent;
3. A most recent 1040 tax return;
4. A copy of children's' birth certificate;
5. A copy of school or training documents;
6. Three latest check stubs with the applicant's name and number of hours worked;
7. A completed CNMI Child Care program prescribed form for employment verification; and
8. A map of applicant's place of residence.

Condition: Tests of forty-three eligibility files noted the following:

1. For thirteen (or 30%), assistance was provided before approval of the certificate of confirmation of the child care subsidy.

<u>Application Number</u>	<u>Certification Approval</u>	<u>Month Paid</u>	<u>Questioned Costs</u>
DCCA 2554A	12/02/13	October to November 2013	\$ 470
DCCA 2763A	12/04/13	October to November 2013	300
DCCA 2510A	12/02/13	November 2013	196
DCCA 2792AB	12/03/13	November 2013	700
DCCA 2883AB	02/25/14	January - February 2014	1,200
DCCA 2346ABCDEF	06/17/14	April - May 2014	3,838
DCCA 2694AB	06/09/14	May 2014	550
DCCA 2692AB	06/07/14	May 2014	700
DCCA 2930AB	06/11/14	June 2014	128
DCCA 2827B	06/11/14	June 2014	110
DCCA 2014D	06/11/14	June 2014	128
DCCA 2986A	08/16/14	August 2014	187
DCCA 3002AB	08/12/14	August 2014	160
			<u>\$ 8,667</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-042, Continued  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.575 Child Care and Development Block Grant  
 Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF  
 Area: Eligibility  
 Questioned Costs: \$10,242

Condition, Continued:

- For three (or 7%), documentation to process and support the applicant's application was not in file including the application form, the eligibility disposition form, three check stubs, the completed employment verification form, the children's birth certificates and the certificate of confirmation:

<u>Application Number</u>	<u>Month Paid</u>	<u>Questioned Costs</u>
DCCA 2919AB	August 2013	\$ 300
DCCA 2882A	March 2014	350
DCCA 2794AB	April 2014	<u>575</u>
		\$ <u>1,225</u>

- For one (application number DCCA 2859A) (or 2%), \$350 of assistance was provided for the month of October 2013 after eligibility expired on September 30, 2013. The applicant was subsequently determined to be ineligible.
- For one (application number DCCA 2181BC) (or 2%), the approved certificate of confirmation was not provided. No questioned costs result as the recipient was determined to be eligible.
- For two (application numbers DCCA 2582 AB and DCCA 2572 ABCD) (or 5%), eligibility disposition forms were not provided. No questioned costs result as the recipients were determined to be eligible.

Cause: The cause of the above conditions is delays in the timing of application and renewal for child care assistance and the lack of systematic filing of relevant eligibility documents.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$10,242.

Recommendation: We recommend that the CNMI Child Care and Development Fund Office establish appropriate timing of applications and renewals and file all relevant eligibility documents.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Maribel Loste, CCDF Administrator and Vince Rabauliman, CCDF Administrative Manager

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-042, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.575 Child Care and Development Block Grant  
Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF  
Area: Eligibility  
Questioned Costs: \$10,242

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:** We agree with the finding. Current policies and procedures on timing of application and renewal will be reviewed and changed to ensure that applications and renewals are timely received. In addition to Eligibility Specialists (ESs) routinely conducting review of files, ESs will conduct peer reviews of files bi-annually to ensure that all necessary documents related to eligibility are available and updated.

**Proposed Completion Date:** FY 2016 and ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-043  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.575 Child Care and Development Block Grant  
Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a control system must be developed to adequately safeguard property to prevent loss, damage, or theft. Any loss, damage, or theft shall be investigated.

Condition: Of three capital assets tested, one (or 33%) could not be located:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Cost</u>
10/07/09	ITEM-45818	Undetermined

We are unable to assess the overall cumulative monetary value of the deficiency above; however, total capital outlays for fiscal years 2014, 2013 and 2012 were \$5,089, \$16,852 and \$4,064, respectively.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding applicable equipment and real property management requirements.

Effect: The effect of the above condition is noncompliance with the applicable equipment and real property management requirements. No questioned costs result since the overall monetary value could not be determined.

Recommendation: We recommend that the CNMI comply with applicable equipment and real property management policies and procedures.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Maribel Lose, CCDF Administrator and Vince Rabauliman, CCDF Administrative Manager

**Corrective Action:** The CCDF Office will review its current policies and procedures on property management and will amend them to include random visual "spot checks" throughout the year for all properties and equipment purchased under the Program. It will conduct a review annually of the complete listing of all properties to ensure that the listing is updated.

**Proposed Completion Date:** FY 2016 and ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-044  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.575 Child Care and Development Block Grant  
 Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF  
 Area: Reporting  
 Questioned Costs: \$-0-

Criteria: The program is required to submit an SF-425, Federal Financial Report for cash status.

Condition: Program income earned and unexpended was not reported in the SF-425 as follows:

<u>Business Unit</u>	<u>Program Income Earned</u>	<u>Amount Expended</u>	<u>Unexpended Program Income</u>
H8575P	\$ 2,489	\$ 3,995	\$ 1,567
H9575P	<u>149,169</u>	<u>25,280</u>	<u>528,727</u>
	\$ <u>151,658</u>	\$ <u>29,275</u>	\$ <u>530,294</u>

Cause: The cause of the above condition is a lack of controls over compliance with reporting requirements.

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

Recommendation: We recommend that the Program take reasonable steps to ensure controls work effectively to comply with the criteria.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Maribel Loste, CCDF Administrator and Roselle Teregeyo, CCDF Accountant

**Corrective Action:** There is no requirement by the Administration for Children and Families (ACF) to report program income on the ACF 696 for the CCDF Program. There is no category on this report to indicate the amount of program income earned. The 696 report is the only report required by ACF to report CCDF expenditures.

The SF-425 report is primarily handled by DOF. The CCDF Office will work with DOF to ensure that this report is timely submitted.

**Proposed Completion Date:** Immediately and ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-045  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.575 Child Care and Development Block Grant  
Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: In accordance with applicable program special terms and condition, the program is required to adhere to the Subaward and Executive Compensation Reporting Requirements of the Transparency Act of 2006 ("FFATA") for all subawards over \$25,000 unless exempted.

Further, prime awardees of grants subject to the Transparency Act should use the FFATA Subaward Reporting System, to report subaward information as follows:

- a. The name of entity receiving award
- b. The amount of award
- c. The funding agency
- d. The CFDA program number for grants
- e. The program source
- f. The award title descriptive of the purpose of the funding action
- g. The location of the entity (including congressional district)
- h. The place of performance (including congressional district)
- i. A unique identifier of the entity and its parent; and
- j. Total compensation and names of the top five executives if more than 80% of annual gross revenues are from the Federal government and those revenues are greater than \$25M annually and compensation information is not already available through reporting to the Securities and Exchange Commission.

Condition: Tests of special tests and provisions requirements noted subawards (document no. 11904040) of \$150,000 that were not reported in the FFATA Subaward Reporting System.

Cause: The cause of the above condition is the lack of awareness and monitoring of compliance with special terms and conditions.

Effect: The effect of the above condition is noncompliance with special tests and provisions requirements. No questioned costs are presented as the amounts are allowable.

Recommendation: We recommend that the Program take reasonable steps to implement controls to comply with the special tests and provisions requirements.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Maribel Lose, CCDF Administrator and Roselle Teregeyo, CCDF Accountant

**Corrective Action:** The CCDF Program will establish policies and procedures to ensure that requirements of the Transparency Act of 2006 are addresses.

**Proposed Completion Date:** FY 2016 and ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-046  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL  
 Area: Activities Allowed or Unallowed  
 Questioned Costs: \$327,131

Criteria: In accordance with applicable activities allowed or unallowed requirements, the following apply:

1. Service provider agreements are required and should be supported by a current CNMI business license and a CNMI or U.S. license to practice medicine.
2. Off-island care should be authorized by the Medical Referral Committee prior to services being performed.

Condition: Of eighty-two expenditures tested, the following were noted:

1. For two (or 2%) service providers, the provider agreement or a current CNMI or U.S. license to practice medicine that covered the period services were performed was not available:

<u>General Ledger Date</u>	<u>Document Number</u>	<u>Service Date</u>	<u>Document Not Provided</u>	<u>Amount</u>
06/13/14	1184079	April to May 2014	Agreement, CNMI business license and license to practice medicine	\$ 12,785
09/15/14	1197888	08/14/14 - 08/19/14	Agreement, CNMI business license and license to practice medicine	<u>2,910</u>
				\$ <u>15,695</u>

2. For eight (or 10%) expenditures, documentation that the following off-island care was approved by the Medical Referral Committee prior to services being performed was not available.

<u>General Ledger Date</u>	<u>Document Number</u>	<u>Service Date</u>	<u>Amount</u>
01/15/14	1159655	07/05/13 - 08/02/13	\$ 7,209
06/06/14	1171980	02/20/14 - 04/11/14	4,598
06/06/14	1171981	12/08/12 - 12/03/13	322
06/13/14	1184087	10/24/13 - 12/10/13	38,844
06/13/14	1184089	01/17/14 - 02/27/14	58,181
06/24/14	1186440	10/01/13 - 12/30/13	28,413
07/21/14	1191092	06/04/10 - 12/03/11	5,064
07/21/14	1191093	02/07/14 - 05/28/14	<u>168,805</u>
			\$ <u>311,436</u>

Cause: The cause of the above condition is the lack of systematic filing of relevant documentation supporting service providers and off-island care.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-046, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL  
Area: Activities Allowed or Unallowed  
Questioned Costs: \$327,131

Effect: The effect of the above condition is noncompliance with activities allowed or unallowed requirements and questioned costs of \$327,131.

Recommendation: We recommend that relevant documentation be filed supporting service providers and off-island care.

Prior Year Status: The lack of systematic filing of relevant documentation supporting service providers was reported as a finding in the CNMI Single Audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Director

**Corrective Action:**

Condition 1: We agree with the audit finding. We will inform the provider and will collect the payment from the provider.

Condition 2: We disagree with the audit finding. The patient's referral requests/referral committee approval form and the patient's treatment authorizations were provided.

**Proposed Completion Date:** 09/30/15

Auditor Response: Documentation that off-island care was approved by the Medical Referral Committee prior to services being performed was not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-047  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$15,757

Criteria: In accordance with applicable allowable costs/cost principles requirements, the following apply:

1. Rates billed by service providers must be within the allowable rates of the Medicare Part B, Dental Bureau and/or Pharmacy cost fee schedules.
2. Personnel costs should be allocated to the program at a rate of 50%.

Condition:

1. Of eighty-two expenditures tested, rates for services provided and/or medication prescribed for forty-two (or 51%) were either not listed or exceeded the allowable cost fee schedule.

General Ledger Date	Voucher Number	Quantity	Rate Per Service Provider	Rate Per Allowable Cost Fee Schedule	Amount Per Service Provider	Amount Per Allowable Cost Fee Schedule	Variance	Questioned Costs
05/21/14	1170410	1	\$ 140.00	\$ 18.3000	\$ 77	\$ 10	\$ 67	\$ 37
05/23/14	1170610	1	\$ 339.96	\$ 0.0000	\$ 194	\$ -	\$ 194	111
05/23/14	1170726	1	\$ 100.00	\$ 21.3100	\$ 55	\$ 12	\$ 43	24
06/13/14	1184079	1	\$ 95.00	\$ 37.3900	\$ 83	\$ 21	\$ 62	35
11/01/13	1154591	8	\$ 2.72	not listed	\$ 12	\$ -	\$ 12	7
11/01/13	1154591	30	\$ 0.23	not listed	\$ 4	\$ -	\$ 4	2
11/01/13	1154591	30	\$ 5.08	not listed	\$ 84	\$ -	\$ 84	46
11/01/13	1154591	30	\$ 7.08	not listed	\$ 117	\$ -	\$ 117	64
11/01/13	1154591	30	\$ 7.79	not listed	\$ 128	\$ -	\$ 128	70
11/01/13	1154591	90	\$ 3.71	not listed	\$ 184	\$ -	\$ 184	101
11/01/13	1154591	30	\$ 2.76	not listed	\$ 45	\$ -	\$ 45	25
11/01/13	1154591	60	\$ 0.06	not listed	\$ 2	\$ -	\$ 2	1
11/01/13	1154591	60	\$ 5.58	not listed	\$ 184	\$ -	\$ 184	101
11/01/13	1154591	30	\$ 12.22	\$ 0.0000	\$ 202	\$ -	\$ 202	111
11/01/13	1154591	30	\$ 30.03	not listed	\$ 496	\$ -	\$ 496	273
11/01/13	1154591	30	\$ 12.22	\$ 0.0000	\$ 202	\$ -	\$ 202	111
11/01/13	1154591	300	\$ 0.63	not listed	\$ 104	\$ -	\$ 104	57
11/01/13	1154591	60	\$ 6.24	not listed	\$ 206	\$ -	\$ 206	113
11/01/13	1154591	30	\$ 11.73	not listed	\$ 194	\$ -	\$ 194	106
11/01/13	1154591	40	\$ 7.12	not listed	\$ 157	\$ -	\$ 157	86
11/01/13	1154591	180	\$ 1.73	not listed	\$ 172	\$ -	\$ 172	94
11/01/13	1154591	120	\$ 0.60	not listed	\$ 39	\$ -	\$ 39	21
11/01/13	1154591	60	\$ 0.40	not listed	\$ 13	\$ -	\$ 13	7
12/06/13	1156810	1	\$ 170.00	\$ 79.8400	\$ 94	\$ 44	\$ 50	27
01/15/14	1159617	1	\$ 176.98	\$ 74.8600	\$ 177	\$ 41	\$ 136	136
01/29/14	1160722	180	\$ 0.82	not listed	\$ 81	\$ -	\$ 81	44
02/19/14	1162681	18	\$ 2.81	not listed	\$ 28	\$ -	\$ 28	15
03/25/14	1165425	1	\$ 300.00	\$204.7400	\$ 165	\$ 117	\$ 48	26
04/04/14	1166535	1	\$ 339.96	not listed	\$ 187	\$ -	\$ 187	103
04/24/14	1168186	1	\$ 229.00	\$ 7.3600	\$ 126	\$ 4	\$ 122	67
05/08/14	1169277	1	\$ 326.00	\$ 115.4400	\$ 179	\$ 66	\$ 113	62
05/08/14	1169336	1	\$ 293.91	\$ 261.8400	\$ 162	\$ 144	\$ 18	10
08/21/14	1195257	1	\$ 339.96	\$ 0.0000	\$ 194	\$ -	\$ 194	111
09/12/14	1197742	1	\$ 100.00	\$ 21.3100	\$ 57	\$ 12	\$ 45	26
09/15/14	1197888	1	\$ 146.00	\$ 0.0000	\$ 84	\$ -	\$ 84	48
09/15/14	1198137	1	\$ 395.00	\$ 0.0000	\$ 226	\$ -	\$ 226	129
09/17/14	1198480	1	\$ 84.00	\$ 13.8700	\$ 46	\$ 8	\$ 38	22

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-047, Continued  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$15,757

Condition, Continued:

General Ledger Date	Voucher Number	Quantity	Rate Per Service Provider	Rate Per Allowable Cost Fee Schedule	Amount Per Service Provider	Amount Per Allowable Cost Fee Schedule	Variance	Questioned Costs
09/17/14	1198520	2	\$ 4.78	not listed	\$ 5	\$ -	\$ 5	3
09/19/14	1198856	1	\$ 47.29	not listed	\$ 27	\$ -	\$ 27	15
09/24/14	1199248	1	\$ 158.73	\$ 39.3300	\$ 90	\$ 22	\$ 68	39
09/24/14	1199257	1	\$ 152.53	\$ 136.3000	\$ 84	\$ 78	\$ 6	3
08/07/14	1193701	1	\$ 93.00	\$ 0.0000	\$ 53	\$ -	\$ 53	<u>30</u>
								\$ <u>2,519</u>

2. Total salaries and wages per audit expectation and per the general ledger differ by \$13,238, as follows:

<u>Employee No.</u>	<u>Position</u>	<u>Annual Salary</u>
103081	Administrator	\$ 46,920
640411	Accounting Technician I	13,053
713815	Eligibility Worker I	15,860
210074	Eligibility Worker II	23,706
598384	Accounting Technician I	7,500
101407	HIT Technician III	<u>25,000</u>
Total expected annual salaries and wages		132,139
X Federal rate		<u>50%</u>
Total expected federal program salaries and wages		66,020
Total recorded federal program salaries and wages		<u>79,258</u>
Excess recorded salaries and wages		\$ <u>13,238</u>

Cause: The cause of the above condition is the lack of monitoring to determine accuracy of rates billed by service providers and of personnel costs allocated to the program.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$15,757.

Recommendation: We recommend that the CNMI establish policies and procedures to determine the accuracy of rates billed by service providers and of personnel costs allocated to the program.

Prior Year Status: The lack of review to determine accuracy of rates billed by service providers was reported as a finding in the CNMI Single Audit for fiscal year 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-047, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-  
1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-  
1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-  
1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-  
1305CQIMPL  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$15,757

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Director

**Corrective Action:**

Condition 1: We disagree with the audit finding. Copies of the CNMI Medicaid Provider Agreement for the provider that shows the reimbursement rate for each of the providers were provided.

Condition 2: We agree with the audit finding.

**Proposed Completion Date:**

Auditor Response: The rates were not listed or differ from the Medicare Part B, ASC, Medicaid and CPT codes fee schedules effective in fiscal year 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-048  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL, 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP, 05-1305CQ5ADM and 05-1305CQ5MAP  
 Area: Eligibility  
 Questioned Costs: \$105,299

Criteria: In accordance with Part 2 of the Medicaid Revised Operational Plan, applicants must be eligible based on the criteria set forth in the Revised Operational Plan prior to receiving Medicaid assistance.

In addition, per Section D, Part 2 of the General Waiver Medical Assistance for the Needy Program, Medicaid is furnished to eligible individuals who are U.S. citizens, permanent residents of the CNMI or “qualified aliens” defined under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA).

Additionally, the following documents are required to process applicant applications:

1. Birth certificate or passport for parents and birth certificate for all dependents listed
2. Marriage certificate, if married
3. Social security card for applicant and all dependents listed
4. Banking activities (savings and checking account statements)
5. Two current check stubs for all working applicants
6. Social security check stubs

Condition: Tests of sixty-four eligibility files noted the following:

1. For thirty-one (or 48%), documentation supporting applications was not on file.

Case Number	Certification Effective	Household Member Ref. No.	Documents Not Found in Tenant File and/or Discrepancies Noted	Questioned Costs
14-001267-14 13-19708	04/16/14	1	Affidavit of banking activities (savings or checking account statement)	\$ 77
	11/08/13	2	Social security card	23
14-024167-00 14-010353-00	03/05/14	1	Last name on social security card and passport not consistent with application form; affidavit of banking activities (savings or checking account statement)	84
	11/17/13	1	Affidavit of banking activities (savings or checking account statement) Court order approving legal guardianship for member #3, only a general power of attorney on file from biological parent. No third party documentation on SSI income report.	117
14-021991-00	05/16/14	1 and 3	Affidavit of banking activities (savings or checking account statement)	128
14-011249-01	01/17/14	1	Affidavit of banking activities (savings or checking account statement)	184
14-025684-00	05/16/13	1	Affidavit of banking activities (savings or checking account statement) Court order approving legal guardianship for member #2, only a general power of attorney on file from biological parent.	202
11-020373-00	08/08/13	2	Court order approving legal guardianship for member #3, only a general power of attorney on file from biological parent. No questioned costs result as expenditure tested is for the recipient who is an SSI recipient	202
12-001087-00	03/15/14	3	Affidavit of banking activities (savings or checking account statement)	-
11-009524-00	01/24/14	1	Affidavit of banking activities (savings or checking account statement)	206
14-010369-12	03/07/14	1	Affidavit of banking activities (savings or checking account statement)	194
14-010577-00	03/11/14	1	Affidavit of banking activities (savings or checking account statement); Last name on social security card is not consistent with application form	157
14-024649-00	12/04/12	1	Check stub for social security income	172
17-001597-00	12/05/13	1	Affidavit of banking activities (savings or checking account statement)	94
30-015386-00	03/12/13	2	Court order approving legal guardianship for member #3, only a general power of attorney on file from biological parent	151
14-6262530	02/27/14	3 and 4	Social security card not on file for member #3; first name on SS card for member #4 not consistent with birth certificate	1,667
24-49667-00	02/27/14	3 and 4	Social security card not on file for member #3; first name on SS card for member #4 not consistent with birth certificate	38,469

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-048, Continued  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL, 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP, 05-1305CQ5ADM and 05-1305CQ5MAP  
 Area: Eligibility  
 Questioned Costs: \$105,299

Condition, Continued:

Case Number	Certification Effective	Household Member Ref. No.	Documents Not Found in Tenant File and/or Discrepancies Noted	Questioned Costs
24-73505-01	03/06/14	1	Social security card; Affidavit of banking activities (savings or checking account statement)	19,080
25-55019-00	06/08/13	1	Birth Certificate	407
12-014685-00	09/22/13	2	Check stub for social security income	28
13-002622-00	11/19/13	2	Court order approving legal guardianship for member #2, only a general power of attorney on file from biological parent	71
15-032276-00	02/05/14	1	Affidavit of banking activities (savings or checking account statement)	1,048
16-023178-00	04/14/13	1	Affidavit of banking activities (savings or checking account statement)	65
11-01811-00	02/13/14	2	Social security card and birth certificate	162
15-023110-00	06/11/14	3	Social security card and birth certificate	12,395
16-013257-00	01/16/14	1	Affidavit of banking activities (savings or checking account statement)	10,123
14-024375-00	07/17/13	1	Affidavit of banking activities (savings or checking account statement)	12
26-7287508	09/13/13	2	Social security card	19,414
14-014702-01	05/14/14	1	Affidavit of banking activities (savings or checking account statement)	57
11-015656-00	10/28/13	1	Affidavit of banking activities (savings or checking account statement)	84
15-031457-00	03/18/14	1	Affidavit of banking activities (savings or checking account statement)	226
				<u>\$ 105,299</u>

2. For five (or 8%), resources were incorrectly calculated. No questioned costs result as recipients were determined to be eligible based on correct calculations.

Case Number	Certification Effective	Resources Per Third Party Verification/ As Declared	Resources Per Program	Variance
14-030423-00	11/12/13	\$ 2,248	\$ 2,184	\$ 64
14-025684-00	05/06/13	\$ -	\$ (1)	\$ 1
14-011711-00	10/04/11	\$ 197	\$ 198	\$ (1)
15-013566-00	11/18/13	\$ 53	\$ 229	\$ (176)
30-015386-00	03/12/13	\$ 129	\$ 73	\$ 56

3. For six (or 9%), income was incorrectly calculated. No questioned costs result as recipients were determined to be eligible based on correct calculations.

Case Number	Certification Effective	Income Per Third Party Verification/ As Declared	Income Per Program	Variance
11-002216-00	08/24/13	\$ 815	\$ 811	\$ 4
13-19708	11/08/13	\$ 1,206	\$ 1,384	\$ (179)
14-030423-00	11/12/13	\$ 1,525	\$ 1,485	\$ 40
14-011711-00	10/04/11	\$ 1,178	\$ 1,152	\$ 27
13-002622-00	11/19/13	\$ 449	\$ 493	\$ (44)
12-015610-00	11/06/13	\$ 460	\$ 455	\$ 5

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-048, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL, 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP, 05-1305CQ5ADM and 05-1305CQ5MAP  
Area: Eligibility  
Questioned Costs: \$105,299

Condition, Continued:

4. For two (or 3%), the application for Medicaid assistance was not dated. Therefore, we were unable to determine if the eligibility determination was performed within sixty days of the application date. No questioned costs result as recipients are within the income limit.

<u>Case Number</u>	<u>Certification Effective</u>
12-012528-00	01/18/13
15-03078300	03/16/14

Cause: The cause of the above condition is the lack of adequate control procedures to adhere to eligibility applications, determination and approval processes and obtaining and updating third party verifications.

Effect: The effect of the above condition is noncompliance with eligibility requirements pursuant to the Medicaid Operational Plan and possible use of federal funds for ineligible individuals and questioned costs of \$105,299.

Recommendation: We recommend that the CNMI Medicaid Office establish procedures to adhere to eligibility applications, determination and approval processes and obtaining and updating third party verifications.

Prior Year Status: The lack of adequate control procedures to adhere to the eligibility application, determination and approval process and to obtain and update third party verifications was reported as a finding in the CNMI Single Audits for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Director

**Corrective Action:** We disagree with the audit finding. We are using the SSI criteria and therefore, the audit finding is not part of the SSI criteria to submit the affidavit of savings account, checking accounts, power of attorney or court order approving legal guardianship. Also, the applicants sign either the renewal application form or the new application form and are affirming that all information they have given in the renewal form or new application form is true and correct.

**Proposed Completion Date:** N/A

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-048, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL, 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP, 05-1305CQ5ADM and 05-1305CQ5MAP  
Area: Eligibility  
Questioned Costs: \$105,299

Auditor Response:

- Condition 1: Affidavit of banking activities is not the same document as an affidavit of support and living arrangement. Verbal communication of social security is not acceptable third party documentation. In addition, the dependent receiving Medicaid benefits is not the biological child of the primary participant. We were not provided support that a power of attorney or notarized legal guardianship signed by the biological parents is an acceptable document for inclusion of non-biological dependents into the program. Further, Medicaid numbers stating that no such number exists cannot be true since eligibility testing was indeed performed.
- Condition 2: We were not provided 3<sup>rd</sup> party documentation.
- Condition 3: Income was calculated based on documentation included in the file. Such documentation should clearly indicate how income was derived.
- Condition 4: The application was a re-determination which was not signed by the recipient. Eligibility was effective 03/16/14.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-049  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Grant Numbers: 05-1205CQ5MAP, 05-1205CQ5ADM, 05-1205CQACI, 05-1205CQHIT and 05-1205CQ1935  
 Area: Reporting  
 Questioned Costs: \$-0-

**Criteria:** Section 4.4 of the CNMI's Revised Medicaid Operational Plan requires the Medicaid Agency to submit required reports on an accrual basis, based on financial records maintained by the centralized accounting office (DOF).

**Condition:** Based on total expenditures reported to the grantor for the year ended September 30, 2014, we noted the following variances:

<u>Business Unit</u>	<u>Per Certification</u>	<u>Per General Ledger</u>	<u>Variance</u>
CMS 64	\$ 19,650,160 Less FY13 expenditures included in CMS 64 report	\$ 18,627,853	\$ 1,022,307 <u>(1,173,736)</u>
			(151,429)
SF-425:			
H4778F	\$ -	\$ 157,250	(157,250)
H1778E	\$ -	\$ 3,415	(3,415)
H27784	\$ -	\$ 639,264	(639,264)
H3778C	\$ -	\$ 15,598	(15,598)
H37782	\$ -	\$ 996	(996)
H37783	\$ -	\$ 252	<u>(252)</u>
			\$ <u>(968,204)</u>

**Cause:** The potential cause of the above condition is adjustments made subsequent to the submission of the CMS 64.

**Effect:** The effect of the above condition is noncompliance with Section 4.4 of the Medicaid Operational Plan. The funds drawn down, however, correspond with expenditures recorded in the general ledger; therefore, no questioned costs result from this condition.

**Recommendation:** We recommend that steps be taken to determine that information reported to the grantor is based on actual financial records.

**Prior Year Status:** Noncompliance with Section 4.4 of the Medicaid Operational Plan was reported as a finding in the CNMI Single Audits for fiscal years 2002 through 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Director

**Corrective Action:** We disagree with the audit finding. A fund balance report from DOF, Finance & Accounting Section was provided.

**Proposed Completion Date:** N/A

**Auditor Response:** The general ledger was obtained from DOF which differs from amounts reported on the CMS 64 and SF-425 reports.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-050  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: In accordance with OMB Circular A-133 Compliance Supplement, State agencies must establish and maintain a program for conducting periodic risk analyses to ensure appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. On a biennial basis state agencies shall review the ADP system security of installations involved in the administration of HHS programs. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.

Condition: The biennial review of the Program's ADP system security was not provided.

Cause: The cause of the above condition is the lack of established policies and procedures for the biennial review of the Program's ADP system security.

Effect: The effect of the above condition is noncompliance with special tests and provisions requirements. No questioned costs result as we are unable to quantify the extent of the noncompliance.

Recommendation: We recommend that policies and procedures be established to perform reviews of the Program's ADP system security on a biennial basis.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Director

**Corrective Action:** The CNMI Medicaid Office will establish policies and procedures for the review of the Program's ADP system security and also conduct a biennial review.

**Proposed Completion Date:** FY 2015/Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-051  
 CFDA Programs: USDOC 11.419 Coastal Zone Management Administration Awards  
 USDOC 11.482 Coral Reef Conservation Program  
 USDOT 20.205 Highway Planning and Construction  
 USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support  
 USHHS 93.778 Medical Assistance Program  
 Questioned Costs: \$-0-  
 CFDA Program: USDO I 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Questioned Costs: \$1,923  
 Area: Allowable Costs/Cost Principles

Criteria: In accordance with applicable allowable costs/cost principles requirements, employee certifications are required from employees working for one federal program. Further, in accordance with OMB Circular A-87, costs, to be allowable under federal awards, should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit. Furthermore, where 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.

Condition:

1. Tests of employee activities noted that required certifications are not 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. This condition applies to all major programs tested, except for CFDA #10.551 and CFDA #93.575.

<u>CFDA No.</u>	<u>Estimated No. of Employees</u>	<u>Total Program Payroll Costs</u>
11.419	22	\$ 591,106
11.482	10	\$ 251,790
15.875	7	\$ 230,195
20.205	9	\$ 555,312
66.600	44	\$ 1,517,886
93.778	6	\$ 79,258

2. For one payroll expenditure (or 33%) charged to CFDA 15.875 under grant number CNMI-CIP-2013-7, no activity reports, time cards, or equivalent documentation was provided to support a 50% cost allocation, as follows:

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>	<u>Gross Pay</u>
5649B	02/22/14	403442	\$3,846

The actual expenditure charged to the Program for this Contracting Officer/Governor's Special Legal Counsel is \$1,923 (50% of the employee's gross pay). Questioned costs of \$1,923 are raised as the projected questioned costs exceed \$10,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-051, Continued  
CFDA Programs: USDOC 11.419 Coastal Zone Management Administration Awards  
USDOC 11.482 Coral Reef Conservation Program  
USDOT 20.205 Highway Planning and Construction  
USEPA 66.600 Environmental Protection Consolidated Grants for  
the Insular Areas - Program Support  
USHHS 93.778 Medical Assistance Program  
Questioned Costs: \$-0-  
CFDA Program: USDOI 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
Questioned Costs: \$1,923  
Area: Allowable Costs/Cost Principles

Cause: The cause of the above condition is the lack of awareness regarding required employee certifications and an inability to meet OMB reporting requirements.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles. No questioned cost is presented related to employee certification due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the CNMI require certifications from employees on a semi-annual basis evidencing that employees' are certifying time charged only for program related activities.

Prior Year Status: The lack of employee certifications was reported as a finding in the CNMI Single Audits for fiscal years 2009 through 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:**

**USDOC 11.419:** Frances Castro, Director, DCRM and Frank M. Rabauliman, Administrator, BECQ  
**USDOC 11.482:** Frances Castro, Director, DCRM and Frank M. Rabauliman, Administrator, BECQ  
**USDOI 15.875:** Virginia C. Villagomez, CIP Administrator  
**USDOT 20.205:** James A. Ada, Secretary of Public Works, Anthony Camacho, Acting Director of Technical Services Division and Geralyn C. Dela Cruz, Highway Administrator  
**USEPA 66.600:** Gloria S. Castro, Administrative Service Manager, BECQ  
**USHHS 93.778:** Helen C. Sablan, Medicaid Director

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-051, Continued  
CFDA Programs: USDOC 11.419 Coastal Zone Management Administration Awards  
USDOC 11.482 Coral Reef Conservation Program  
USDOT 20.205 Highway Planning and Construction  
USEPA 66.600 Environmental Protection Consolidated Grants for  
the Insular Areas - Program Support  
USHHS 93.778 Medical Assistance Program  
Questioned Costs: \$-0-  
CFDA Program: USDOI 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
Questioned Costs: \$1,923  
Area: Allowable Costs/Cost Principles

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:**

**USDOC 11.419:** Now that the recipients of USDOC 11.419 are aware of this criteria, semi-annual certifications will be established starting June, 2015 and thereafter on a semi-annual basis to certify that time charged is for federal related activities only. Employees and supervisors will sign-off on the semi-annual certifications for work on a single Federal program. These signed documents will be kept in each employee's personnel file.

**USDOC 11.482:** Now that the recipients of USDOC 11.482 are aware of this criteria, semi-annual certifications will be established starting June, 2015 and thereafter on a semi-annual basis to certify that time charged is for federal related activities only. Employees and supervisors will sign-off on the semi-annual certifications for work on a single Federal program. These signed documents will be kept in each employee's personnel file.

**USDOI 15.875:**

Condition 1: We agree with this finding and the Office of Capital Improvement will comply with applicable federal requirements. A semi-annual time certification form (starting effective period 01/01/15 - 06/30/15) has been developed requiring certification from employees on a semi-annual basis evidencing that employees are certifying time charged for federal related activities only.

Condition 2: The Office of Capital Improvement will adhere to the auditor's recommendation and ensure compliance with federal time certification requirements. As mentioned in Condition 1 response, our office has implemented semi-annual time certification procedures for employees funded 100% under the grant program. Furthermore, all current CIP employees are funded 100% under the grant program and will be required to comply with the time certification policy and procedures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-051, Continued  
CFDA Programs: USDOC 11.419 Coastal Zone Management Administration Awards  
USDOC 11.482 Coral Reef Conservation Program  
USDOT 20.205 Highway Planning and Construction  
USEPA 66.600 Environmental Protection Consolidated Grants for  
the Insular Areas - Program Support  
USHHS 93.778 Medical Assistance Program  
Questioned Costs: \$-0-  
CFDA Program: USDOI 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
Questioned Costs: \$1,923  
Area: Allowable Costs/Cost Principles

Auditee Response and Corrective Action Plan, Continued:

**USDOT 20.205:** The CNMI Department of Public Works (DPW) began implementing the requirement to submit activity timesheets per pay period effective September 2014. These timesheets reflect hours worked solely for the federal aid program administered by the Federal Highway Administration. DPW will continue to implement this system and ensure that all employees performing work under the said program submit and certify the hours associated this program.

**USEPA 66.600:** As of 2014, all BECQ employees began signing bi-weekly timesheets to evidence hours worked on federal grant activities.

This year, BECQ will comply with 2 CFR Part 225 and will certify employee time worked solely on federal programs on a semi-annual basis to satisfy the requirement of OMB A-87.

**USHHS 93.778:** We agree with the audit finding.

**Proposed Completion Dates:**

**USDOI 11.419:** Ongoing.  
**USDOI 11.482:** Ongoing.  
**USDOI 15.875:** Ongoing effort and has no completion date.  
**USDOT 20.205:** Completed and will be continued.  
**USEPA 66.600:** Ongoing.  
**USHHS 93.778:** July 1, 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-052  
CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program  
USDOC 11.419 Coastal Zone Management Administration Awards  
USDOJ 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
USDOT 20.205 Highway Planning and Construction  
USEPA 66.600 Environmental Protection Consolidated Grants for  
the Insular Areas - Program Support  
USHHS 93.575 Child Care and Development Block Grant  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a physical inventory of property must be taken and results reconciled with property records at least every two years.

The CNMI Property Management Policies and Procedures requires the Division of P&S to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction. Further, P&S shall perform random audits of property held by each accountable person to validate the integrity of the property control process.

Further, 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, and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Moreover, when acquiring replacement equipment, the grantee or sub-grantee may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property, subject to the approval of the awarding agency.

Condition: Tests of equipment and real property noted the following:

1. There is no documentation that a complete physical inventory of equipment and property and reconciliation with P&S records was performed over the last two fiscal years.
2. Property records maintained by P&S have missing information or did not include certain required information, such as serial or identification number, source of the property, who holds title, percentage of federal participation in the cost of the property, and use and condition of the property.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and failure to reconcile property records.

Effect: The effect of the above condition is noncompliance with applicable equipment management requirements. See below for cumulative dollar amount of property and equipment acquired with program grant funds.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-052, Continued  
 CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program  
 USDOC 11.419 Coastal Zone Management Administration Awards  
 USDOJ 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 USDOT 20.205 Highway Planning and Construction  
 USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support  
 USHHS 93.575 Child Care and Development Block Grant  
 Area: Equipment and Real Property Management  
 Questioned Costs: \$-0-

Effect, Continued:

<u>CFDA No.</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Grand Total</u>
10.551	\$ 19,653	\$ 389	\$ 12,152	\$ 32,194
11.419	\$ 13,766	\$ 6,338	\$ 48,531	\$ 68,635
15.875	\$ 42,537	\$ 104,272	\$ 298,354	\$ 445,163
20.205	\$ 4,794	\$ 215,990	\$ 119,580	\$ 340,364
66.600	\$ 81,360	\$ 145,748	\$ 174,140	\$ 401,248
93.575	\$ 5,089	\$ 16,852	\$ 4,064	\$ 32,800

Recommendation: We recommend that complete records of property and equipment acquired with grant funds be maintained, physical inventories be performed, and compliance occur with applicable property management policies and procedures.

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and failure to reconcile property records was reported as a finding in the CNMI Single Audits for fiscal years 2007 through 2013.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:**

**USDOA 10.551:** Walter Macaranas, NAP Administrator  
**USDOC 11.419:** Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Herman Sablan, Director, P&S  
**USDOJ 15.875:** Virginia C. Villagomez, CIP Administrator  
**USDOT 20.205:** James A. Ada, Secretary of Public Works, Anthony Camacho, Acting Director of Technical Services Division and Geralyn C. Dela Cruz, Highway Administrator  
**USEPA 66.600:** Gloria S. Castro, Administrative Service Manager, BECQ  
**USHHS 93.575:** Maribel Lose, CCDF Administrator and Vince Rabauliman, CCDF Administrative Manager

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-052, Continued  
CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program  
USDOC 11.419 Coastal Zone Management Administration Awards  
USDOI 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
USDOT 20.205 Highway Planning and Construction  
USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support  
USHHS 93.575 Child Care and Development Block Grant  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:**

**USDOA 10.551:** The physical inventory for FY 2013 was completed on March 19, 2014. The reconciliation performed by P&S for FY 2013 was completed on October 3, 2014. The physical inventory for FY 2014 was completed on September 26, 2014. The reconciliation performed by P&S for FY 2014 was completed on May 7, 2015. NAP will complete the FY 2015 physical inventory by September 30, 2015. At such time, we will request P&S to perform reconciliation of the FY 2015 physical inventory. For each succeeding fiscal year, NAP will perform physical inventories by the closing of each fiscal year period.

**USDOC 11.419:** In response to these findings, BECQ-DCRM is taking appropriate actions to implement procedures to comply with applicable CNMI equipment and real property management policies and procedures. To begin this process, BECQ-DCRM has submitted a letter to the Office of Procurement requesting a detailed listing of all property that is current listed and being controlled. Corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

**USDOT 20.205:** DPW keeps its internal inventory of equipment and property. DPW will send a formal request to P&S to perform a physical inventory of equipment and property. DPW will further ensure that its internal inventory contains the necessary required information (i.e. serial number, source of property, title, etc.)

**USEPA 66.600:** In accordance with the CNMI Property Management Policies and Procedures, P&S is required to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction. Further, P&S shall perform random audits of property held by each accountable person to validate the integrity of the property control process.

BECQ has completed the preliminary In-House Physical Inventory Report and it was submitted to P&S on 05/12/15.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-052, Continued  
CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program  
USDOC 11.419 Coastal Zone Management Administration Awards  
USDOI 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
USDOT 20.205 Highway Planning and Construction  
USEPA 66.600 Environmental Protection Consolidated Grants for  
the Insular Areas - Program Support  
USHHS 93.575 Child Care and Development Block Grant  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

**USHHS 93.575:** The CCDF Office will review its current policies and procedures on property management and will amend them to include random visual “spot checks” throughout the year for all properties and equipment purchased under the Program. It will conduct a review annually of the complete listing of all properties to ensure that the listing is updated.

**Proposed Completion Date:**

**USDOA 10.551:** September 30, 2015  
**USDOC 11.419:** Ongoing, by September 1, 2015.  
**USDOT 20.205:** Letter will be sent by June 5, 2015.  
**USEPA 66.600:** Ongoing.  
**USHHS 93.575:** FY 2016 and ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-053  
 Federal Agency: U.S. Department of Homeland Security  
 CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)  
 Grant Numbers: 1541DRMPP00000001 and 1611DRMPP00000001  
 Area: Reporting  
 Questioned Costs: \$1,386,970

Criteria: Submission of a final Federal Financial Report SF-425 is required to close a grant. Reports submitted to a grantor agency should include all activities of the reporting period and be supported by underlying accounting records.

Condition: Cumulative expenditures reported in the SF-425 do not agree to cumulative expenditures recorded in the general ledger:

<u>Grant No.</u>	<u>Business Unit</u>	<u>Total Cumulative Expenditures Per SF-425</u>	<u>Total Cumulative Expenditures Per General Ledger</u>	<u>Difference</u>
1541DRMPP00000001	M4037L	\$ 6,334,210	\$ 4,987,574	\$ 1,346,636
1611DRMPP00000001	M6036W	\$ 1,046,674	\$ 1,006,953	\$ 39,721

The above grants were closed as of September 30, 2014. Final drawdowns of \$1,346,636 and \$39,721 occurred in January 2013. However, the CNMI did not obligate, incur or record related expenditures. In fiscal year 2014, the balance, inclusive of accrued interest, was transferred to the general fund.

Cause: The cause of the above condition is lack of established policies and procedures to close a grant.

Effect: The effect of the above condition is noncompliance with after-the-grant reporting requirements and questioned costs of \$1,386,970.

Recommendation: We recommend that policies and procedures be established that require information reported to the grantor be based on actual financial records.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Bernadita Palacios, Director, Division of Finance & Accounting, Virginia C. Villagomez, Special Assistant for Management & Budget and Agnes Cepeda, Federal Grants Accounting Supervisor

**Corrective Action:** Expenditures authorized by the grantor have not been recorded in the accounting records. We will follow up with the expenditure authority to record those expenditures.

**Proposed Completion Date:** 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2014

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2014:

Questioned costs as previously reported:	
Fiscal year 2013	\$ 10,288,891
Fiscal year 2012	6,620,691
Fiscal year 2011	4,223,661
Fiscal years 2010 and prior	<u>24,714,864</u>
	45,848,107
Less questioned costs resolved in fiscal year 2014:	
Questioned costs of fiscal year 2002 Single Audit (a)	(146,207)
Questioned costs of fiscal year 2003 Single Audit (a)	(1,309)
Questioned costs of fiscal year 2004 Single Audit (a)	(2,700,930)
Questioned costs of fiscal year 2005 Single Audit (a)	(718,786)
Questioned costs of fiscal year 2006 Single Audit (a)	(1,468,273)
Questioned costs of fiscal year 2007 Single Audit (a)	(2,213,809)
Questioned costs resolved per USDOA letter dated August 7, 2012:	
Fiscal year 2009 Single Audit	(10,899)
Questioned costs resolved per USDOA letter dated June 1, 2012:	
Fiscal year 2009 Single Audit	(5,667)
Questioned costs resolved per USDOA letter dated May 21, 2010:	
Fiscal year 2008 Single Audit	(36,102)
Questioned costs resolved per USDOT letter dated September 9, 2013:	
Fiscal year 2011 Single Audit	(1,072,192)
Questioned costs resolved per USDOC letter dated September 4, 2014:	
Fiscal year 2012 Single Audit	(86,757)
Questioned costs resolved per USDOC letter dated September 8, 2014:	
Fiscal year 2011 Single Audit	(267,934)
Questioned costs resolved per USDOE letter dated May 29, 2014:	
Fiscal year 2012 Single Audit	(1,494,329)
Questioned costs resolved per USDOEd letter dated May 8, 2015:	
Fiscal year 2012 Single Audit	(10,043)
Questioned costs resolved per USDOL letter dated September 29, 2014:	
Fiscal year 2013 Single Audit	(1,125,195)
Fiscal year 2012 Single Audit	(965,845)
Fiscal year 2011 Single Audit	(520,324)
Fiscal year 2010 Single Audit	(1,172,693)
Fiscal year 2009 Single Audit	(2,810,617)
Fiscal year 2008 Single Audit	(6,584,292)
Questioned costs resolved per USEPA letter dated February 5, 2015:	
Fiscal year 2013 Single Audit	<u>(2,524)</u>
	22,433,380
Questioned costs of fiscal year 2014 Single Audit	<u>3,754,204</u>
Unresolved questioned costs at September 30, 2014	\$ <u>26,187,584</u>

- (a) OMB Circular A-133, Section .315(b)(4) - questioned costs are treated as resolved as the CNMI considers these findings are no longer valid as 1) two years have passed since the audit report in which the findings occurred was submitted to the Federal Audit Clearinghouse, 2) federal agencies are not currently following up on the questioned costs, and 3) management decisions were not issued by federal agencies.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 17 through 127).



Office of the Secretary  
Department of Finance



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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### FINANCIAL STATEMENT FINDINGS

Finding No. 2011-01	- Corrective action was taken. See corrective action plan to Finding No. 2012-01.
Finding No. 2011-02	- Not corrected. See corrective action plan to Finding No. 2014-002.
Finding No. 2011-03	- Corrective action was taken. See corrective action plan to Finding No. 2013-002.
Finding No. 2011-06	- Not corrected. See corrective action plan to Finding No. 2014-003.
Finding No. 2011-07	- Corrective action was taken. See corrective action plan to Finding No. 2012-06.
Finding No. 2011-09	- Corrective action was taken. See corrective action plan to Finding No. 2013-005.
Finding No. 2011-10	- Corrective action was taken. See corrective action plan to Finding No. 2012-08.
Finding No. 2011-11	- Not corrected. See corrective action plan to Finding No. 2014-007.
Finding No. 2011-12	- Corrective action was taken. See corrective action plan to Finding No. 2012-10.
Finding No. 2011-13	- Corrective action was taken. See corrective action plan to Finding No. 2013-007.
Finding No. 2011-14	- Corrective action was taken. See corrective action plan to Finding No. 2012-12.
Finding No. 2011-15	- Not corrected. See corrective action plan to Finding No. 2014-008.
Finding No. 2011-16	- Not corrected. See corrective action plan to Finding No. 2014-009.
Finding No. 2011-17	- Not corrected. See corrective action plan to Finding No. 2014-010.
Finding No. 2011-18	- Not corrected. See corrective action plan to Finding No. 2014-011.
Finding No. 2011-20	- Not corrected. See corrective action plan to Finding No. 2014-016.
Finding No. 2011-21	- Not corrected. See corrective action plan to Finding No. 2014-015.
Finding No. 2011-22	- Corrective action was taken. See corrective action plan to Finding No. 2012-19.

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Finding No. 2012-01	- Corrective action was taken.
Finding No. 2012-02	- Not corrected. See corrective action plan to Finding No. 2014-002.
Finding No. 2012-03	- Corrective action was taken. See corrective action plan to Finding No. 2013-002.
Finding No. 2012-04	- Corrective action was taken. See corrective action plan to Finding No. 2013-003.
Finding No. 2012-05	- Not corrected. See corrective action plan to Finding No. 2014-003.
Finding No. 2012-06	- Corrective action was taken.
Finding No. 2012-07	- Corrective action was taken. See corrective action plan to Finding No. 2013-005.
Finding No. 2012-08	- Corrective action was taken.
Finding No. 2012-09	- Not corrected. See corrective action plan to Finding No. 2014-007.
Finding No. 2012-10	- Corrective action was taken.
Finding No. 2012-11	- Corrective action was taken. See corrective action plan to Finding No. 2013-007.
Finding No. 2012-12	- Corrective action was taken.
Finding No. 2012-13	- Not corrected. See corrective action plan to Finding No. 2014-008.
Finding No. 2012-14	- Not corrected. See corrective action plan to Finding No. 2014-009.
Finding No. 2012-15	- Not corrected. See corrective action plan to Finding No. 2014-010.
Finding No. 2012-16	- Not corrected. See corrective action plan to Finding No. 2014-011.
Finding No. 2012-17	- Not corrected. See corrective action plan to Finding No. 2014-012.
Finding No. 2012-18	- Not corrected. See corrective action plan to Finding No. 2014-015.
Finding No. 2012-19	- Corrective action was taken.
Finding No. 2012-20	- Not corrected. See corrective action plan to Finding No. 2014-016.
Finding No. 2012-21	- Corrective action was taken.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

### FINANCIAL STATEMENT FINDINGS, CONTINUED

- Finding No. 2013-001 - Not corrected. See corrective action plan to Finding No. 2014-002.
- Finding No. 2013-002 - Corrective action was taken.
- Finding No. 2013-003 - Corrective action was taken.
- Finding No. 2013-004 - Not corrected. See corrective action plan to Finding No. 2014-003.
- Finding No. 2013-005 - Corrective action was taken.
- Finding No. 2013-006 - Not corrected. See corrective action plan to Finding No. 2014-007.
- Finding No. 2013-007 - Corrective action was taken.
- Finding No. 2013-008 - Not corrected. See corrective action plan to Finding No. 2014-008.
- Finding No. 2013-009 - Not corrected. See corrective action plan to Finding No. 2014-009.
- Finding No. 2013-010 - Not corrected. See corrective action plan to Finding No. 2014-010.
- Finding No. 2013-011 - Not corrected. See corrective action plan to Finding No. 2014-011.
- Finding No. 2013-012 - Not corrected. See corrective action plan to Finding No. 2014-012.
- Finding No. 2013-013 - Not corrected. See corrective action plan to Finding No. 2014-015.
- Finding No. 2013-014 - Not corrected. See corrective action plan to Finding No. 2014-016.

### FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- Finding No. 2011-28 - Corrective action was taken. See corrective action plan to Finding No. 2012-23.
- Finding No. 2011-29 - Corrective action was taken. See corrective action plan to Finding No. 2013-021.
- Finding No. 2011-30 - Finding resolved.
- Finding No. 2011-31 - Not corrected. See corrective action plan to Finding No. 2014-035.
- Finding No. 2011-32 - Corrective action was taken. See corrective action plan to Finding No. 2012-33.
- Finding No. 2011-33 - Finding resolved.
- Finding No. 2011-36 - Corrective action was taken. See corrective action plan to Finding No. 2012-37.
- Finding No. 2011-37 - Corrective action was taken. See corrective action plan to Finding No. 2012-38.
- Finding No. 2011-41 - Not corrected. See corrective action plan to Finding No. 2014-049.
- Finding No. 2011-42 - Finding resolved.
- Finding No. 2011-43 - Not corrected. See corrective action plan to Finding No. 2014-052.
- Finding No. 2011-45 - Finding resolved.
- Finding No. 2011-46 - Finding resolved.
- Finding No. 2011-47 - Corrective action was taken. See corrective action plan to Finding No. 2013-043.

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- Finding No. 2012-22 - Not corrected. See corrective action plan to Finding No. 2014-017.
  - Finding No. 2012-23 - Corrective action was taken.
  - Finding No. 2012-24 - Corrective action was taken. See corrective action plan to Finding No. 2013-020.
  - Finding No. 2012-25 - Finding resolved.
  - Finding No. 2012-26 - Corrective action was taken.
  - Finding No. 2012-27 - Finding resolved.
  - Finding No. 2012-28 - Finding resolved.
  - Finding No. 2012-29 - Corrective action was taken. See corrective action plan to Finding No. 2013-024.
  - Finding No. 2012-30 - Not corrected. See corrective action plan to Finding No. 2014-035.
  - Finding No. 2012-31 - Corrective action was taken. See corrective action plan to Finding No. 2013-026.
  - Finding No. 2012-32 - Corrective action was taken.
  - Finding No. 2012-33 - Corrective action was taken.
  - Finding No. 2012-34 - Finding resolved.
  - Finding No. 2012-35 - Corrective action was taken. See corrective action plan to Finding No. 2013-032.
  - Finding No. 2012-36 - Corrective action was taken.
  - Finding No. 2012-37 - Corrective action was taken.
  - Finding No. 2012-38 - Corrective action was taken.
  - Finding No. 2012-39 - Not corrected. See corrective action plan to Finding No. 2014-051.
  - Finding No. 2012-40 - Not corrected. See corrective action plan to Finding No. 2014-048.
  - Finding No. 2012-41 - Corrective action was taken. See corrective action plan to Finding No. 2013-039.
  - Finding No. 2012-42 - Not corrected. See corrective action plan to Finding No. 2014-049.
  - Finding No. 2012-43 - Finding resolved.
  - Finding No. 2012-44 - Not corrected. See corrective action plan to Finding No. 2014-052.
  - Finding No. 2012-45 - Finding resolved.
  - Finding No. 2012-46 - Finding resolved.
  - Finding No. 2012-47 - Corrective action was taken.
  - Finding No. 2012-48 - Corrective action was taken. See corrective action plan to Finding No. 2013-043.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

### FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

Finding No. 2013-015 - Not corrected. See corrective action plan to Finding No. 2014-017.  
 Finding No. 2013-016 - Corrective action was taken.  
 Finding No. 2013-017 - Not corrected. See corrective action plan to Finding No. 2014-018.  
 Finding No. 2013-018 - Not corrected. See corrective action plan to Finding No. 2014-019.  
 Finding No. 2013-019 - Corrective action was taken.  
 Finding No. 2013-020 - Corrective action was taken.  
 Finding No. 2013-021 - Finding resolved.  
 Finding No. 2013-022 - Finding resolved.  
 Finding No. 2013-023 - Finding resolved.  
 Finding No. 2013-024 - Corrective action was taken.  
 Finding No. 2013-025 - Not corrected. See corrective action plan to Finding No. 2014-035.  
 Finding No. 2013-026 - Finding resolved.  
 Finding No. 2013-027 - Not corrected. See corrective action plan to Finding No. 2014-038.  
 Finding No. 2013-028 - Finding resolved.  
 Finding No. 2013-029 - Not corrected. See corrective action plan to Finding No. 2014-040.  
 Finding No. 2013-030 - Corrective action was taken.  
 Finding No. 2013-031 - Corrective action was taken.  
 Finding No. 2013-032 - Corrective action was taken.  
 Finding No. 2013-033 - Corrective action was taken.  
 Finding No. 2013-034 - Corrective action was taken.  
 Finding No. 2013-035 - Corrective action was taken.  
 Finding No. 2013-036 - Not corrected. See corrective action plan to Finding No. 2014-046.  
 Finding No. 2013-037 - Not corrected. See corrective action plan to Finding No. 2014-047.  
 Finding No. 2013-038 - Not corrected. See corrective action plan to Finding No. 2014-048.  
 Finding No. 2013-039 - Corrective action was taken.  
 Finding No. 2013-040 - Not corrected. See corrective action plan to Finding No. 2014-049.  
 Finding No. 2013-041 - Not corrected. See corrective action plan to Finding No. 2014-051.  
 Finding No. 2013-042 - Not corrected. See corrective action plan to Finding No. 2014-052.  
 Finding No. 2013-043 - Corrective action was taken.

Finding No.	CFDA No.	Program Name	Questioned Costs
Questioned costs of fiscal year 2002 Single Audit:			
2002-11	10.551	Supplemental Nutrition Assistance Program	\$ 635
2002-12	10.551	Supplemental Nutrition Assistance Program	<u>145,572</u>
			<u>146,207</u>
Questioned costs of fiscal year 2003 Single Audit:			
2003-12	10.551	Supplemental Nutrition Assistance Program	<u>1,309</u>
Questioned costs of fiscal year 2004 Single Audit:			
2004-12	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	16,831
	15.605	Sports Fish Restoration Program	184,326
	15.605	Sports Fish Restoration Program	45,000
2004-13	97.004	Homeland Security Grant Program	713,115
2004-14	10.551	Supplemental Nutrition Assistance Program	
	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	
	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	
	93.778	Medical Assistance Program	
	97.004	Homeland Security Grant Program	
	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
	97.052	Emergency Operations Center	1,738,222
2004-15	10.551	Supplemental Nutrition Assistance Program	572
2004-16	10.551	Supplemental Nutrition Assistance Program	<u>2,864</u>
			<u>2,700,930</u>

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

### FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

Finding No.	CFDA No.	Program Name	Questioned Costs
Questioned costs of fiscal year 2005 Single Audit:			
2005-12	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	134,114
	15.605	Sports Fish Restoration Program	28,800
2005-13	17.258	WIA Adult Program	
	17.259	WIA Youth Activities	
	17.260	WIA Dislocated Workers	6,553
2005-14	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	11,860
2005-15	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	15,966
2005-16	17.258	WIA Adult Program	
	17.259	WIA Youth Activities	
	17.260	WIA Dislocated Workers	471,973
2005-17	17.258	WIA Adult Program	
	17.259	WIA Youth Activities	
	17.260	WIA Dislocated Workers	42,000
2005-18	17.258	WIA Adult Program	
	17.259	WIA Youth Activities	
	17.260	WIA Dislocated Workers	<u>7,520</u>
			<u>718,786</u>
Questioned costs of fiscal year 2006 Single Audit:			
2006-17	10.551	Supplemental Nutrition Assistance Program	
	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	
	64.603	State Cemetery Grants	
	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	
	93.778	Medical Assistance Program	
	97.004	Homeland Security Grant Program	
	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
	97.067	Homeland Security Grant Program	253,789
2006-18	93.778	Medical Assistance Program	135,858
2006-19	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	
	97.004	Homeland Security Grant Program	
	97.067	Homeland Security Grant Program	32,884
2006-20	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	24,732
2006-21	93.778	Medical Assistance Program	7,518
2006-22	10.551	Supplemental Nutrition Assistance Program	521
2006-23	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	257,817
2006-24	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	85,345
2006-25	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	213,224
2006-26	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	9,378
2006-27	97.004	Homeland Security Grant Program	
	97.067	Homeland Security Grant Program	70,901
2006-28	97.004	Homeland Security Grant Program	
	97.067	Homeland Security Grant Program	196,248
2006-29	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	139,172
2006-30	93.778	Medical Assistance Program	<u>40,886</u>
			<u>1,468,273</u>
Questioned costs of fiscal year 2007 Single Audit:			
2007-12	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	16,286
2007-13	93.778	Medical Assistance Program	1,989
2007-14	93.778	Medical Assistance Program	225,149
2007-15	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	9,304
2007-16	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	8,773
2007-17	93.778	Medical Assistance Program	503
2007-18	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	583,660
2007-19	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	90,000
2007-20	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	62,847

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED**

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED**

<b>Finding No.</b>	<b>CFDA No.</b>	<b>Program Name</b>	<b>Questioned Costs</b>
Questioned costs of fiscal year 2007 Single Audit, continued:			
2007-21	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	64,900
2007-22	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	658,149
2007-23	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	17,027
2007-24	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	80,927
2007-25	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	41,196
2007-26	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	88,815
2007-27	93.778	Medical Assistance Program	251,170
2007-28	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>13,114</u>
			<u>2,213,809</u>
			<u>\$ 7,249,314</u>

The above questioned costs are treated as resolved as the CNMI considers these findings are no longer valid as 1) two years have passed since the audit report in which the findings occurred was submitted to the Federal Audit Clearinghouse, 2) federal agencies are not currently following up on the questioned costs, and 3) management decisions were not issued by federal agencies.