

EXECUTIVE SUMMARY

CNMI Single Audit Report as of September 30, 2007

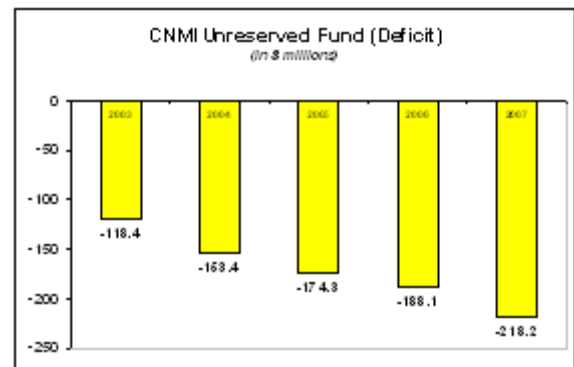
Single Audit Summary No. 08-002, July 14, 2008

Summary

The Office of the Public Auditor (OPA) contracted with Deloitte, an independent auditing firm, to conduct the CNMI-Wide Single Audit for the fiscal year ended September 30, 2007. The audit was conducted in accordance with auditing standards generally accepted in the United States and with applicable provisions of *Government Auditing Standards* issued by the Comptroller General of the United States. This summary presents OPA's review of Deloitte's *Report on the Audit of Financial Statements in Accordance with OMB Circular A-133*. As such, no audit opinion on the related data is expressed nor inferred by OPA.

Cumulative Unreserved Fund Deficit reaches \$218.2 Million in FY 2007

The CNMI General Fund cumulative unreserved fund deficit increased to \$218.2M in FY07 from \$188.1M in FY06, an increase of \$30.1M. This is an 84% increase since FY03. The deficit is in large part the result of under funding of employer retirement contributions and related penalties. Suspension of government obligations occurred for parts of FY06 and all of FY07. The cumulative amount due to the pension (and other employee benefit) trust fund grew to \$175.1M as of the end of FY07.



Revenue collections dropped by 17%

Actual General Fund revenue collections totaled \$159.9M, a decrease of \$32.8M from the prior year. The General Fund receives the bulk of its revenue in taxes (income, business gross, excise), charges for sales and services, and licenses and fees. Declines in revenue is related to the drop in tourist arrivals to the islands, significantly reduced garment manufacturing activity, and the general downturn in the economy.

Expenditures decreased by 7.6%

Reduced budget allotments and the imposition of austerity measures by the Administration have led to cut backs in General Fund expenditures. Actual General Fund expenditures decreased by \$15.9M from \$209.0M in FY06 to \$193.1M in FY07. Salaries and wages, which constitute the largest expenditure item, decreased 7.4% from \$109.3M in FY06 to \$101.2M in FY07. Other reductions include utilities which decreased by \$5.8M, travel by \$876K, and supplies by \$875K. Increases occurred in other areas including professional services, capital outlays, and repairs & maintenance.

Questioned Costs Increased to \$7.2 Million

Federal awards by grantor agencies require that recipients comply with grant terms and conditions. Questioned costs can result in the return of grant funds by the CNMI to the Federal grantor agencies. For FY07, questioned costs increased by \$2.2M, bringing the total amount to \$7.2M. Of the \$2.2M in questioned costs in FY07, \$584K related to issues regarding period of availability, and \$658K related to procurement, suspension, and debarment concerns.



Audit Findings

Audit “findings” represent known violations of accounting principles and noncompliance with and/or weaknesses in internal controls. There was one additional finding reported by the auditors, bringing the total to 53. Of the prior findings, 19 had corrective actions taken. For FY07, there were 11 reported findings relating to the financial statements of which 10 had significant deficiencies in internal control over financial reporting, 5 had material weaknesses, while 1 instance reported noncompliance or other matters.

Among the major findings reported by the auditors were:

- 1) unaudited financial statements for major component units, including the Commonwealth Utilities Corporation, the Public School System, the Northern Mariana Islands Retirement Fund, and the Commonwealth Development Authority;
- 2) lack of policies and procedures relating to billing and collection procedures at the Commonwealth Health Center;
- 3) outstanding travel advances of \$1.5M, of which \$1.1M represents carry forwards from prior years.

In addition, with respect to Federal awards, 42 were reported to be noncompliant with requirements established by OMB Circular A-133.

Audit Opinion

The auditor’s “opinion” represents a statement by the auditor as to the degree of reliability that can be placed on the financial statements. The highest standard is called an “unqualified opinion.” This means that the auditor states that the “statements present fairly, in all material respects, the financial condition” of the audited entity. The next level of an auditor’s opinion is a “qualified opinion.” In this case, the auditor’s statement would include the wording “except for” and then a description of the area(s) that cannot be relied upon. The lowest standard is called an “adverse opinion” in which the auditor states that the financial statements cannot be relied upon.

The CNMI’s FY07 financial statements received a “Qualified” audit opinion from the independent auditors on the financial statements. The major qualifications cited by the auditors included:

- 1) The CNMI’s inability to determine the propriety of tax rebates payable and amounts due to component units balances, and their effect on the determination of revenues and expenditures/expenses.
- 2) The CNMI’s inability to determine the propriety of receivable from a related party of the Commonwealth Ports Authority (CPA).
- 3) The submission of unaudited financial statements of the Northern Mariana Islands Retirement Fund, the Government Health and Life Insurance Trust Fund, Workers’ Compensation Commission; the Commonwealth Development Authority; the Commonwealth Utilities Corporation; and the Public School System.



A copy of the full financial statements may be obtained from the Office of the Public Auditor

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