

STATEMENT

OF

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ON THE

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS:  
Serious Economic, Fiscal, and Accountability Challenges**

BEFORE THE

SUBCOMMITTEE ON INSULAR AFFAIRS,  
COMMITTEE ON NATURAL RESOURCES  
U.S. HOUSE OF REPRESENTATIVES

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GAO-07-746T

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss the Commonwealth of the Northern Mariana Islands' (CNMI) serious challenges in strengthening its economy, fiscal condition, and financial accountability. CNMI is a self-governing commonwealth of the United States that administers its own local government functions under its own constitution. CNMI consists of 14 islands in the North Pacific with a total land area about 2.5 times the size of Washington, D.C. In recent years, CNMI has experienced serious economic and fiscal challenges, and several indicators point to a fiscal crisis in fiscal year 2006.

Today, I will highlight the recent economic trends in the CNMI economy, its weakening fiscal condition, and its financial accountability challenges. Our conclusions are based on work performed for our December 2006 report<sup>1</sup> on U.S. insular areas and our February 2007 testimony on CNMI before the Senate Committee on Energy and Natural Resources,<sup>2</sup> which was updated to include audited financial information through fiscal year 2005 and some recent developments in fiscal year 2006 based on information available as of February 2007. Today, we are also including additional information on CNMI's fiscal year 2006 status recently provided to us by CNMI's Secretary of Finance. We conducted our work in accordance with generally accepted government auditing standards.

## Summary

The government of CNMI faces serious economic, fiscal, and financial accountability challenges. The government's ability to strengthen CNMI's economy has been constrained by CNMI's lack of diversification in industries. CNMI's economy is highly dependent on two industries: garment manufacturing and tourism. The garment manufacturing industry is facing the challenge of remaining internationally competitive against low-wage nations given recent changes in trade agreements. CNMI's tourism sector experienced a sharp decline in the late 1990s, and a series of external events, such as unfavorable economic trends of nearby countries and changes in airline practices, have further hampered the sector. Both the garment and tourism industries employ noncitizen workers who are paid wages lower than the U.S. minimum wage.

The fiscal condition of CNMI's government steadily weakened from fiscal year 2001 through fiscal year 2005, the most recent year for which audited financial statements for CNMI are available. CNMI's fund balance, which generally reflects the amount of resources available for current government operations, went into a

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<sup>1</sup>GAO, *U.S. Insular Areas: Economic, Fiscal, and Financial Accountability Challenges*, GAO-07-119 (Washington, D.C.: Dec. 12, 2006).

<sup>2</sup>GAO, *Commonwealth of the Northern Mariana Islands: Serious Economic, Fiscal, and Accountability Challenges*, GAO-07-436T (Washington, D.C.: Feb. 8, 2007).

deficit balance during fiscal year 2002 and continued to decline through the end of fiscal year 2005. CNMI has also shown significant declines and negative balances in its reported net assets, which is another measure of fiscal health. In order to finance its government activities in an environment where expenditures have exceeded revenues, CNMI has increased its debt. In addition, several indicators point to a severe fiscal crisis during fiscal year 2006. The CNMI government implemented several drastic cost-cutting and restructuring measures, including “austerity holidays” consisting of biweekly furloughs, during which government workers are not paid and many government operations are closed to reduce personnel and operating costs during fiscal years 2006 and 2007. Based on unaudited data recently provided to us by CNMI’s Secretary of Finance, it appears that both revenues and expenditures for fiscal year 2006 have significantly decreased from fiscal year 2005 levels.

The government of CNMI has long-standing financial accountability problems, including the inability to achieve unqualified (“clean”) audit opinions on its financial statements, and numerous, long-standing material weaknesses in internal control over financial reporting and compliance with laws and regulations governing federal grant awards. CNMI received \$65.6 million in federal grants in fiscal year 2005, and its audited financial statements are used by federal agencies for overseeing and monitoring the use of federal grants. With CNMI’s continued inability to achieve clean opinions on its financial statements and the continuing material internal control weaknesses over financial reporting, there is limited accountability over its federal grants. Furthermore, the lack of timely and reliable financial information hampers CNMI’s ability to monitor programs and the reliability of financial information, such as revenues and expenditures, in order to make informed decisions.

The U.S. Department of the Interior’s Office of Insular Affairs<sup>3</sup> (OIA) has ongoing efforts to support economic development in CNMI and assist CNMI in addressing its accountability issues. A focused effort is called for where direct and targeted attention is concentrated on the challenges facing CNMI to help CNMI achieve economic and fiscal stability. OIA plays a key role in this effort by helping CNMI and the other insular areas improve their business climates, identify areas of potential for private sector investment, and market insular areas to potential investors. In response to our recent report, OIA expressed its commitments to continuing its comprehensive approach and to implementing other innovative ideas to assist CNMI and the other insular areas to continue to improve financial management and accountability and to support economic development.

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<sup>3</sup>OIA’s mission is to promote sound financial management processes, boost economic development, and increase the federal government’s responsiveness to the unique needs of the insular areas.

## **Narrow Economic Base and Intrinsic and External Factors Limit Economic Progress in CNMI**

Several factors constrain CNMI's economic potential, including the lack of diversification, scarce natural resources, small domestic markets, limited infrastructure, and shortages of skilled labor. The United States exercises sovereignty over CNMI, and in general, federal laws apply to CNMI. However, federal minimum wage provisions and federal immigration laws do not apply.<sup>4</sup> CNMI immigration policies and the demands for labor by the garment manufacturing industry and tourism sector have resulted in rapid population growth since 1980 such that the majority of the population are non-U.S. citizens. (See attachment I.) According to U.S. Census Bureau data for 2000, the most recent census data available, about 56 percent of the CNMI population of 69,221 were not U.S. citizens.

According to U.S. Census Bureau data for 2000, the median household income in CNMI was \$22,898, a little more than half of the U.S. median household income of almost \$42,000 for 2000. The percentage of individuals in poverty in 2000 was 46 percent, nearly four times the continental U.S. rate of 12 percent in that same year.

CNMI's economy depends on two industries, garment manufacturing and tourism, for its employment, production, and exports. These two industries rely heavily on a noncitizen workforce. This workforce represents more than three quarters of the labor pool that are subject to the CNMI minimum wage, which is lower than the U.S. minimum wage. However, recent changes in trade laws have increased foreign competition for CNMI's garment industry, while other external events have negatively impacted its tourism sector.

### **Decline in Garment Industry Tied to Trade Law Changes**

Recent developments in international trade laws have reduced CNMI's trade advantages, and the garment industry has declined in recent years. Historically, while garment exporters from other countries faced quotas and duties in shipping to the U.S. market, CNMI's garment industry benefited from quota-free and duty-free access to U.S. markets for shipments of certain goods in which 50 percent of the value was added in CNMI. In recent years, however, U.S. agreements with other textile-producing countries have liberalized the textile and apparel trade. For example, in January 2005, in accordance with one of the 1994 World Trade Organization (WTO) Uruguay Round agreements, the United States eliminated quotas on textile and apparel imports from other textile-producing countries, leaving CNMI's apparel industry to operate under stiffer competition, especially

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<sup>4</sup>The U.S. House of Representatives and the Senate recently passed H.R. 2, "Fair Minimum Wage Act of 2007" as well as H.R. 1591, "U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007" either of which, if enacted, would make the federal minimum wage provisions applicable to the CNMI with a phased-in implementation.

from low-wage countries such as China.<sup>5</sup> According to a DOI official, more than 3,800 garment jobs were lost between April 2004 and the end of July 2006, with 10 out of 27 garment factories closing. U.S. Department of Commerce data show that the value of CNMI shipments of garments to the United States dropped by more than 16 percent between 2004 and 2005, from about \$807 million to \$677 million, and down from a peak of \$1 billion in 1998-2000. In 2006, reported garment exports to the United States fell further, by 27 percent compared to 2005, with exports declining to \$495 million. The reported level of shipments to the United States in 2006 was comparable to levels of sales in 1995-1996, prior to the significant build-up of the industry. (See attachment II.) In December 2006, the largest and oldest garment factory closed. Given that the garment industry is significant to CNMI's economy, these developments will likely have a negative financial effect on government revenue. For example, reported fees collected by the government on garment exports fell 37 percent from \$38.6 million in 2000 to \$24.4 million in 2005.

### **External Events Affect Tourism**

CNMI's tourism sector experienced a sharp decline in the late 1990s, and a series of external events have further hampered the sector. Tourism became a significant sector of economic activity in CNMI by the mid-1980s and continued to grow into the 1990s. According to the Marianas Visitors Authority, the number of visitors reached about 736,000 visitors in 1996 then sharply declined in 1998 and has not recovered since then. The Marianas Visitors Authority reported 435,500 visitors in 2006. The reported visitor arrivals in 2006 were 59 percent of the peak level in 1996.

Due to its proximity to Asia, Asian economic trends and other events have a direct effect on CNMI's economy. For example, the Asian financial crisis and the cancellation of Korean Air service to CNMI following an airplane crash on Guam in August 1997 contributed to the decline. Visitors from Korea, the second largest source of tourists, decreased by 85 percent from 1996 to 1998. After a modest recovery in 2000, tourism faltered again with the September 11, 2001, terrorist attacks on the United States. In 2003, according to CNMI officials, tourism slowed—with a double-digit decline in arrivals for several months—in reaction to the SARS epidemic and to the war in Iraq.

Tourism in CNMI is also subject to changes in airline practices. For example, Japan Airlines (JAL) withdrew its direct flights between Tokyo and Saipan in October 2005, raising concerns because roughly 30 percent of all tourists and 40 percent of Japanese tourists arrive in CNMI on JAL flights, according to CNMI and DOI officials. The Marianas Visitors Authority's June 2006 data show that the downward trend in Japanese arrivals is not being offset by the growth in arrivals from other markets such as China and South Korea. At the same time, CNMI has

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<sup>5</sup>GAO, *U.S.-China Trade: Textile Safeguard Procedures Should Be Improved*, GAO-05-296 (Washington, D.C.: Apr. 4, 2005).

experienced an increase in Chinese tourists in recent years, which offers the potential to rebuild the industry.

### **CNMI's Reported Fiscal Condition Continues to Weaken**

The fiscal condition of CNMI's government steadily weakened from fiscal year 2001 through fiscal year 2005, the most recent year for which audited financial statements for CNMI are available. In addition, several indicators point to a severe financial crisis in fiscal year 2006. CNMI's reported governmental fund balance declined from a positive \$3.5 million at the beginning of fiscal year 2001 to a deficit of \$84.1 million by the end of fiscal year 2005, as CNMI's expenditures for its governmental activities consistently exceeded revenues in each year since fiscal year 2002. (See attachment III.) Most of CNMI's governmental activities, which include basic services such as public safety, health care, general administration, streets and parks, and security and safety, are reported in its governmental activities, or government funds. The fund balance (or deficit) for these activities reflects the amount of funds available at the end of the year for spending. A significant contributing factor to the gap between expenditures and revenues is that actual expenditures exceeded budgeted expenditures for each fiscal year during the period 2001 through 2005.

Another measure of fiscal health is the measure of net assets for governmental activities, which represents total assets minus total liabilities. The primary difference between the fund balance measure and net assets is that the net assets include capital assets and long-term liabilities, whereas the fund balance figure focuses on assets available for current period expenditures and liabilities that are due and payable in the current period. CNMI has experienced a negative trend in its balance of net assets for governmental activities, going from a reported positive \$40.6 million balance at the end of fiscal year 2001 to a negative \$38 million balance<sup>6</sup> at the end of fiscal year 2005. (See attachment IV.)

In order to finance its government activities in an environment where expenditures have exceeded revenues, CNMI has increased its debt and has not made the required contributions to its retirement fund. CNMI's reported balance of notes and bonds payable increased from \$83 million in fiscal year 2002 to \$113 million in fiscal year 2005, representing an increase of 36 percent. CNMI's balance owed to its pension fund increased from \$72 million in 2002 to \$120 million in 2005, representing an increase of 67 percent. CNMI has also been incurring penalties on the unpaid liabilities to the pension fund. The total amount of assessed penalties was \$24 million as of September 30, 2005.

Although CNMI's audited fiscal year 2006 financial statements are not yet available, indicators point to a severe fiscal crisis during fiscal year 2006. In a May

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<sup>6</sup>The net asset amount at September 30, 2005, when compared to the fund balance amount as of the same date, includes an additional positive balance of \$46 million resulting from capital and deferred assets of approximately \$180.8 million less long-term liabilities of \$134.8 million.

5, 2006, letter to CNMI legislative leaders, Governor Benigno R. Fitial stated that “the Commonwealth is facing an unsustainable economic emergency....I regret to say that the nature and extent of these financial problems are such that there is no simple or painless solution.” CNMI implemented several significant cost-cutting and restructuring measures during fiscal year 2006. For instance, in August 2006, CNMI enacted its Public Law No. 15-24 to implement “austerity holidays” consisting of biweekly furloughs, during which government employees are not paid and many government operations are closed. This measure was taken to help alleviate the financial crisis by saving millions of dollars in both personnel and operational costs. The measure declared one unpaid holiday per pay period for the remainder of fiscal years 2006 and 2007, reducing the government’s normal pay period to 72 hours every 2 weeks. In June of 2006, CNMI enacted Public Law No. 15-15 to authorize the CNMI government to suspend the government’s employer contributions to the retirement fund for the remainder of fiscal years 2006 and 2007. In addition, CNMI has passed laws to restructure loans among its component units, reform the rate of compensation for members of boards and commissions, increase the governor’s authority to reprogram funds, and extend the date for full funding of the retirement fund’s defined benefit plan—the unfunded pension liability was estimated at \$552,042,142 as of October 1, 2004. CNMI has also created a defined contribution retirement plan for government employees hired on or after January 1, 2007. These measures are immediate and dramatic, and are indicative of severe financial problems that will likely call for long-term solutions.

Based on unaudited data recently provided to us by CNMI’s Secretary of Finance, it appears that both revenues and expenditures for fiscal year 2006 have significantly decreased from fiscal year 2005 levels. The significant decline in revenues is likely due to declines in the garment manufacturing and tourism industries. Although these unaudited data are showing a balanced budget for the year with no significant changes to the cumulative deficit balance, these data are unaudited and could change due to adjustments identified in the audit process.

### **CNMI’s Financial Accountability Remains Weak**

CNMI has had long-standing financial accountability problems, including the late issuance of its single audit reports, the inability to achieve unqualified (“clean”) audit opinions on its financial statements, and numerous material weaknesses in internal controls over financial operations and compliance with laws and regulations governing federal grant awards.

#### **CNMI’s Compliance with Single Audit Requirements**

As a nonfederal entity expending more than \$500,000 a year in federal awards, CNMI is required to submit a single audit report each year to comply with the Single Audit Act, as amended.<sup>7</sup> Single audits are audits of the recipient

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<sup>7</sup>31 U.S.C. Chp. 75.

organization—the government in the case of CNMI—that focus on the recipient’s financial statements, internal controls, and compliance with laws and regulations governing federal grants. Single audits provide key information about the federal grantee’s financial management and reporting and are an important control used by federal agencies for overseeing and monitoring the use of federal grants.

For fiscal years 1997 through 2005, CNMI did not submit its single audit reports by the due date, which is generally no later than 9 months after the fiscal year end. CNMI’s single audit submissions were significantly late for fiscal years 1997 through 2004, ranging from 22 months late for fiscal year 2004 to 2 months late for fiscal year 1998. CNMI’s late submission of single audit reports means that the federal agencies overseeing federal grants to CNMI did not have current audited information about CNMI’s use of federal grant funds. CNMI made significant progress in 2005 by submitting its fiscal year 2005 single audit report less than 1 month late. According to CNMI’s Secretary of Finance, the fiscal year 2006 single audit is progressing well and it is anticipated that the single audit report will be submitted to the Federal Audit Clearinghouse on time, by June 30, 2007.

### **CNMI Unable to Achieve “Clean” Audit Opinions Due to Persistent, Significant Weaknesses**

The CNMI government has been unable to achieve unqualified (“clean”) audit opinions on its financial statements, receiving qualified opinions on the financial statements issued for fiscal years 1997 through 2005. Auditors render a qualified opinion when they identify one or more specific matters that affect the fair presentation of the financial statements. The effect of the auditors’ qualified opinion can be significant enough to reduce the usefulness and reliability of CNMI’s financial statements.

CNMI has made some progress in addressing the matters that resulted in the qualified opinions on its financial statements for fiscal years 2001 through 2003. However, some of the issues continued to exist in 2004 and 2005. The auditors identified the following issues in fiscal year 2005 that resulted in the most recent qualified audit opinion: (1) inadequacies in the accounting records regarding taxes receivable, advances, accounts payable, tax rebates payable, other liabilities and accruals, and the reserve for continuing appropriations; (2) inadequacies in accounting records and internal controls regarding the capital assets of the Northern Marianas College; and (3) the lack of audited financial statements for the Commonwealth Utilities Corporation, which represents a significant component unit of CNMI.

Auditors for CNMI rendered qualified opinions on CNMI’s compliance with the requirements for major federal award programs from 1997 through 2005. In fiscal year 2005, the auditors cited noncompliance in the areas of allowable costs, cash management, eligibility, property management, procurement, and other requirements.



CNMI's Secretary of Finance told us that he expects that the single audit report for fiscal year 2006 will show improvement from the 2005 reporting in the area of qualifications to the audit opinion.

**Weaknesses over Financial Reporting and Compliance with Requirements for Major Federal Programs**

CNMI has long-standing and significant internal control weaknesses over financial reporting and compliance with requirements for federal grants. Table 1 shows the number of material weaknesses and reportable conditions for CNMI for fiscal years 2001 through 2005. The large number and the significance of reported internal control weaknesses raise serious questions about the integrity and reliability of CNMI's financial statements and its compliance with requirements of major federal programs. Furthermore, the lack of reliable financial information hampers CNMI's ability to monitor programs and financial information such as revenues and expenses and to make timely, informed decisions.

**Table 1: Reported Weaknesses Identified in the Auditors' Reports for Fiscal Years 2001 through 2005**

Fiscal year	Internal control over financial reporting in accordance with government auditing standards (report on financial statements)			Compliance with requirements applicable to each major program and internal control over compliance with OMB Circular No. A-133 (report on federal awards)		
	Material weaknesses	Reportable conditions	Total	Material weaknesses	Reportable conditions	Total
2001	10	0	10	4	13	17
2002	9	1	10	2	14	16
2003	10	2	12	1	15	16
2004	8	5	13	2	31	33
2005	9	4	13	2	36	38

CNMI's 13 internal control reportable conditions for fiscal year 2005, 9 of which were material weaknesses, indicate a lack of sound internal control over financial reporting needed to provide adequate assurance that transactions are properly recorded, assets are properly safeguarded, and controls are adequate to prevent or detect fraud, waste, abuse, and mismanagement. For example, one of the material internal control weaknesses that the auditors reported for CNMI's government for fiscal year 2005 was the lack of audited fiscal year 2005 financial statements of the Commonwealth Utilities Corporation (Corporation), a significant component unit of CNMI. Because the Corporation's financial statements were unaudited, the auditors could not determine the propriety of account balances presented in the financial statements that would affect CNMI's

basic financial statements. CNMI's auditors also reported other significant material internal control weaknesses that have continued from previous years, such as improper tracking and lack of support for advances to vendors, travel advances to employees, liabilities recorded in the General Fund, and tax rebates payable. Due to the lack of detailed subsidiary ledgers and other supporting evidence, the auditors could not determine the propriety of these account balances. According to the auditors, the effect of these weaknesses is a possible misstatement of expenditures and related advances and liabilities, which also resulted in a qualification of the opinion on the fiscal year 2005 CNMI financial statements. Consequently, CNMI's financial statements may not be reliable.

As shown in table 1, auditors also reported 38 reportable conditions in CNMI's compliance with requirements for major federal programs and the internal controls intended to ensure compliance with these requirements for fiscal year 2005, 2 of which were material weaknesses. One of the material internal control weaknesses affecting compliance with federal programs related to the failure to record expenditures for the Medical Assistance Program when they were incurred. Specifically, the auditors identified expenditures in fiscal year 2005 for billings from service providers for services rendered in previous years. The effect of this weakness is that expenditures reported to the grantor agency, the U.S. Department of Health and Human Services, are based on the paid date and not, as required, the service date. In addition, actual expenditures incurred during the year are not properly recorded and, therefore, current year expenditures and unrecorded liabilities are understated. The other material weakness affecting compliance related to the lack of adherence to established policies and procedures for managing and tracking property and equipment purchased with federal grant funds. As a result, CNMI's government was not in compliance with federal property standards and its own property management policies and procedures. The other 36 reportable conditions concerned compliance with requirements regarding allowable costs; cash management; eligibility; equipment and property management; matching, level of effort, and earmarking; procurement and suspensions and debarment; reporting; subrecipient monitoring; and special tests and provisions that are applicable to CNMI's major federal programs.

### **Efforts to Assist CNMI in Its Economic and Accountability Challenges**

OIA has ongoing efforts to support economic development in CNMI and assist CNMI in addressing its accountability issues. OIA has in the last 3 years sponsored conferences in the United States and business-opportunity missions in the insular areas to attract American businesses to the insular areas.

OIA's efforts in helping to create links between the business communities in the United States and CNMI are key to helping meet some of the economic challenges. In our December 2006 report,<sup>8</sup> we concluded that the insular areas

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<sup>8</sup>GAO-07-119.

would benefit from formal periodic OIA evaluation of its conferences and business-opportunity missions, including assessments of the cost and benefit of its activities and the extent to which these efforts are creating partnerships with businesses in other nations. We recommended that OIA conduct such formal and periodic evaluations to assess the effect of these activities on creating private sector jobs and increasing insular area income. OIA agreed with our recommendation.

To promote sound financial management processes in the insular area government, OIA has increased its focus on bringing the CNMI government into compliance with the Single Audit Act. For example, OIA created an incentive for CNMI to comply with the act by stating that an insular area cannot receive capital funding unless its government is in compliance with the act or has presented a plan, approved by OIA, that is designed to bring the government into compliance by a certain date. In addition, OIA provides general technical assistance funds for training and other direct assistance, such as grants, to help the insular area governments comply with the act and to improve their financial management systems and environments.

DOI's OIA and IG, other federal inspectors general, and local auditing authorities assist or oversee CNMI's efforts to improve its financial accountability. OIA monitors the progress of completion and issuance of the single audit reports as well as providing general technical assistance funds to provide training for insular area employees and funds to enhance financial management systems and processes. DOI's IG has audit oversight responsibilities for federal funds in the insular area.

OIA staff members make site visits to CNMI as part of OIA's oversight activities. In our December 2006 report,<sup>9</sup> we recommended that OIA develop a standardized framework for its site visits to improve the effectiveness of its monitoring. We also recommended that OIA develop and implement procedures for formal evaluation of progress made by the insular areas to resolve accountability findings and set a time frame for achieving clean audit opinions. OIA agreed with our recommendations and noted that it had already made some progress during fiscal year 2006.

## **Conclusions**

CNMI faces daunting economic, fiscal, and financial accountability challenges. CNMI's economic and fiscal conditions are affected by its economy's general dependence on two key industries, which have experienced significant declines in recent years. In addition, although progress has been made in improving financial accountability, CNMI continues to have serious internal control and accountability problems that increase its risk of fraud, waste, abuse, and mismanagement.

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<sup>9</sup>GAO-07-119.

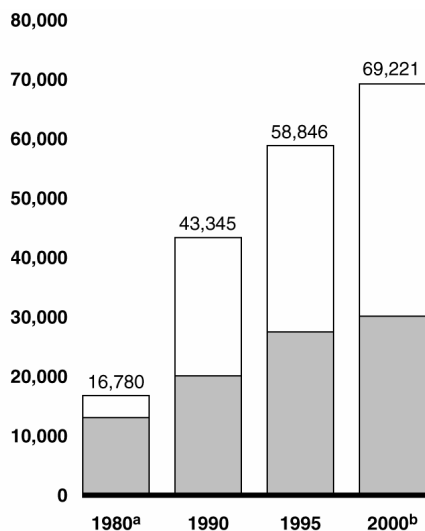
Efforts to meet formidable fiscal challenges in CNMI are exacerbated by delayed and incomplete financial reporting that does not provide officials with the timely and complete information they need for effective decision making. Timely and reliable financial information is especially important as CNMI continues to take actions to deal with its fiscal crisis.

OIA has ongoing efforts to assist CNMI in addressing its accountability issues and to support economic development in CNMI. OIA officials monitor CNMI's progress in submitting single audit reports, and OIA provides funding to improve financial management. Yet, progress has been slow and inconsistent. The benefit to CNMI of past and current assistance is unclear. Federal agencies and CNMI have sponsored and participated in conferences, training sessions, and other programs to improve accountability, but knowing what has and has not been effective and drawing the right lessons from this experience is hampered by a lack of formal evaluation and data collection.

Strong leadership is needed for CNMI to weather its current crisis and establish a sustainable and prosperous path for the future. During 2006, the CNMI government took dramatic steps to reverse prior patterns of deficit spending. The CNMI government will need to continue to work toward long-term sustainable solutions. A focused effort is called for in which direct and targeted attention is concentrated on the challenges facing CNMI, with feedback mechanisms for continuing improvement to help CNMI achieve economic, fiscal, and financial stability. OIA plays a key role in this effort. In its comments on our December 2006 report, OIA pointed out that it provides "a crucial leadership role and can provide important technical assistance" to help CNMI and the other insular areas improve their business climates, identify areas of potential for private sector investment, and market insular areas to potential investors. It also noted that improving accountability for federal financial assistance for CNMI and other insular areas is a major priority. OIA has stated its commitment to continuing its comprehensive approach and to implementing other innovative ideas to assist CNMI and the other insular areas in continuing to improve financial management and accountability. Leadership on the part of the CNMI government and OIA is critical to addressing the challenges CNMI faces and to providing long-term stability and prosperity for this insular area.

Madam Chairwoman and Members of the Subcommittee, this concludes my statement. I would be pleased to answer any questions that you and other Members of the Subcommittee may have at this time.

### Reported CNMI Population by Citizenship



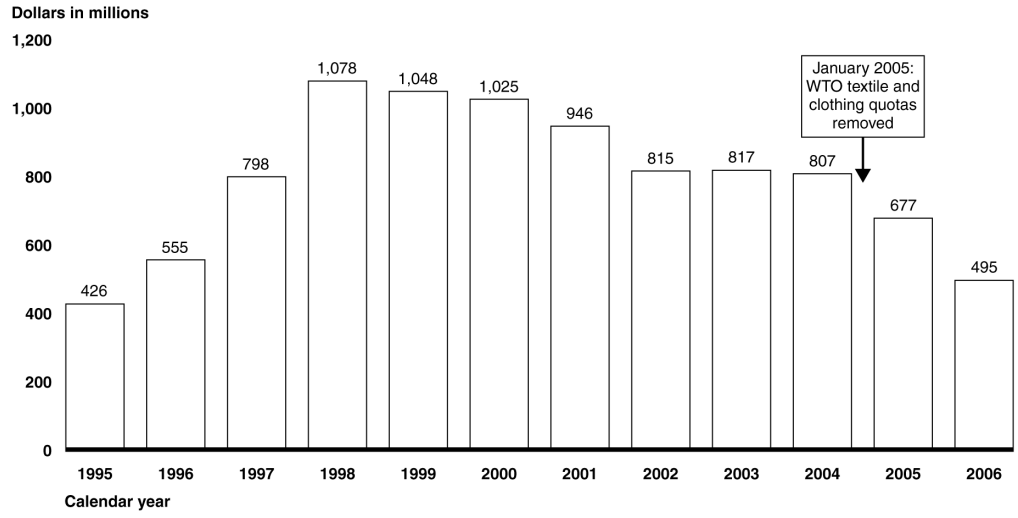
	Not a U.S. citizen	3,709	23,263	31,357	39,089
	U.S. citizen	13,071	20,082	27,489	30,132

Sources: U.S. Census Bureau; CNMI Central Statistics Division.

<sup>a</sup>U.S. citizenship was not conferred to residents of CNMI until 1986. However, the CNMI Central Statistics Division has classified persons born in CNMI together with persons born in the United States or other territories as “U.S. citizens” for 1980.

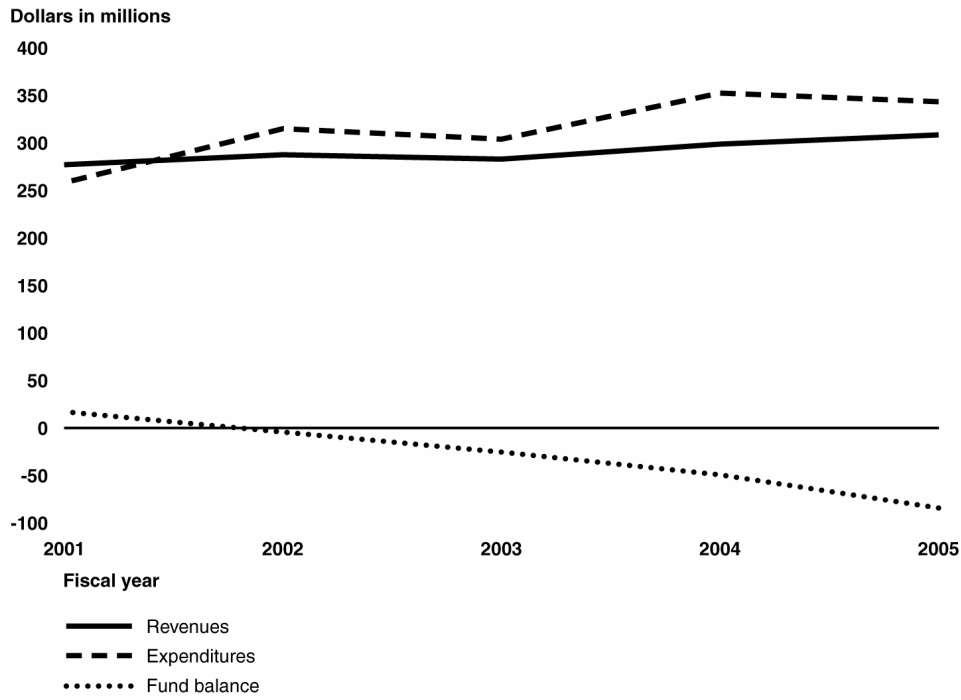
<sup>b</sup>The 2000 decennial population census is the most recent population census information available.

### Reported U.S. Apparel Imports from CNMI



Sources: U.S. Dept. of Commerce, International Trade Administration, Office of Textiles & Apparel.

### Reported Revenues, Expenditures, and Fund Balance for CNMI's Government Activities



Source: GAO analysis of single audit reports covering fiscal years 2001, 2002, 2003, 2004, and 2005.

## CNMI's Fiscal Condition

	Fiscal years ending September 30,				
	2001	2002	2003	2004	2005
<b>Data</b>					
Own source revenues	227,709,651	215,650,986	225,412,808	235,754,891	244,183,778
Federal contributions	49,348,134	71,964,627	57,560,034	63,006,595	64,346,950
Total revenues	\$277,057,785	\$287,615,613	\$282,972,842	\$298,761,486	308,530,728
Total expenditures	258,177,431	314,985,333	303,986,379	352,488,419	343,370,293
Revenues less expenditures [Surplus/(deficit)]	18,880,354	(27,369,720)	(21,013,537)	(53,726,933)	(34,839,565)
Total net other financing <sup>a</sup>	6,511,003	3,510,667	0	39,493,350	7,625
Governmental funds beginning year balance <sup>b</sup>	3,540,878	19,609,305 <sup>c</sup>	(4,249,748)	(35,011,807) <sup>c</sup>	(49,245,390)
Governmental funds end of year balance	17,219,852	(4,249,748)	(25,263,285)	(49,245,390)	(84,077,330)
Net Assets, end of year <sup>d</sup>	40,575,181	30,760,955 <sup>e</sup>	15,596,170	(18,656,437)	(38,131,589)
Change in net assets	--	(9,814,226)	(15,164,785)	(34,252,607)	(19,475,152)
<b>Calculations</b>					
Federal contributions as a percent of revenues	17.8	25.0	20.3	21.1	20.9
Government revenue as percent of GDP <sup>f</sup>	--	.30	--	--	--
Government expenditures as percent of GDP <sup>f</sup>	--	.33	--	--	--

Source: GAO analysis of single audit reports covering fiscal years 2001, 2002, 2003, 2004, and 2005. The estimate of GDP, in the amount of \$946,854,877, came from *Final Trip Report on Benchmark Estimates of 2002 Gross Domestic Product in the Commonwealth of the Northern Mariana Islands*, U.S. Census Bureau, Feb. 11, 2005.

Note 1: Financial data reflect CNMI's financial statements for its governmental activities, which include most of CNMI's basic services. These financial data do not include CNMI's component units, which are legally separate but related to CNMI. These financial data also do not include CNMI's fiduciary funds, because those funds cannot be used to finance CNMI operations.

Note 2: CNMI's audited financial statements received qualified opinions from its external auditors and, therefore, these amounts are subject to the limitations cited by the auditors in their opinions and to the material internal control weaknesses identified.

<sup>a</sup>Other financing includes transfers in and out of other funds.

<sup>b</sup>Governmental funds finance most of the basic services provided by the government.

<sup>c</sup>The end-of-year fund balance for the prior fiscal year may not agree with the beginning-of-year fund balance for the succeeding fiscal year due to amounts being restated in subsequent financial statements. We could not readily identify explanations for these restatements because comparative information was not always available or disclosures were not made in subsequent financial statements.

<sup>d</sup>Net assets are capital assets and other assets, such as cash and receivables, less liabilities.

<sup>e</sup>The amount reported is the restated amount from the 2003 single audit report, corrected because of excluded and misstated amounts.

<sup>f</sup>GDP estimates are not available for 2001, 2003, 2004, and 2005.



**GAO Contacts**

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