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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Problems With New Responsibilities Of Self-Government In The Northern Mariana Islands

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The Northern Mariana Islands Government is the first government to be established from the Trust Territory of the Pacific Islands. Despite the relatively large amount and variety of Federal funds the Islands receive, its government has an operating deficit which could lead to a fiscal crisis if serious financial problems are not corrected. A major cause of these problems is the lack of qualified personnel to supervise and carry out necessary accounting functions.

The Congress should make sure that the Northern Mariana Islands, as well as other new governments to emerge from the Trust Territory, receive sufficient technical assistance to help them manage their Federal funds.

U.S. General Accounting Office

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COMPTROLLER GENERAL OF THE UNITED STATES
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To the President of the Senate and the
Speaker of the House of Representatives

The United States eventually will be financially supporting four new and separate political entities in the Pacific Ocean. This report describes how well the first of these new governments--in the Northern Mariana Islands--has been able to absorb and manage Federal funds, following its January 1978 establishment.

Copies of this report are being sent to the Secretary of the Interior; the Director, Office of Management and Budget; the Governor of the Northern Mariana Islands; and to appropriate congressional committees.

Comptroller General
of the United States

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COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

PROBLEMS WITH NEW RESPONSIBILITIES OF SELF-GOVERNMENT IN THE NORTHERN MARIANA ISLANDS

D I G E S T

On January 9, 1978, the people of the Northern Mariana Islands established a system of self-government under a covenant with the United States. The Government of the Northern Mariana Islands is the first government to emerge as a result of the negotiations determining the future political status of the Trust Territory of the Pacific Islands. Negotiations are continuing to determine the future political status of the Federated States of Micronesia, Palau, and the Marshall Islands and the amount of Federal assistance each will receive.

The Government of the Northern Mariana Islands depends heavily on the Federal Government for financial support. Under the terms of the covenant, about 72 percent of total revenues of $26 million came from direct payments by the Federal Government in fiscal year 1979. As of June 1979, the Northern Mariana Islands were also receiving financial assistance through 87 Federal grant programs which totaled about $18 million.

It is to be expected that a newly established government will have organizational problems and problems in handling fiscal affairs. This is true with respect to the Government of the Northern Mariana Islands. The development needs of the Islands are great, but until the Government overcomes serious financial management problems, GAO doubts that it will be able to effectively absorb and manage the funds it receives. The total amount of Federal assistance the Government receives is relatively large compared to its management capabilities and the Northern Mariana Islands population of 17,000.

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Other factors have limited the effective use of funds by the Government of the Northern Mariana Islands. These include the prolonged absence of an approved spending plan because of a political battle between the executive and legislative branches and the lack of an approved master development plan. (See pp. 7 and 8.)

Ideally GAO believes single-source funding would be a simpler and perhaps more appropriate method for delivering the substantial Federal assistance now received under numerous Federal grants. Short of changing the Federal laws which provide grants to the Islands, GAO sees no effective means for the Federal Government to control the level of funds the Government of the Northern Mariana Islands receives or to make sure that these grant funds meet the most urgent needs of the Islands. (See ch. 3.)

Recordkeeping and controls are unreliable. Officials cannot accurately report on the Government's financial condition or the amounts of funds received or spent. Despite the amount and variety of Federal funds the Northern Mariana Islands receive, its government has been unable to operate within its budget. The Government has an operating deficit which could lead to a fiscal crisis if its serious financial problems are not corrected. (See p. 16.) A major cause of these problems is the lack of qualified personnel to supervise and carry out necessary accounting functions. (See p. 17.)

The Federal Government did not provide sufficient technical assistance or effective oversight before the Northern Mariana Islands established its system of self-government. Consequently the Islands failed to develop an adequate economic base, a skilled labor force and the roads, utilities, health facilities, and other institutions and facilities necessary to stimulate and sustain economic growth. Until an adequate financial management system is established, development in the Northern Mariana Islands will likely be restrained and available funds wasted.

The executive branch recently defined its policy with respect to its territories and the Trust Territory. GAO believes that the policy statement and proposed actions by the executive branch could significantly affect the development of the Northern Mariana Islands. (See ch. 5.)

The U.S. Government Comptroller for Guam, who is under the Department of the Interior Office of Territorial Affairs, is responsible for auditing all government accounts of the Trust Territory of the Pacific Islands, including the Northern Mariana Islands. The U.S. Government Comptroller for Guam also provides technical assistance in the financial management area, on request. Although it is the primary responsibility of the Government of the Northern Mariana Islands to correct financial management deficiencies and to prevent their recurrence, outside technical assistance is needed.

The trusteeship agreement under which the United States has administered the Trust Territory of the Pacific Islands is expected to end by 1981. Termination of the agreements will also end the authority of the U.S. Government Comptroller for Guam. (See p. 21.)

RECOMMENDATIONS TO THE CONGRESS

To insure that accounts are adequately audited and appropriate actions taken to correct reported deficiencies, the Congress should extend the authority of the U.S. Government Comptroller for Guam to audit accounts after the trusteeship agreement ends. The Congress should also review the policy decisions made by the executive branch to resolve problems associated with U.S. relations with the Northern Mariana Islands. If the action programs established to implement the stated policy do not adequately help the Northern Mariana Islands in developing its economic base, the Congress should require that the executive branch establish improved technical assistance programs.

MATTERS FOR CONGRESSIONAL CONSIDERATION

The Federal Government will eventually be providing financial support to the governments emerging from the Federated States of Micronesia, Palau, and the Marshall Islands. The Congress should consider GAO's findings when deliberating about the levels of Federal assistance because these problems may not be unique to the Government of the Northern Mariana Islands. In addition, at that time, the Congress should consider (1) the need to continue Federal oversight through an organization such as the U.S. Government Comptroller for Guam and (2) the associated need to provide effective help to promote development.

COMMENTS BY THE DEPARTMENT OF THE INTERIOR AND THE GOVERNOR OF THE NORTHERN MARIANA ISLANDS.

The Department of the Interior found GAO's report to be a useful summary of government efforts to establish itself and to analyze its problems. Interior officials said that they have been concerned about many of the items discussed in the report and have been trying to help the Government of the Northern Mariana Islands to deal with them. Interior's specific comments are included in the report. (See app. II.)

The Governor of the Northern Mariana Islands generally agreed with GAO's findings. He said the report is fairly presented and recognizes the organizational and accounting problems that resulted from the transfer of inadequate records from the Trust Territory Government. He also informed GAO of several actions his administration was planning and undertaking to improve government operations. (See app. III.)

Comments from the Governor and the Department of the Interior are discussed further in chapter 6.

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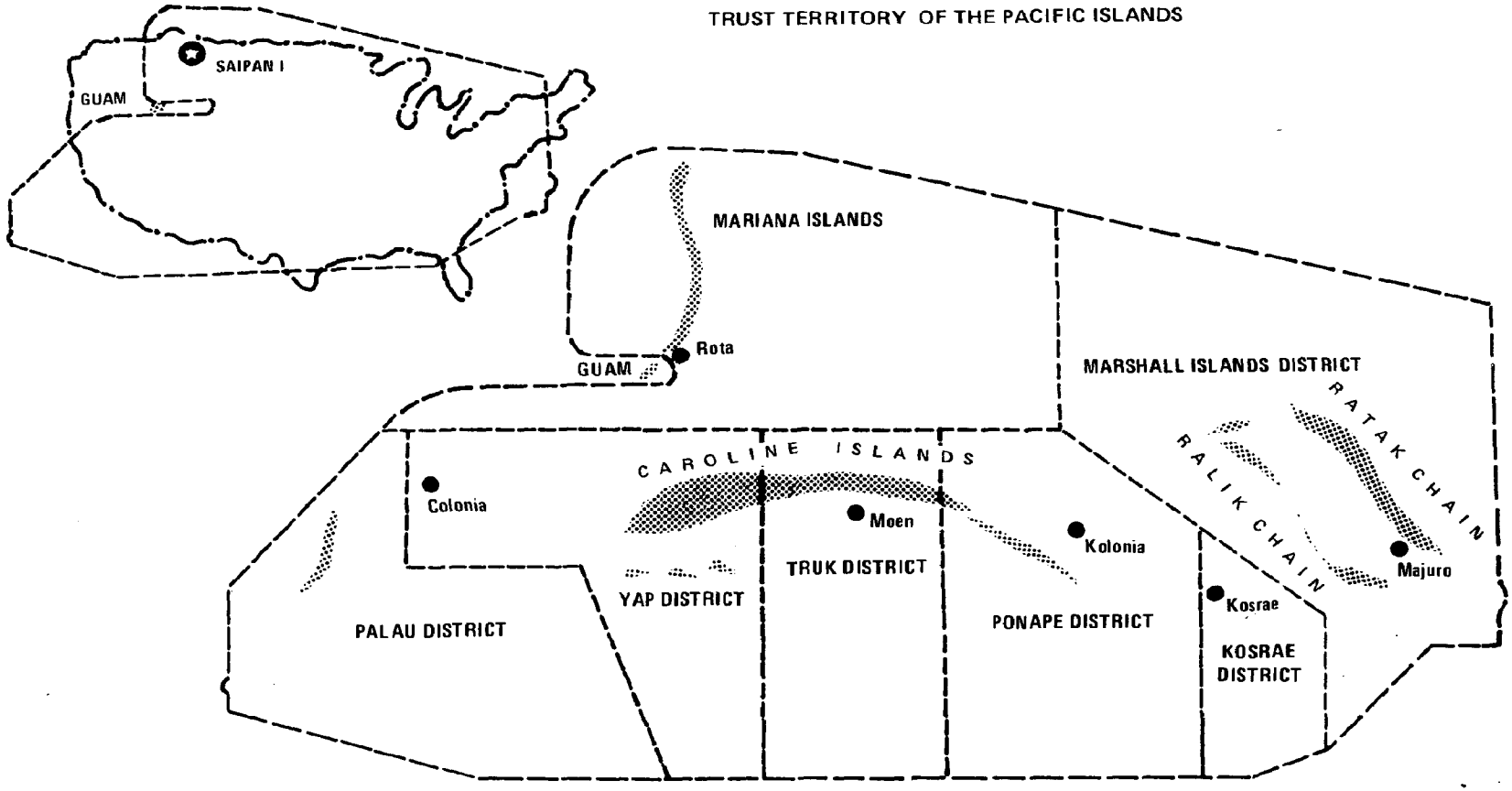
ABBREVIATIONS

GAO	General Accounting Office
GNMI	Government of the Northern Mariana Islands
USDA	U.S. Department of Agriculture

TRUST TERRITORY OF THE PACIFIC ISLANDS



CHAPTER 1

INTRODUCTION

On January 9, 1978, the people of the Northern Mariana Islands established a system of self-government. The Government of the Northern Mariana Islands (GNMI) is the first government to emerge as a result of negotiations determining the future political status of the Trust Territory of the Pacific Islands. 1/ The United States has been the administering authority of the Trust Territory since 1947 under a trusteeship agreement with the United Nations. As administering authority, the United States has undertaken to promote the political, economic, social, and educational advancement of its 120,000 inhabitants.

The Navy administered the Northern Mariana Islands from 1947 to 1962, except for a brief administrative period by the Department of the Interior. The President transferred administrative responsibility by Executive order to the Secretary of the Interior in 1962.

In 1969, negotiations began between United States and Trust Territory representatives to determine the future of the Trust Territory. The United States initially attempted to negotiate a single political status for a unified territory, but local differences and the different histories of the various peoples in the Trust Territory made this infeasible. In 1972, separate negotiations began with the Northern Mariana Islands.

An agreement was subsequently negotiated, outlining the Northern Mariana Islands political and financial relationship with the United States. On March 24, 1976, the President of the United States approved the agreement as Public Law 94-241 (90 Stat. 263), the "Convenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America." Among its provisions, the covenant guarantees the right of internal self-government under a constitution created by its people. It also obligates

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1/The Trust Territory, commonly referred to as Micronesia, includes more than 2,000 islands and islets and covers about 3 million square miles of the Western Pacific Ocean, just above the equator. (See map.) The U.S. Territory of Guam, which forms the southern part of the Mariana Islands, is not a part of the Trust Territory.

the United States to financially assist the GNMI transition into the American economic and political family.

The Secretary of the Interior's supervision over the internal affairs of the Northern Mariana Islands essentially ended when the elected governor was inaugurated on January 9, 1978. The U.S. Government Comptroller for Guam, under the Interior Office of Territorial Affairs, remains responsible for auditing all government accounts of the Trust Territory, including the Northern Mariana Islands. His audit authority expires upon termination of the trusteeship agreement.

Negotiations continue to finalize the future political status and the amount of Federal assistance each will receive for the new governments of the Federated States of Micronesia (formerly the Trust Territory districts of Yap, Ponape, Truk, and Kosrae), Palau, and the Marshall Islands. The United States has stated it will not propose ending the trusteeship agreement until all negotiations with those governments are completed, and termination can be recommended at a single time applicable for the entire Trust Territory. The President has set 1981 as a target date for termination of the trusteeship agreement.

When the trusteeship agreement is terminated, the Northern Mariana Islands will officially become a self-governing commonwealth.1/ Its residents at that time will become U.S. citizens. These residents will not be eligible to vote in Presidential elections, however.

THE NORTHERN MARIANA ISLANDS--GENERAL CHARACTERISTICS

The Northern Mariana Islands consist of 16 islands in the Pacific Ocean about 3,500 miles west of Hawaii. Only six of the islands are regularly inhabited. Most of the population, estimated to be at least 17,000, is concentrated on the major islands of Saipan, Rota, and Tinian.

The capital of the Northern Mariana Islands is located on Saipan, the largest and most populous island, encompassing 45 square miles and 80 percent of the population. Saipan is also the commercial and transportation hub of the Islands and the headquarters for the Trust Territory government.

1/The term "commonwealth" denotes a permanent relationship between the United States and the Northern Mariana Islands, which in its fundamental respect cannot be changed by one party without the consent of the other.

The Northern Mariana Islands lacks a strong economic base, a skilled labor force, as well as the roads, utilities, health, and other facilities necessary to stimulate and sustain economic growth. The economy mostly depends on government employment--more than 30 percent of its 6,000 work force employed by GNMI and the Trust Territory headquarters.

The tourist industry is one of the major businesses in the private sector, with the remainder consisting of many small merchandising and service businesses. Per capita annual income in the Northern Mariana Islands is estimated to be at least $2,700.

The agricultural industry is unable to meet the local demand for food. Federal food programs, such as the U.S. Department of Agriculture commodity-distribution program, tend to serve as deterrents to local agriculture development. Only a portion of the potential cropland is used. Soil, climate, disease, and insects also contribute to the limited agricultural development in the Northern Mariana Islands.

The remote location of the Northern Mariana Islands makes goods costly. Most raw materials and other supplies are imported at high transportation costs. In addition, shippers have been discouraged by its inadequate port.

Before the Islands can develop economically, the labor force must be trained. The citizens are reluctant to accept certain work, especially in construction. As a result, there is a need to import alien workers. As of April 1979, aliens represented nearly 30 percent of the work force.

SCOPE OF REVIEW

Our work was directed primarily toward the ability of GNMI to manage Federal funds. In addition, we attempted to identify "lessons to be learned" that the Congress could apply when considering the level of future financial support for the emerging governments of the Federated States of Micronesia, Palau, and the Marshall Islands.

We reviewed the legislative history behind the 1976 convenant. Our fieldwork in the Northern Mariana Islands was primarily performed during May and June 1979 and included

--a review of various plans and reports relating to the GNMI establishment and economic development;

--an analysis of available financial records and reports; and

--discussions with officials in the Trust Territory headquarters, and with key GNMI officials, including the Governor, legislators, and department heads.

We also reviewed pertinent records and grant documents of the Department of the Interior and other Federal Departments, including Agriculture, Commerce, Health, Education and Welfare, and Labor.

CHAPTER 2

FEDERAL ASSISTANCE AVAILABLE TO THE NORTHERN MARIANA ISLANDS

GNMI depends extensively on the Federal Government for financial support. Its activities are financed primarily through direct payments and a myriad of Federal grants. For fiscal year 1979, about 72 percent, or $18.8 million, of total revenues of $26.0 million were attributable to direct payments by the Federal Government, pursuant to the covenant. Local revenues of $7.2 million consists primarily of income and excise taxes, utility collections, and various other fees. As of June 1979, GNMI was also receiving financial assistance amounting to about $18 million from Federal grant programs.

With these Federal and local revenues, GNMI provides government services, such as police and fire protection, public education, as well as roads, water, sewer, and other public works maintenance. In addition, GNMI provides medical services, port services, electric power, and harbor and airport facilities.

The Congress is also considering legislation to fund two construction projects in the Northern Mariana Islands. These projects, costing $36.4 million, are for the acquisition and construction of a powerplant and related facilities, and a grant to the Secretary of the Interior to provide health-care facilities.

DIRECT PAYMENTS BY THE FEDERAL GOVERNMENT

The 1976 covenant provides that the Federal Government will assist GNMI to become economically self-supporting and to achieve a progressively higher standard of living for its people. To meet these objectives, the covenant commits the Federal Government, initially, to pay GNMI $14 million annually for seven full fiscal years after its establishment. These funds are to be used specifically for government operations, capital-improvement projects, and an economic-development loan fund. The covenant also stipulates that the annual payment will be adjusted to compensate GNMI for inflationary increases occurring since fiscal year 1975. For fiscal year 1979, the annual payment amounted to $18.8 million, as shown in the following table.

Direct Federal Payments
for Fiscal Year 1979

Purpose	Guaranteed annual level	Inflationary increase	Total direct payment
	(in millions)		
Government operations	$ 8.25	$2.83	$11.08
Capital improvement projects	4.00	1.37	5.37
Economic development loan fund	1.75	.60	2.35
Total	$14.00	$4.80	1/ $18.80

GNMI can determine the precise projects for which the annual payment and inflationary increases can be used. Funds not used by GNMI in the current fiscal year can be used in subsequent fiscal years within the same category. In addition, these funds can be used by GNMI as the matching funds required to obtain Federal grants.

It was recognized during the political status negotiations that the annual payment would exceed the amount GNMI previously received. It was agreed that these annual payments supplemented by other available revenue sources would meet the needs of the Northern Mariana Islands during this 7-year period.

We estimate that these payments, which will continue through the end of fiscal year 1985, will amount to as much as $174 million, including the inflationary increases. The President of the United States and the Governor of the Northern Mariana Islands will appoint special representatives to make recommendations regarding future multiyear financial assistance to the Northern Mariana Islands. The special representatives will meet at least 1 year prior to the expiration of every multiyear period of financial assistance.

Additionally, GNMI receives $25,000 annually from the Department of the Navy to use certain lands in the Northern Mariana Islands for military training purposes. The Federal Government has until January 9, 1983, to exercise an option

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1/This amount does not include the payment for the inflationary increase in fiscal year 1979. GNMI will receive this payment in fiscal year 1980.

to lease about 18,200 acres in the Northern Mariana Islands, including the lands now leased by the Navy, for 50 years. An official stated that the Department of Defense cost estimate to exercise this option is at least $31 million. The covenant also provides that the lease be renewed for an additional 50 years at no extra cost.

FEDERAL GRANTS

The covenant provides that the laws which provide Federal services and financial assistance programs for the 50 states and other U.S. territories will apply to the Northern Mariana Islands. During the political-status negotiations, the annual value of these Federal programs and services was estimated to be approximately $3 million. By June 1979, however, GNMI was receiving assistance from 87 Federal grants, amounting to about $18 million. (See ch. 3.)

FACTORS AFFECTING GNMI USE OF ITS FINANCIAL RESOURCES

Because of an extended political battle, the GNMI executive and legislative branches were unable to agree on the level of expenditures for government operations in fiscal year 1978 and throughout most of fiscal year 1979. As a result, GNMI has been without an approved spending plan and has been uncertain about (1) the funding legally available and (2) who is ultimately responsible for controlling the overall budget.

Further, GNMI has not effectively implemented a master development plan despite receiving at least $785,000 from the Federal Government to pay for various development plans. GNMI frequently refers to its socioeconomic development plan as a guide for directing development in the Northern Mariana Islands. This master plan, prepared by a private consultant and issued in October 1977, established development objectives and priorities for anticipated financial resources. GNMI has not officially adopted the plan. Further, the plan has not been revised to reflect current conditions or to incorporate GNMI development objectives.

Without a master development plan, we believe GNMI will find it difficult to precisely determine the resources required for its present and future development needs. Moreover, until a master development plan is adopted, GNMI has no assurance that

--economic development is being effectively directed;

--its resources are being used to meet the Islands' most urgent needs; or

--its leadership is committed to the same development goals and priorities, as well as to the same plan of action in meeting them.

The GNMI organizational structure, especially its many public corporations, trusts, funds, advisory boards, commissions, and councils, suggests the urgency of adopting a master development plan. Organizations such as the Mariana Public Land Corporation, the Mariana Islands Airport and Housing Authorities, and the Economic Development Loan Fund are responsible for administering substantial Federal and local funds. Further, each organization hires its own personnel, establishes its own salary structure, and handles its own finances. This fragmentation of responsibilities, which unfortunately, tends to lead to unnecessary duplication of functions and higher government costs, seems to make it imperative that GNMI adopt a master development plan to guide all its organizations.

The prolonged absence of approved spending plans, coupled with the lack of an approved master development plan, have impaired GNMI operations and efforts to develop the Islands' economy. For example, in addition to not having the necessary funding available, GNMI officials have been reluctant to start many of the fiscal year 1979 capital-improvement projects identified in the plan because of the possible consequences for committing funds without an approved appropriation bill. According to GNMI officials, the delay in initiating projects--such as a school library, school classrooms, agricultural irrigation and fishing projects, port facilities, power-distribution system renovations, and road construction--is substantially increasing construction costs. These increased costs will limit the number of planned projects that GNMI can undertake with the funds it receives from the Federal Government.

CHAPTER 3

POTENTIAL ECONOMIC DANGER CAUSED BY MASSIVE FEDERAL ASSISTANCE

The combined level of Federal assistance that GNMI receives from annual payments and from Federal grant programs is relatively large in relation to the population in the Northern Mariana Islands and GNMI management capabilities. The development needs of the Islands are undoubtedly great. However, until GNMI can overcome serious financial management problems (see ch. 4), we doubt that it will be able to effectively absorb and manage the substantial funds it receives from Federal grant programs.

ECONOMIC IMPACT CAUSED BY FEDERAL GRANTS

When GNMI was established, the Islands became eligible for more Federal grants than were available when they were a district in the Trust Territory. Previously, the Northern Mariana Islands benefited from Federal grants, but largely as a sub-grantee for Federal programs and for services awarded to the Trust Territory. Health, education, food, housing, employment assistance and training, and airport and road construction are substantially supported by Federal program funding.

During the negotiations, it was anticipated that GNMI would receive only about $3 million annually in Federal grants. By June 1979, however, GNMI was receiving about $18 million from 87 Federal grants. (See app. I.)

We could not determine precisely when the Federal grant awards were received or what specific timeframe they applied to because GNMI records do not accurately disclose this information. However, in his report on Federal programs for fiscal year 1979, the Governor of the Northern Mariana Islands noted that the 15-month period after GNMI was established witnessed a "boom" era in the number of Federal grant awards received.

GNMI has been unable to effectively control its own agencies' actions, or limit actions by some Federal grant sponsors, in determining which grants to participate in. Without an approved master development plan, GNMI has been unable to assure that these grants are meeting its most urgent needs. The Governor has reported that some grants are actually helping to create a false economy in the Northern Mariana Islands.

According to the Governor, these grants provide large allocations which do not support GNMI objectives for developing a self-sufficient government. In his report, the Governor stated,

> "Many of the recently adopted Federal Programs and Grants were not applied for directly, but were literally thrust upon the new Commonwealth Government by well intentioned Federal agencies. Consequently, * * * programs * * * have been adopted without a survey of needs nor of proper justification, and these programs may not apply to, nor support the stated goal * * * to seek self-sufficiency and relative economic independence."

Certain Federal programs may directly contribute to the economic perils facing the Northern Mariana Islands. For example, in evaluating the feasibility and impact of the Food Stamp Program in the Islands, Department of Agriculture (USDA) officials reported that:

> "Northern Mariana Islands is still, to a large degree, a barter type subsistence economy. Application of U.S. cash income standards, therefore, would result in a large majority of the population being eligible for the Program. Such a large and visible welfare dependency may create secondary adverse impacts on work ethics and production incentives.
>
> "The flow of large amounts of outside funds in the form of food stamp benefits would tend to generate faster economic growth which could be expressed in the form of additional employment opportunities, or in the form of higher prices. The alternative of higher employment and output or higher prices depends on the availability of investment opportunities, import flexibilities and competitive market structures."

Using the Federal level of income eligibility requirements, USDA officials estimated that about 11,000 persons, or about 73 percent of the population, would be eligible for the program. They also estimated the program would cost about $5 million, annually.

In a May 1979 letter to USDA, the Governor requested assistance in preparing the GNMI application for implementing the Food Stamp Program, but added his concern about the potential impact on the social and economic conditions in the Islands. The Governor stated:

"* * * I believe that it will be necessary to re-assess the potential impact of the Food Stamp Program upon the social and economic conditions of the people and the Commonwealth Government so that these factors can be seriously considered in developing the eligibility standard for the program and in organizing the organizational structure for the administration of the program."

The precise economic impact caused by large number of Federal grants remains to be seen. Nevertheless, one can surmise the potential economic danger of additionally thrusting $18 million onto a community of 17,000 with a per capita annual income of $2,700. Not only might this result in an increased dependency on the Federal Government for financial assistance, but could also contribute to inflation and could disrupt local development. However, because no single Federal agency is responsible for coordinating and controlling all Federal assistance, GNMI must exercise the necessary restraint to avoid receiving more Federal assistance than it can effectively use.

Our discussions with GNMI officials also indicate that the Government has been unable to successfully cope with all the administrative requirements caused by the proliferation of these Federal grants. These officials confirmed that GNMI is neither able to monitor the status and progress of all grants nor insure compliance with the basic administrative requirements of each grant, such as matching funds, reimbursements, and reporting and auditing requirements.

ACTIONS TAKEN BY GNMI TO CONTROL FEDERAL GRANTS

Since March 1979, the GNMI Federal Programs Coordinator has been responsible for administering a clearinghouse for Federal grants. Among his responsibilities, the Federal Programs Coordinator is charged to insure that Federal grants are related and coordinated with GNMI master planning.

We believe that, as part of his responsibilities, the Federal Programs Coordinator should also insure that these grants are within GNMI management capabilities. We believe this responsibility is extremely important when one considers the

--estimated 600 Federal grants available to the Northern Mariana Islands and

--myriad of Federal organizations that must be dealt with as well as the various administrative requirements caused by these grants.

To provide adequate control and visibility over GNMI grant activities, we believe it is essential that the Federal Programs Coordinator monitor and maintain comprehensive financial and program data on GNMI Federal grants. In addition, the Federal Programs Coordinator should arrange for periodic audits of these funds to ensure that Federal funds are spent in accordance with grant provisions.

The effectiveness of the Federal Programs Coordinator depends on the support and authority he is afforded by GNMI. Further, until GNMI adopts a master development plan, the Federal Programs Coordinator will find it extremely difficult to effectively execute his duties.

Ideally, we believe a single-source funding arrangement would simplify and perhaps be a more appropriate method for delivering that Federal assistance to GNMI now provided by numerous Federal grants. Short of changing the Federal laws which provide these grants, we see no effective means for the Federal Government to control the level of funds GNMI receives through these grants or to insure that these grant funds meet the most urgent needs of the Islands. Nevertheless, existing legislation permitting Federal agencies to consolidate grants may ease the administrative burden caused by Federal grants.

Public Law 95-134

In October 1977, the Congress enacted Public Law 95-134 (91 Stat. 1159). Title V of this law is designed to minimize the burden caused by existing application and reporting procedures for certain grant programs. Under this law, a Federal agency may permit each territory to submit a single application for a consolidated grant. Moreover, the administering authority may, at its discretion, waive any requirements for matching funds or for written applications or reports pertaining to consolidated grants. The law further provides that any consolidated grant, as a minimum, will equal the sum of all grants it would otherwise be entitled to receive for the year.

We believe the authority for grant consolidation, if properly regulated and implemented, will help relieve GNMI of the administrative burden caused by the various grant programs and will provide greater flexibility in the use of funds to better meet its development needs.

CHAPTER 4

NEED TO ESTABLISH

FISCAL CONTROLS IN GNMI

Serious financial management weaknesses in GNMI are hindering progress toward self-reliance. The GNMI record-keeping and controls are so weak that officials cannot accurately report on the financial condition of the government nor can they adequately account for the use of its resources. As a result, GNMI has an operating deficit which could lead to a fiscal crisis if the problems are not corrected. Furthermore, these weaknesses provide the opportunity for waste, inefficiency, and fraud and could ultimately result in increased dependency on Federal financial assistance.

Primary responsibility rests with GNMI to insure these weaknesses are corrected in order to provide proper control, accountability, and efficient utilization of Federal and local funds. An adequate financial management system in GNMI is essential for sound government.

EFFORTS TO ALLEVIATE A HISTORY OF ACCOUNTING PROBLEMS

Many GNMI accounting problems are legacies from previous years. When GNMI separated its accounting function from the Trust Territory as of September 30, 1976, the accounting records were in such poor condition that a local certified public accounting firm determined that they could not be audited. During subsequent months, adequate accounting procedures and controls were not established and the condition of the records remained uncorrected.

In its fiscal year 1977 report on GNMI financial activities, the U.S. Government Comptroller for Guam reported that not even a single month's transactions had been properly recorded since the accounting separation and that the books were still unauditable. Consequently, the U.S. Government Comptroller recommended that an appropriate accounting system be established.

Recognizing its limited accounting capabilities in overcoming these problems, GNMI requested help from the Comptroller. In February 1978, a technical assistance agreement was negotiated and one staff member from the Comptroller's Office was assigned to help GNMI

--reconstruct the accounting records for fiscal years 1977 and 1978;

--implement and document an accounting system; and

--train the accounting and finance personnel to operate the system.

Despite a considerable effort over the next year and a half, only limited progress was made toward achieving these goals and in March 1979, it was estimated an additional 2 years would be needed for completion. The following are typical of the severe weaknesses in GNMI recordkeeping, reporting, and controls.

--GNMI was unable to accurately report on its financial condition or the results of its operations since basic financial statements could not be produced.

--Assets were poorly managed and poorly controlled as demonstrated by the failure to reconcile bank accounts or receivables, by the accumulation of idle cash in noninterest-bearing accounts, and by the absence of complete and accurate property listings.

--Billings and collections for some revenue sources were not adequately controlled or accounted for.

--Essential accounting functions, such as the reconciliation of general and subsidiary ledgers, had not been performed, rendering many accounts unreliable.

--The new accounting system was not documented or fully implemented, and GNMI accounting personnel were not adequately trained.

Good accounting and controls are essential for GNMI to be able to function effectively as a responsible, self-governing entity. Because of inadequate recordkeeping and reporting, GNMI officials have not had the reliable information necessary for making appropriate financial management decisions. Vast improvements are needed for GNMI to be able to demonstrate its self-reliance by insuring proper accountability and efficient and effective use of its resources.

POTENTIAL FOR A FISCAL CRISIS

Much of the Federal financial assistance GNMI receives is for specific purposes and cannot be used for government

operations. Conservative budgeting practices and close monitoring and control are essential for effective management of the large amount of funds available to GNMI.

GNMI financial management problems, however, have contributed to a growing operating deficit since the Government was established. Moreover, GNMI officials have not been successful in adequately controlling government financial activities to insure that spending was contained within available resources. To restrict spending, GNMI has already disrupted operations by ordering office closures and temporary employee layoffs. If deficit spending continues, GNMI could be forced to seek emergency subsidies or drastically reduce government services.

OPERATING DEFICIT

Because there are no comprehensive and reliable financial reports, GNMI officials have not been fully aware of the extent or even the existence of the operating deficit. Although GNMI books reflected a $.4 million cumulative deficit as of September 30, 1978, our analysis of available records indicates that the deficit may have been as high as $2.1 million due to factors not reflected in GNMI records. For example, GNMI records reflect a debt to the Trust Territory which is $2.3 million less than the corresponding entry in the Trust Territory books.

Amid the uncertainty of the Government's true financial condition, GNMI planned to spend more than its available resources for fiscal year 1979. Our analysis indicates that the GNMI cumulative operating deficit could be as high as $4.4 million by the end of fiscal year 1979. However, until GNMI establishes reliable financial records and reconciles the substantial differences between those records and the Trust Territory accounts, the actual government financial condition will not be known

LACK OF AN APPROVED SPENDING PLAN

The political controversy surrounding government budget legislation has clouded the more important issue of whether GNMI has operated within available resources. The lack of an approved spending plan does not relieve GNMI of its responsibility to operate within available resources nor should it be considered the total cause of its financial woes.

Capping an extended political battle, the GNMI legislature passed the fiscal year 1979 appropriation bill over

the Governor's veto in late July 1979--2 months before the end of the fiscal year. The Governor responded by ordering that several key offices be closed. He also ordered the temporary layoff of from 66 to 100 employees to comply with departmental budget restrictions. Even if GNMI departments are able to comply with their new budget restrictions, the appropriations bill, combined with other legislation, authorizes spending in excess of the anticipated resources.

Need for conservative budgeting practices

To preclude a financial crisis, conservative budgeting practices are required. Nevertheless, GNMI has failed to provide for an adequate reserve to absorb revenue shortfalls, unanticipated costs, and data inaccuracies. For example, GNMI allowed for only a $675,000 reserve in its fiscal year 1978 budget proposal. GNMI records indicate, however, that operations costs exceeded this budget proposal by $587,000, and local revenues fell short by $400,000. These factors combine to more than offset the reserve.

If GNMI continues its deficit spending, a fiscal crisis will eventually result. The Government will then have to seek additional revenue or further restrict government spending. To avert such a crisis, we believe GNMI must

--develop and adhere to realistic budget estimates;

--allow for an adequate reserve; and

--monitor financial activities, making necessary interim adjustments to preclude deficit spending.

NEED FOR QUALIFIED PERSONNEL

The establishment and maintenance of a satisfactory accounting system requires competent leadership and a staff possessing adequate technical training and skill. A major cause of GNMI financial management problems is the lack of qualified accounting personnel. We believe GNMI should assign adequate staff to provide reasonable accountability and control over Federal and local funds. We believe that any additional costs would be more than offset by improved economy and efficiency brought about by better management.

GNMI lack of accounting expertise is best demonstrated by the accounting branch dependency on the technical assistance

staff provided by the U.S. Government Comptroller for Guam. During the technical assistance project, the individual assigned from the U.S. Government Comptroller's staff eventually assumed responsibility for the daily accounting operation as well as the implementation of the accounting system and training of personnel. The Director of Finance told us during our review that the accounting department was so dependent on the technical advisor's expertise that most of our accounting questions would have to be directed to her. The advisor's absence during most of our review provided a unique opportunity for measuring the extent of this dependency.

Our discussions with personnel responsible for major accounting functions revealed they were not familiar with the accounting concepts related to their functions. Further, they were unable to respond to questions outside the realm of their specific instructions. GNMI officials and staff often were unable to explain aspects of the overall accounting operation and could not answer specific questions about journal entries, transactions, content of accounts, and procedures. Such questions were generally referred to the technical advisor.

GNMI officials are hopeful that this situation will improve by hiring five additional personnel and by implementing an inhouse training program under the direction of the technical advisor. Although these measures may be helpful, particularly the training program, we believe the positions being offered and the accompanying annual salaries of $6,000 to $7,000 are too low to attract personnel with the needed levels of expertise. The real need is to establish position descriptions which will require technically qualified accountants who are capable of running major accounting functions without close supervision and who could assist in training the other staff.

Furthermore, the overall staffing and salary structure in the accounting branch is lower than other government offices which are paying higher salaries for similar types of occupations. For example, in the Office of Planning and Budget Affairs, three employees earn over $24,000, and the accountant for the Mariana's Public Land Corporation earns $20,000. In contrast, of 19 employees in the accounting branch, only 2 earn over $10,000. The highest paid employee earns about $12,000.

Because of the importance and complexity of the accounting operation, the need for accurate financial information, and the volume of funding being managed, we believe that the

accounting branch should receive at least equal or higher priority as the other government functions. To provide the necessary level of expertise to handle these responsibilities, GNMI may, therefore, need to restructure its personnel resources and position descriptions, perhaps offering higher salaries to attract qualified personnel.

The GNMI dependency on the technical advisor is not only counter to its progress toward self-reliance but fails to provide adequate internal control. The Director of Finance and the U.S. Comptroller have agreed to change the technical advisor role to provide advice as needed, document the accounting system, and train other staff.

NEED FOR EFFECTIVE INTERNAL AUDIT

GNMI leaders have recognized the need to identify and solve financial management problems by providing the authority for a public auditor in the constitution. Established as an independent office, the auditor is in a position to report on and be responsive to all branches of government.

The public auditior's duties include reviewing government accounting systems and reporting on the cash and financial accounts including, but not limited to, pension funds, trust funds, obligations, outstanding indebtedness, special Federal accounts which are required to be maintained, and investments of idle cash. In addition, GNMI is planning that the public auditor will participate in fiscal and Federal program evaluations, including mandatory grant audits.

For the auditor to be effective, officials must support his efforts by facilitating the independent review process and by responding to recommendations. Additionally, it will be necessary that GNMI support the auditor by supplying the necessary personnel. Although the office was not operational at the time of our review, the auditor was hoping to eventually have a staff of eight. The scope of the duties GNMI has planned for the auditor would appear to justify a staff at least that large. This is particularly true if the auditor intends to conduct the mandatory audits of the Federal grant programs. The Federal program audits alone could prove to be beyond the capacity of the planned staff. Experience will show what size staff is needed.

CHAPTER 5

NEED FOR EFFECTIVE OVERSIGHT AND TECHNICAL ASSISTANCE BY THE UNITED STATES

By law, the U.S. Government has provided the authority for local self-government in the Northern Mariana Islands and has guaranteed financial assistance for the transition into the American economic and political family. A policy for continuing its oversight and for providing technical assistance, however, has not been established. The Federal Government must provide GNMI appropriate oversight and the necessary technical assistance, before it will be able to efficiently and effectively use the massive amount of Federal assistance it receives to improve the standard of living. Unfortunately, the economic base in the Northern Mariana Islands cannot support the fundamental levels of governmental services without Federal assistance.

The executive branch has recently taken action to define its policy with respect to its territories and the Trust Territory. In February 1979, the President directed that an interdepartmental policy review of the relationship between the United States, its territories, and the Trust Territory be undertaken. In response to the President's direction, the following six specific issues were identified and addressed by the interdepartmental policy review task force, which was chaired by the Department of the Interior:

1. What should the United States Government be seeking to achieve in or for each of the territories, giving due regard to our legal responsibilities, U.S. national security objectives, territorial aspirations, and our commitment to self-determination? What should the United States Government be seeking to achieve in the Trust Territory before the end of the trusteeship?

2. How can the United States Government best encourage economic development in the territories, given scarce resources, small populations, untrained labor forces, distance from supplies and markets, etc.?

3. How can Federal financial aid to the territories be regularized to eliminate the need for the ad hoc subsidies, and to encourage wiser planning and greater fiscal self-reliance in each territory?

4. Does any practical device exist to refine the application of Federal grant programs to the territories and the Trust Territory, to eliminate those without substantial value to the territory or the Trust Territory, and to make more effective those that do have value?

5. Should any change be made in the organizational arrangement that places administrative oversight for the territories in the Interior Department? Attention should be given to post-Trusteeship Micronesia, Puerto Rico, and the Northern Mariana Islands.

6. With the elimination of appointed governors, is there a need for a Federal presence in the territories, beyond that provided by the Federal Comptrollers?

Our review confirms that the issues outlined by the interdepartmental policy task force are generally valid concerns in the Northern Mariana Islands. We believe adequate attention should be given to them to enhance the economic and social development of the Northern Mariana Islands.

Need to extend audit authority of the U.S. Government Comptroller for Guam

In 1973, the Congress provided the authority for the authority for the U.S. Government Comptroller for Guam, who is under the Department of the Interior Office of Territorial Affairs, to audit all government accounts of the Trust Territory of the Pacific Islands, including the Northern Mariana Islands. This authority expires when the trusteeship agreement terminates. In addition to conducting audits, the U.S. Government Comptroller for Guam provides, on request, technical assistance in financial management.

It is the primary responsibility of GNMI to correct and prevent financial management deficiencies. (See ch 4.) Technical assistance, however, is needed in this area. Although the primary function of the U.S. Government Comptroller for Guam is auditing, the Interior is also using the Government Comptroller's staff to provide the needed technical assistance to help GNMI correct these deficiencies.

We believe it is organizationally desirable to keep the two functions separate to preserve the integrity of audit objectivity, and the Secretary of the Interior should consider using a separate organization to administer technical assistance. We recognize, however, that such an arrangement may not be viable in view of the resources available to the Interior and the U.S. Government Comptroller for Guam.

As previously stated, the U.S. Government Comptroller for Guam will no longer have authority to audit GNMI accounts when the trusteeship agreement is terminated. In view of the substantial Federal support GNMI will receive through fiscal year 1985, and the serious financial management problems GNMI is currently experiencing, we believe that continued Federal monitoring is needed and that the U.S. Government Comptroller's authority to audit GNMI should be extended beyond the end of the trusteeship agreement.

STATUS OF INTERDEPARTMENTAL POLICY REVIEW

On February 14, 1980, the President announced the framework for a comprehensive Federal territorial policy toward Guam, the U.S. Virgin Islands, American Samoa, and the Northern Mariana Islands. The President requested that the Congress join his administration in adopting and implementing this comprehensive policy. In addition, the President requested the Congress to participate in establishing policies which

--define a procedure for the orderly political development of the territories;

--stimulate their economic growth;

--rationalize the existing Federal-territorial financial relationship and improve local financial management;

--enhance territorial treatment under Federal programs; and

--elevate the Federal organization for dealing with territorial matters.

The Presidential recommendations are intended to rectify many of the pressing problems facing the Northern Mariana Islands, including those addressed in this report.

To implement the new policy, the President proposed the following reorganization steps.

--The Secretary of the Interior will be given clear responsibilities for all matters related to the territories and will be accorded increased support from other agencies and from the White House staff.

--The office charged with territorial liaison and assistance responsibility will be given more authority to help it deliver the expected services and will be headed by a new Assistant Secretary of the Interior for Terriotrial and International Affairs.

--To further ensure a coordinated Federal effort, territorial matters will be among the major responsibilities of a senior Presidential assistant.

--The Federal Comptroller will continue to provide the territories with technical assistance and to perform their traditional auditing functions.

Specific programs to implement the announced new policy have yet to be developed.

RECOMMENDATIONS TO THE CONGRESS

To insure that GNMI accounts are adequately audited and appropriate actions taken to correct reported deficiencies, the Congress should extend the authority of the U.S. Government Comptroller for Guam to audit GNMI accounts after the trusteeship agreement ends. The Congress should also review the policy decisions made by the executive branch to resolve problems associated with U.S. relations with the Northern Mariana Islands. If the action programs established to implement the stated policy do not adequately help the Northern Mariana Islands in developing its economic base, the Congress should require that the executive branch establish improved technical assistance programs.

MATTERS FOR CONGRESSIONAL CONSIDERATION

The Federal Government will eventually be providing financial support to the governments emerging from the

Federated States of Micronesia, Palau, and the Marshall Islands. The Congress should consider our findings when deliberating about the levels of Federal assistance because these problems may not be unique to the Government of the Northern Mariana Islands. At that time, the Congress should also consider the need for continuing Federal oversight through an organization such as the U.S. Government Comptroller for Guam, and the associated need to provide effective help to promote the development of these territories.

CHAPTER 6

COMMENTS BY THE DEPARTMENT OF THE INTERIOR AND THE GOVERNOR OF THE NORTHERN MARIANA ISLANDS

DEPARTMENT OF THE INTERIOR COMMENTS

The Department of the Interior generally agreed with our findings. According to Interior officials, the report is a generally useful summary of GNMI efforts to establish itself and to analyze its problems. Interior officials stated that they have been concerned about many of the items discussed in the report and have been attempting to assist GNMI in dealing with them. Interior's specific comments are included in the report where appropriate; their general comments follow.

In commenting on our suggestion regarding a single-source funding arrangement to deliver Federal assistance, Interior officials acknowledged that a commission on Federal laws could make such a recommendation but indicated that there would be a loss in the technical assistance that Federal grant agencies often provide with the financial grant. The covenant provides that the President of the United States will appoint a commission on Federal laws to make recommendations to the U.S. Congress as to which laws apply to the Northern Mariana Islands. The commission is to consist of seven persons from various public and private interests. At least four members must be citizens of the Trust Territory who have been living in the Northern Mariana Islands for at least 5 years. The commission must make its final report to the Congress within 1 year after termination of the Trusteeship agreement. To facilitate the Northern Mariana Islands' transition to its new political status, the commission can make interim reports and recommendations to the Congress. In formulating its recommendations, the commission is to consider, in part, the potential effect of each law on local conditions in the Northern Mariana Islands.

Although the commission had not been appointed as of January 1980, we agree that a single-source funding arrangement could be a viable subject for commission consideration. Moreover, the present situation in GNMI leads us to believe that the commission could also assess the adequacy of the technical assistance that Federal grant agencies are providing and consider ways to improve such assistance.

Interior officials agreed with our opinion that Public Law 95-134 offers relief from the administrative burden

imposed by various grant programs. These officials advised us that they have been urging Federal agencies to make maximum use of this authority.

Interior officials informed us that they have recognized, and have been working with, the local government to overcome the various weaknesses in financial management. They stated that the unusual assistance being provided by the U.S. Government Comptroller is regarded as a temporary, but necessary, major effort to help the new government order its financial management operations. Interior officials agreed with our suggestion that the local government should attract and retain competent staff to maintain and run the accounting operations. Although Interior officials believe that the U.S. Government Comptroller should be in a position to provide technical assistance, these officials believe that the whole burden of operating the system should not rest on his staff.

According to Interior officials, the local officials should view the possible operating deficit with concern. They stated that the GNMI Constitution provides that "Public indebtedness may not be authorized for operating expenses of the Commonwealth government or its political subdivision."

In discussing our recommendations to the Congress, Interior officials believed they were appropriate. Regarding our recommendation to extend the audit authority of the U.S. Government Comptroller for Guam, they advised us that on October 9, 1979, they recommended that the Congress enact legislation which would make permanent the authority of the Government Comptroller for Guam to audit and otherwise provide services to the Northern Mariana Islands after termination of the Trusteeship agreement. According to these officials, on December 7, 1979, the Senate Committee on Energy and Natural Resources favorably reported legislation containing the amendment.

THE GOVERNOR'S COMMENTS

The Governor generally agreed with our findings. He stated that the report recognized the organization and accounting problems that resulted from the transfer of inadequate records from the Trust Territory Government. He informed us of several actions his administration was planning and undertaking to improve the operation of the government. They are discussed below.

Regarding the financial weaknesses, the Governor informed us that it has been his administration's position that they cannot effectively and efficiently run the government

without timely and accurate financial information. The Governor further stated that the importance of (1) fully implementing and documenting the accounting system and (2) training necessary personnel, cannot be over emphasized. Although this responsibility has been turned over to the U.S. Government Comptroller for Guam, the Governor informed us that his staff is endeavoring to expedite the technical assistance they need to install the necessary accounting system and to train the necessary personnel.

The Governor informed us that the level of assistance GNMI is receiving in Federal grants is in line with their efforts to introduce programs which would help fund basic road, water, port, education and health facilities, as well as those programs which would promote human development. He also advised that certain actions have been taken to strengthen the process for selecting and participating in Federal grant programs that should bring about greater efficiency in the administration of the programs.

Regarding the need for qualified middle-management financial supervisors, the Governor informed us that his administration has asked the Department of the Interior to furnish two individuals under the Federal Intergovernmental Personnel Act. He also advised us that the need for funds to recruit additional accountants is currently an issue being deliberated as part of the GNMI proposed fiscal year 1980 budget submission.

The Governor supports our suggestions concerning the need for an approved physical development master plan for the Northern Mariana Islands. He advised us that his administration has begun development planning to guide local decision-making processes, especially in resource allocations. He also informed us that the administration has begun updating the multiyear social and economic plan and the physical master development plan for the Northern Mariana Islands. According to the Governor, these efforts will be merged with the local budget process and, under the Federal Intergovernmental Personnel Act program, they are currently obtaining a Federal budget expert to assist them.

The Governor expressed his desire for the Federal Government to be more responsive to their request for technical assistance in areas where local expertise in GNMI is not available. He suggested that the Intergovernmental Personnel Act program might serve this purpose.

ACTIVE FISCAL YEAR 1979 FEDERAL GRANTS IN

THE NORTHERN MARIANA ISLANDS

Federal grant sponsor	Federal grant titles	Number of programs	Federal grant award	GNMI match cost	Total program cost
Agriculture	School lunch	1	$ 390,000	0	$ 390,000
	Young adult conservation corps	1	142,336	0	142,336
total		2	$ 532,336	0	532,336
Commerce	Highway safety traffic	1	$ 200,000	0	$ 200,000
	Federal aid highway	1	532,500	0	532,500
	Airport development aid projects	3	4,485,883	$734,154	5,220,037
	Airport fire truck	1	250,678	38,566	289,244
	Water systems improvements	1	534,830	0	534,830
	Airport development planning	1	0	16,900	16,900
	Airport terminal construction	2	1,214,300	158,000	1,372,300
	Coastal zone management	1	159,155	34,333	193,488
	Pacific tuna development foundation	1	71,000	0	71,000
	Sea grant program	1	25,000	0	25,000
	General development planning	1	75,000	25,000	100,000
total		14	7,548,346	$1,006,953	$8,555,299
Defense	Defense preparedness civil planning	1	$ 25,000	$ 0	$ 25,000
Energy	Energy conservation plans	2	$ 256,100	$ 0	$ 256,100
	Energy extension service	1	15,000	0	15,000
total		3	$ 271,100	$ 0	$ 271,100
Environmental Protection Agency	Consolidated grant covering water pollution, safe drinking water, solid waste, and pest control	1	$ 257,000	$ 46,000	$ 303,000
	Waste water facilities construction	1	1,084,669	0	1,084,669
total		2	$ 1,341,669	$ 46,000	$ 1,387,669
Health, Education and Welfare	Programs for the aged	3	$ 336,857	$ 51,318	$ 388,175
	Community action	1	157,000	0	157,000
	Public health programs (mental health, hypertension, alcohol, family planning and others)	9	844,290	292,500	1,136,790
	Health planning & development	1	109,500	36,500	146,000
	Educational development programs (i.e., headstart, vocational education, elementary and secondary education and others)	23	1,771,384	23,880	1,795,264
total		37	$3,219,031	$ 404,198	$ 3,623,299
Housing and Urban Development	Community development	2	$ 436,350	0	$ 436,350
	Housing assistant payments	5	858,708	0	858,708
	Housing development planning	1	40,000	37,040	77,040
	Disaster assistance planning	1	22,917	22,917	45,834
	Individual family grant programs	1	1,200,000	400,000	1,600,000
total		10	$ 2,557,975	$ 459,957	$ 3,017,932

APPENDIX I

Interior	Youth conservation corps	2	1/ $ 116,000	$ 21,927	$ 137,927
	Historical preservation	1	254,688	46,000	300,688
total		3	$ 370,688	$ 67,927	$ 438,615
Justice	Law enforcement asssitance programs	4	$ 434,250	0	$ 434,250
Labor	Comprehensive Employment Training Programs	8	$ 1,389,686	0	$1,389,686
National Foundation on the Arts and the Humanities	Promotion of the arts	1	25,000	$ 9,000	$ 34,000
Office of Personnel Management	Interagency Personnel Act time and efficiency study	1	$ 30,000	$ 300	$ 30,000
Water Resources Council	Water Resources Council	1	$ 69,500	0	$ 69,500
Interior	Youth conservation corps	2	1/ $ 116,000	$ 21,927	$ 137,927
	Historical preservation	1	254,688	46,000	300,688
		3	$ 370,688	$ 67,927	$ 438,615
TOTAL		87	$17,814,581	$1,994,335	$19,808,916

1/ Funding shared between the Departments of Agriculture and Interior.

SOURCE: The Governor's Fiscal Year 1979 Report on Federal Programs in the Commonwealth of the Northern Mariana Islands.

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

DEC 19 1979

Mr. Henry Eschwege
Director
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This is in response to your letter of November 23, 1979, transmitting a copy of the draft General Accounting Office report entitled "Problems with New Responsibilities of Self-Government in the Northern Mariana Islands."

The Report is a generally useful summary of the efforts of the Government of the Northern Mariana Islands to establish itself since it came into being on January 9, 1978, and an analysis of the problems it has faced. We have been concerned about many of the items noted by the General Accounting Office and have been attempting to assist the Government to deal with them.

We offer the following comments on the recommendations of the report, none of which is directed to the Department of the Interior.

On page 1, paragraph 3, the first sentence should read: "Except for a brief administrative period by the Department of the Interior, the Navy administered the Northern Mariana Islands from 1947 to 1962."

On page 4, we suggest deleting the first full sentence at the top of the page and substituting "The President has set 1981 as a target date for termination of the trusteeship agreement."

On page 4, the second full paragraph cites the Northern Mariana Islands population as 15,000. This is believed to be low. The Trust Territory Office of Planning and Statistics in November 1979 estimated the population at over 17,000 based on the September 1973 census. The 1973 census listed the population at 14,333.

On page 5, first full paragraph, second sentence, we are unable to substantiate the per capita income estimate of $1,500. The United Nations Development Program in its July 1976 report to the then Congress of Micronesia estimated Northern Marianas per capita income as $2,713. It is unlikely to have decreased.

On page 7, first full paragraph, the date in the last sentence should probably be 1979, rather than 1977.

On page 9, paragraph 3, the second sentence is inaccurate. The Covenant guarantees a specified level of direct grant assistance from the Federal Government for seven years only. The Covenant also provides that " . . . special representatives will be appointed . . . to consider and to make recommendations regarding future multi-year financial assistance to the Northern Mariana Islands pursuant to Section 701, to meet at least one year prior to the expiration of every period of such financial assistance."

On page 18 the Report recommends a single source funding arrangement for the delivery of Federal assistance in lieu of numerous Federal grants, but recognizes that such a course would require the amendment of the Federal grant statutes under which the aid is made available. Although there may be a gain in dealing with a single source for funds, there would undoubtedly be a loss in the technical assistance that Federal grant agencies often provide state and local governments along with the financial grant. The Commission on Federal laws could, however, make such a recommendation.

We agree with the General Accounting Office that Title V of Public Law 95-134 offers relief from the administrative burden imposed by various grant programs and the Department of the Interior has been urging Federal agencies to make maximum use of this authority.

Beginning on page 20, Chapter 4 of the Report discusses financial controls and various weaknesses in financial management. The problems discussed are those we recognize and have been working with the local government to overcome. The unusual assistance being provided by the Government Comptroller is regarded as a temporary, but necessary, major effort to help the new government get its financial house in order.

On pages 25 to 28 we concur fully with the General Accounting Office recommendation that the local government establish salaries sufficiently high to attract and retain competent staff to maintain and operate the system. While it is believed that the Government Comptroller should be in a position to provide technical assistance, the whole burden of operating the system should not rest on his staff.

On page 25 the point made by the Report that there is a possible deficit should be viewed by the local government with concern; the Constitution of the Government of the Northern Marianas provides in Article X, Section 4, that "Public indebtedness may not be authorized for operating expenses of the Commonwealth government or its political subdivisions."

Beginning on page 30, Chapter 5 discusses the role of the Government Comptroller and recommends that his authority with respect to the Northern Mariana Islands be extended beyond the termination of the trusteeship agreement when, as of now, it would expire. The Department of the Interior on October 9, 1979, recommended that the Congress enact legislation that would make permanent the authority of the Government Comptroller of Guam to audit and otherwise provide services to the Northern Mariana Islands after termination of the trusteeship agreement. The Senate Committee on Energy and Natural Resources on December 6, 1979, favorably reported legislation containing the amendment.

We appreciate the opportunity to review the draft report and hope these comments will be helpful.

Sincerely,

Larry E. Meierotto
Assistant Secretary
Policy, Budget, and Administration

Commonwealth of the Northern Mariana Islands
Office of the Governor
Saipan, Mariana Islands 96950

Cable Address:
Gov. NMI Saipan

January 2, 1980

Mr. Victor L. Lowe
Director
United States General Accounting Office
300 Ala Moana Boulevard
Honolulu, Hawaii 96850

Dear Mr. Lowe:

Thank you for sending a copy of the draft report entitled "Problems with New Responsibilities of Self-Government in the Northern Marianas" and for requesting our comments on the document. The draft report is the most professional report on CNMI activities that I have seen in a long time. It is fairly presented, recognizes the organizational and accounting problems that resulted from the transfer of inadequate records from the Trust Territory Government and makes sound recommendations for the correction of the problems.

The comments and recommendations concerning Fiscal Controls in CNMI (Chapter 4) are especially significant. It has always been our position that we cannot effectively and efficiently run the Government without timely and accurate financial information. This report clearly indicates that many of our problems stem directly from the fact that our Finance and Accounting Division is unable to furnish management with the timely information that is required in order to facilitate management decisions. The need for additional personnel, by Finance, in order to accomplish its task was recongized by the executive branch and funds for recruitment of additional accounting staff were included in the Governor's proposed FY'80 Commonwealth budget submission. However, the Legislature, in HB 1-221, which I have recently vetoed, cut five of the proposed positions from the budget submission.

The importance of fully implementing and documenting our accounting system and the training of the necessary personnel cannot be overemphasized. This responsibility has been turned over to the U.S. Comptroller for Guam/TTPI's Technical Assistance Staff in accordance with a Memorandum of Understanding between that office and CNMI. The Comptroller

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estimated that their assignment would be completed in 2 years. However, our Director of Finance has advised that office that we would like to see that their work be completed in 6 months. As an alternative, it is recommended that an independent private accounting firm be hired to install the necessary accounting systems and train our personnel if the Comptroller's technical assistance staff cannot complete its assignment expeditiously, and that funds for this task be made available by the U.S. Department of the Interior (Comptroller's office).

The draft report points out the lack of middle-management supervision in the Finance and Accounting Division. This is true and severely hampers the efficient operation of the Division. In order to alleviate the problem and to help train finance personnel, we have asked the Department of the Interior to furnish two individuals under the IPA Program.

The report stated that CNMI is receiving approximately $18 million in Federal Grants and this amount appears to be large in relationship to the population. I wish to point out that our emphasis on Federal programs is to introduce programs which would help fund primarily basic physical such infrastructure, (e.g. road, water, port, educational and health facilities) and programs that would promote human development. We have initiated certain actions to strengthen the technical compatibilities of the NMI Federal Program Coordination Office so that we can be very selective in the program that we participate in and bring about greater efficiency in the administration of Federal programs.

The report acknowledges the need for an approved physical development master plan for the Commonwealth. We support this observation. We have begun institutionalizing development planning as a decision-making tool to guide local decision-making processes especially in resource allocations. With the assistance of a number of Federal planning grants, we have begun updating the multi year social and economic plan for the Commonwealth as well as the physical master development plans for the principal islands. These efforts will be dovetailed with our local budget processes. We are in process of obtaining a Federal budget expert under IPA program to assist in this regard.

Concerning technical assistance, we believe that greater emphasis and effort to facilitate the IPA Mobility Program are needed. This program would allow more federal experts to be assigned for a limited period to the Commonwealth to provide valuable assistance in areas where local expertise in government is not available. We would like

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to see that Federal government be more responsive to requests by the Commonwealth for such assistance and be more flexible in absorbing wholly or in part the costs of assignment of federal employees to the Commonwealth under this program.

Again, thank you for inviting our comments.

Hafa Adai,

CARLOS S. CAMACHO
Governor

(471670)

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