



TWENTY-THIRD LEGISLATURE
COMMONWEALTH OF THE NORTHERN MARIANAS COMMONWEALTH
LEGISLATURE

HOUSE OF REPRESENTATIVES
COMMITTEE ON JUDICIARY AND GOVERNMENTAL
OPERATIONS

P.O. BOX 500586 SAIPAN, MP 96950

MARISSA R. FLORES
CHAIRWOMAN

STANDING COMMITTEE REPORT NO. 23-88

DATE: August 21, 2024

RE: House Bill No. 23-112

The Honorable Edmund S. Villagomez
Speaker of the House of Representatives
Twenty-Third Northern Marianas
Commonwealth Legislature
Capitol Hill
Saipan, MP 96950

Dear Mr. Speaker:

Your Committee on Judiciary and Governmental Operations to which was referred:

H. B. NO. 23-112:

“To establish the Office of Financial Integrity and Compliance (OFIC) and the OFIC Oversight Committee to improve the CNMI Government’s financial management and reporting.”

begs leave to report as follows:

I. RECOMMENDATION:

After considerable discussion, your Committee recommends that H. B. NO. 23-112 be passed by the House in the form of House Draft 1.

HOUSE CLERK'S OFFICE
RECEIVED BY *[Signature]*
DATE *10/28/2024* TIME *1:20pm*

II. ANALYSIS:

A. Purpose:

The purpose of House Bill No. 23-112 is to establish the Office of Financial Integrity and Compliance (OFIC) and the OFIC Oversight Committee to improve the CNMI Government's financial management and reporting.

B. Amendment:

The Committee made the following amendments to strengthen and clarify the intent of House Bill No. 23-112.

- Page 3, Line 3: Inserted a new Section 3 to read as follows and renumbered all subsequent sections accordingly.

“Section 3. Amendment. The Legislature finds that 1 CMC § 7849 could potentially be interpreted as criminalizing the sharing of information between OPA and OFIC. Because such interpretation would defeat the purpose of authorizing collaboration between OPA and OFIC, 1 CMC § 7849 is hereby amended to read as follows:

1 CMC § 7849. Secrecy of Records; Penalty for Violation.

All records of the Public Auditor shall be confidential unless it is deemed necessary for the Public Auditor to make the records public in the performance of his or her duties. Notwithstanding the foregoing, the Public Auditor may share records with the Office of Financial Integrity and Compliance; provided, the sharing of records does not directly affect an ongoing investigation being conducted by the Public Auditor. Violations relative to the secrecy of proceedings by the Public Auditor or any member of the Public Auditor's staff shall be punished by imprisonment for not more than six months or by a fine for not more than \$1,000.”

C. Committee Findings:

Your Committee finds that the Commonwealth of the Northern Mariana Islands (CNMI) Government is subject to annually conducted audits by independent auditors. The objective of these audits is to evaluate the effectiveness of financial management practices, assure compliance with relevant accounting standards, and evaluate the accuracy and completeness of the government's financial statements. The audit report for the year ending September 30, 2020, which is the most recent available, identified numerous critical areas of the CNMI Government's finances that require improvement. Your Committee finds the audit disclosed numerous egregious deficiencies that suggest financial mismanagement. Governmental Activities, General Fund, Grants Assistance Governmental Fund, Coronavirus Relief Governmental Fund, and Saipan Amusement Governmental Fund were all subject to

disclaimers of opinion as a result of notable deficiencies in financial reporting and compliance with accounting standards. Achieving financial integrity for sustainable development requires greater transparency, stronger institutions, enhanced accountability, and more cooperation at all levels.

Your Committee finds that this Act will establish the Office of Financial Integrity and Compliance (OFIC), which shall operate as an independent office within the Department of Finance. The OFIC is the operational body responsible for implementing, monitoring, and enforcing internal controls and compliance with accounting standards across all CNMI Government departments and component units. The OFIC operates under the strategic direction and oversight of the OFIC Oversight Committee (OOC). In addition, the Act will also establish the OFIC Oversight Committee (OOC). The OOC is an independent body responsible for providing oversight, guidance, and strategic direction to the OFIC. The OOC shall ensure that the OFIC remains effective and that the overall objectives of the CNMI Financial Integrity and Compliance Act are met.

Your Committee finds that the OFIC shall have to oversee the implementation of robust internal controls; ensure compliance with Governmental Accounting Standards Board (GASB) standards; conduct regular internal audits and reviews of financial activities; provide training and support to accounting and financial management personnel; and report its findings to the OFIC Oversight Committee (OOC), the Legislature, and the public.

Your Committee further finds that the OOC shall conduct independent reviews of the OFIC's implementation of internal controls and accounting improvements. The OOC shall provide guidance to the OFIC, approve OFIC plans, ensure the effectiveness of the OFIC's efforts, review audit reports, assess governmental compliance with accounting standards, recommend corrective actions, and report its findings to the Legislature. The OOC shall be comprised of financial experts, government officials, and independent auditors. The Governor shall appoint five members, with the advice and consent of the Senate, and all members shall be appointed based on their expertise in financial management, auditing, and public administration. The Chair of the Committee shall have significant experience in financial oversight and shall be compensated in accordance to 1 CMC § 8247.

It is the intent of your Committee to establish both the Office of Financial Integrity and Compliance within the Department of Finance and the OFIC Oversight Committee to ensure that the CNMI financial system operates in a clean, transparent and accountable manner and that the highest standards of integrity are applied to all financial activities. Your Committee finds that the establishment of the OFIC and the OFIC Oversight Committee are necessary to effectively and efficiently carry out the intent of the proposed legislation. Therefore, your Committee agrees with the intent and purpose of House Bill No. 23-112 and recommends its passage in the form of House Draft 1.

D. Public Comments:

The Committee received comments from the following:

- Ms. Dora I. Deleon Guerrero, CPA, Temporary Public Auditor, Office of the Public Auditor.

“First, the creation of an Office of Financial Integrity and Compliance (“OFIC”) encroaches on OPA’s constitutional and statutory mandates. The position of Public Auditor and creation of the Office of the Public Auditor requires OPA to audit the receipt, possession, and disbursement of public funds. See N.M.I. Const. art. III, §12; 1 CMC §§ 2301 and 7812. Further, the Auditing Act directs that OPA “shall conduct or supervise all audits required for or sought by a Commonwealth agency.” 1 CMC § 7821 (emphasis added). The requirement of the OFIC to conduct semi-annual internal audits of the financial transactions of the CNMI Government directly contradicts OPA’s existing legislative mandates. Additionally, the same financial information contained in the mandated OFIC audits under this bill will already be covered by the Single Audit for that year.

Second, the requirement of OPA to collaborate with OFIC jeopardizes OPA’s legislative mandates regarding confidentiality. All records of the Public Auditor are confidential unless the Public Auditor determines a declassification of the record in order to perform his or her duties. 1 CMC § 7849. Preliminary audit information is confidential and disclosing of that information to anyone outside the process, other than necessary for agency comments, is unlawful. 1 CMC § 2303. Violations of both aforementioned statutes are punishable by imprisonment for not more than six months, or a fine of not more than \$1,000 or both. It would be very difficult for OPA to comply with a requirement of collaboration with OFIC regarding ongoing audits.

Third, the creation of OFIC and the OFIC Oversight Committee (“OOC”) is duplicative of OPA’s existing role and the role of the Interagency Audit Coordinating Advisory Group (“Coordinating Group”). 1 CMC § 2307. The Coordinating Group consists of the presiding officer and minority leader of each house of the Legislature, the Secretary of Finance, and the Special Assistant for Planning and Budgeting. The Coordinating Group is mandated to review all audit reports and discuss the findings with the Public Auditor in order to recommend to the Governor or the Legislature necessary changes in the law or regulations. 1 CMC § 2307(c). Unfortunately, the Coordinating Group is not currently active. However, should the Coordinating Group take on their established legislative mandates, there would be no need to create an OOC or allocate additional money for the OOC because everyone designated to the Coordinating Group is already a current CNMI Government employee or public official.”

On August 2, 2024, OPA submitted comments to the House of Representatives Committee on Judiciary and Government Operations regarding House Bill 23-112. Therein, OPA asserts that the OFIC encroaches on OPA's constitutional and statutory mandates under NMI Const. art. III, § 12, and 1 CMC §§ 2301 and 7812.¹ Similarly, OPA asserts that this Act contradicts 1 CMC § 7821, which states that “[t]he office of the Public Auditor shall conduct or supervise all audits required for or sought by a Commonwealth agency.” Contrary to the opinion of OPA, the Legislature finds that this Act does not contradict NMI Const. art. III, § 12, or 1 CMC §§ 2301 and 7812 because the relevant portions of those cited authorities only require that the public auditor audit the receipt, possession, and disbursement of public funds by the executive, legislative, and judicial branches of the CNMI Government. This Act does not alter OPA's authority to perform these functions, meaning this Act does not contradict the cited authorities. Similarly, the Legislature finds that this Act does not contradict 1 CMC § 7821 because OFIC's semi-annual audits do not alter OPA's authority to conduct or supervise audits. The CNMI Constitution does not provide OPA with the sole authority to conduct audits of the CNMI Government.

OPA also asserts that the creation of the OFIC and OOC duplicates the efforts of the Interagency Audit Coordinating Advisory Group (“Coordinating Group”) established under 1 CMC § 2307.

The Legislature finds that the Coordinating Group is tasked with reviewing all audit reports of the Public Auditor and discussing with the Public Auditor the manner in which the Public Auditor's recommendations could be implemented, such as by recommending to the Governor and Legislature proposed laws or regulations that the Coordinating Group finds desirable as a result of its collaboration with the Public Auditor. 1 CMC § 2307. Additionally, the Public Auditor must notify the Coordinating Group of an agency's failure to respond or the filing of unresponsive answer to an adverse audit finding. *Id.*

The Legislature finds that the duties of the OFIC and OOC do not significantly overlap with the duties of the Coordinating Group because the OFIC and OOC have numerous duties beyond the duty shared between the OOC and the Coordinating Group, which is to review audit

¹ “The public auditor shall audit the receipt, possession and disbursement of public funds by the executive, legislative and judicial branches of the government, an instrumentality of the Commonwealth or an agency of local government and shall perform other duties provided by law.” N.M.I. Const. art. III, § 12, cl. 2.

“There is in the Commonwealth government an office of the Public Auditor to be headed by the Public Auditor. The office of the Public Auditor is established as an independent agency of the Commonwealth government to audit the receipt, possession, and disbursement of public funds by agencies of the Commonwealth government and to perform such other duties as required in this chapter and in the Auditing Act, 1 CMC § 7811 et seq.” 1 CMC § 2301.

“It is the purpose of this part to implement N.M.I. Const. art. III, § 12 by creating an office of the Public Auditor to conduct audits of all Commonwealth government agencies and activities and to assign such additional duties to the Public Auditor as the legislature deems necessary.” 1 CMC § 7812.

reports and provide the Legislature with recommendations that will improve government accounting and financial management. Duties held by the OFIC and OOC that are not captured by the Coordinating Group include developing and implementing internal controls, providing day-to-day management of internal controls and compliance, offering guidance and support to ensure proper accounting practices are followed, investigating whistleblower complaints and taking appropriate actions, and providing training and support to accounting and financial management personnel. Additionally, in regard to the shared duty of providing recommendations to the Legislature, the Legislature notes that the recommendations from each entity will stem from different sources. For example, the recommendations provided by the Coordinating Group are based on their work with the Public Auditor, whereas the recommendations provided by the OFIC and OOC are based on their own audits and investigations as supplemented with information provided by the Public Auditor. The Legislature intends that both the OOC and the Coordinating Group review audit reports and provide the Legislature with recommendations for legislative action related to the financial management of the CNMI Government.

Comments received from OPA have been attached as part of this committee report.

E. Legislative History:

House Bill No. 23-112 was introduced by Representative Marissa R. Flores on June 6, 2024, and was referred to the House Standing Committee on Judiciary and Governmental Operations for disposition.

F. Cost Benefit:

The enactment of House Bill No. 23-112, HD1 will result in additional cost to the CNMI Government to establish the Office of Financial Integrity and Compliance Office and OFIC Oversight Committee and to recruit/appoint specialized personnel/board members to carry out the intent of this Act.

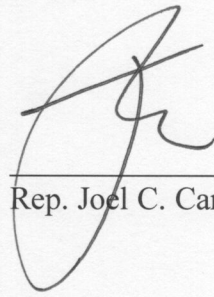
III. CONCLUSION:

The Committee is in accord with the intent and purpose of H. B. NO. 23-112 and recommends its passage in the form of House Draft 1.

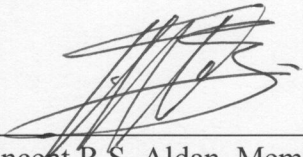
Respectfully submitted,



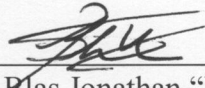
Rep. Marissa R. Flores, Chairwoman



Rep. Joel C. Camacho, Vice Chair

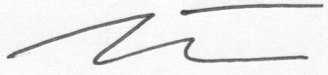


Rep. Vincent R.S. Aldan, Member

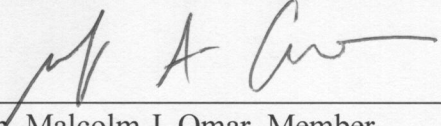


Rep. Blas Jonathan "BJ" T. Attao, Member

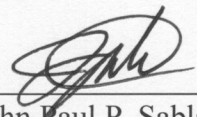
Rep. Vicente C. Camacho, Member



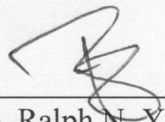
Rep. Manny G.T. Castro, Member



Rep. Malcolm J. Omar, Member

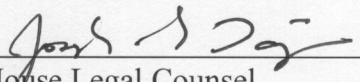


Rep. John Paul P. Sablan, Member



Rep. Ralph N. Yumul, Member

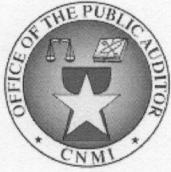
Reviewed by:



House Legal Counsel

Attachment:

- Letter dated August 2, 2024 from the Temporary Public Auditor, Office of the Public Auditor.



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

Website: <http://opacnmi.com>

1220 Route 312, Capitol Hill, Saipan, MP 96950

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P.O. Box 501399
Saipan, MP 96950

E-mail Address:
mail@opacnmi.com
Phone: (670) 322-6481

August 2, 2024

OPA-2024-39

VIA EMAIL (rep.floresm@cnmileg.net; staff.floresm@gmail.com)

Chairwoman Marissa Flores
The House of Representatives Committee on Judiciary and Governmental Operations
23rd Northern Marianas Commonwealth Legislature
Honorable Jesus P. Mafnas Memorial Building
P.O. Box 500586
Saipan, MP 96950

RE: OPA comments in support of House Bill No. 23-112

Dear Chairwoman Flores:

The Office of the Public Auditor (“OPA”) appreciates the opportunity to comment on House Bill Number 23-112 (“H.B. 23-112” or the “bill”). OPA is also very concerned of the adverse opinion on the CNMI’s Fiscal Year (FY) 2020 and prior Single Audits, the delays of the audits and the general lack of responsiveness to audit findings. H.B. 23-112 creates duplicative efforts requiring new funding and puts additional burdens on agencies without addressing the underlying cause(s) of the deficiencies or solving the issues of noncompliance while infringing on OPA’s constitutional and statutory mandates. Our office offers the following comments concerning the bill.

First, the creation of an Office of Financial Integrity and Compliance (“OFIC”) encroaches on OPA’s constitutional and statutory mandates. The position of Public Auditor and creation of the Office of the Public Auditor requires OPA to audit the receipt, possession, and disbursement of public funds. *See* N.M.I. Const. art. III, §12; 1 CMC §§ 2301 and 7812. Further, the Auditing Act directs that OPA “shall conduct or supervise *all* audits required for or sought by a Commonwealth agency.” 1 CMC § 7821 (emphasis added). The requirement of the OFIC to conduct semi-annual internal audits of the financial transactions of the CNMI Government directly contradicts OPA’s existing legislative mandates. Additionally, the same financial information contained in the mandated OFIC audits under this bill will already be covered by the Single Audit for that year.

Second, the requirement of OPA to collaborate with OFIC jeopardizes OPA’s legislative mandates regarding confidentiality. All records of the Public Auditor are confidential unless the Public Auditor determines a declassification of the record in order to perform his or her duties. 1 CMC § 7849. Preliminary audit information is confidential and disclosing of that information to anyone outside the process, other than necessary for agency comments, is unlawful. 1 CMC § 2303. Violations of both aforementioned statutes are punishable by imprisonment for not more than six months, or a fine of not more than \$1,000 or both. It would be very difficult for OPA to comply with a requirement of collaboration with OFIC regarding ongoing audits.

Third, the creation of OFIC and the OFIC Oversight Committee (“OOC”) is duplicative of OPA’s existing role and the role of the Interagency Audit Coordinating Advisory Group (“Coordinating

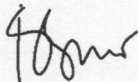
Group”). 1 CMC § 2307. The Coordinating Group consists of the presiding officer and minority leader of each house of the Legislature, the Secretary of Finance, and the Special Assistant for Planning and Budgeting. The Coordinating Group is mandated to review all audit reports and discuss the findings with the Public Auditor in order to recommend to the Governor or the Legislature necessary changes in the law or regulations. 1 CMC § 2307(c). Unfortunately, the Coordinating Group is not currently active. However, should the Coordinating Group take on their established legislative mandates, there would be no need to create an OOC or allocate additional money for the OOC because everyone designated to the Coordinating Group is already a current CNMI Government employee or public official.

Finally, as mentioned in the Findings and Purpose section of H.B. 23-112, the CNMI Government’s most recent Single Audit available is for FY 2020. One major issue that continually impacts the delay of the Single Audits is responsiveness of the agencies to the auditors. Agencies, especially those already short staffed, have difficulty completing their day-to-day work while also pulling information requested by the auditors in a timely fashion. H.B. 23-112 does not address this issue. However, adding two more financial audits per year would require the use of scarce agency resources and would likely cause further delays for future Single Audits.

OPA appreciates the invitation to comment on H.B. 23-112. OPA agrees that actions should be taken to address issues of noncompliance relating to CNMI Government audits. However, H.B. 23-112 creates duplicative efforts, at a cost to the government, without addressing the underlying issues.

If you have any questions about OPA’s comments, please do not hesitate to contact my office.

Sincerely,

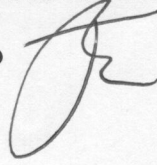


Dora I. Deleon Guerrero, CPA
Temporary Public Auditor

cc: Ashley Kost, OPA Legal Counsel

FLOOR AMENDMENT TO H.B. No. 23-112

OFFERED BY: Rep. Joel Camacho



DATE: October 17, 2024

To amend current text to reflect an amendment as follows:

After Section 2 of the bill, insert a new Section 3 to read as follows:

“Section 3. Amendment. The Legislature finds that 1 CMC § 7849 could potentially be interpreted as criminalizing the sharing of information between OPA and OFIC. Because such interpretation would defeat the purpose of authorizing collaboration between OPA and OFIC, 1 CMC § 7849 is hereby amended to read as follows:

‘1 CMC § 7849. Secrecy of Records; Penalty for Violation.


All records of the Public Auditor shall be confidential unless it is deemed necessary for the Public Auditor to make the records public in the performance of his or her duties. Notwithstanding the foregoing, the Public Auditor may share records with the Office of Financial Integrity and Compliance; provided, the sharing of records does not directly affect an ongoing investigation being conducted by the Public Auditor. Violations relative to the secrecy of proceedings by the Public Auditor or any member of the Public Auditor's staff shall be punished by imprisonment for not more than six months or by a fine for not more than \$ 1,000.’”

Consistent with the intent of the foregoing amendments, I hereby also move to allow the Legal counsel together with the House Clerk to make further non-substantive technical amendments that are strictly necessary to effectuate the intent of this floor amendment prior to transmittal.

The legal sufficiency signature of House Legislative Counsel contained in the final, engrossed version of a bill shall reflect the signature of the counsel endorsing the last amendment, if any, addressed by the House.

Date: 10/17/24

Reviewed for Legal Sufficiency by:



House Legislative Counsel

TWENTY-THIRD NORTHERN MARIANAS COMMONWEALTH

LEGISLATURE

IN THE HOUSE OF REPRESENTATIVES

JUNE 25, 2024

Third Special Session, 2024

H. B. 23-112, HD1

A BILL FOR AN ACT

To establish the Office of Financial Integrity and Compliance (OFIC) and the OFIC Oversight Committee to improve the CNMI Government's financial management and reporting.

BE IT ENACTED BY THE 23RD NORTHERN MARIANAS
COMMONWEALTH LEGISLATURE:

1 **Section 1. Short Title.** This Act shall be known as the “CNMI Financial
2 Integrity and Compliance Act.”

3 **Section 2. Findings and Purpose.** The Legislature finds that the
4 Commonwealth of the Northern Mariana Islands (CNMI) Government undergoes
5 regular audits conducted annually by independent auditors. These audits aim to
6 assess the accuracy and completeness of the government's financial statements,
7 ensure compliance with relevant accounting standards, and evaluate the
8 effectiveness of financial management practices. The audit for the year ended
9 September 30, 2020, which is the latest audit report available, highlighted several
10 critical areas of the CNMI Government's finances that need to be improved.

11 The audit revealed several egregious issues indicative of financial
12 mismanagement. Notably, there were disclaimers of opinion on Governmental

1 Activities, General Fund, Grants Assistance Governmental Fund, Coronavirus
2 Relief Governmental Fund, and Saipan Amusement Governmental Fund, due to
3 significant deficiencies in financial reporting and compliance with accounting
4 standards.

5 For example, according to the FY 2020 audit, the CNMI Government failed
6 to meet Governmental Accounting Standards Board (GASB) Statement No. 68 due
7 to not meeting certain financial reporting requirements, such as recording change
8 related to net pension asset or liability. Additionally, inadequate accounting records
9 led to insufficient audit evidence for balances and financial activities related to
10 advances, general receivables, other liabilities and accruals, and other revenues and
11 expenditures.

12 The audit also issued adverse opinions for the aggregate remaining fund
13 information and aggregate discretely presented component units because the
14 financial statements did not include the Commonwealth Healthcare Corporation
15 and the Northern Mariana Islands Settlement Fund. Furthermore, the audit found
16 that the CNMI was non-compliant with Sections 4 and 9 of the Interim Pension
17 Obligation Bond Credit Agreement.

18 The Legislature finds that to understand the scope of financial oversight in
19 the CNMI, one must consider the role of the Office of the Public Auditor (OPA).
20 The OPA is an independent office responsible for auditing and evaluating the
21 financial operations of the CNMI Government. The OPA conducts external audits

1 of all government entities, including performance audits, financial audits, and
2 compliance audits. Additionally, the OPA investigates instances of fraud, waste,
3 and abuse within government operations. The office provides recommendations to
4 improve government operations and financial practices and ensures accountability,
5 efficiency, and effectiveness in the use of public resources. OPA reports its audit
6 findings to the public, the Legislature, and other relevant stakeholders.

7 The Legislature finds that because OPA operates at an external and
8 independent audit level, there is a need for the establishment of a government office
9 that will address matters on operational and strategic levels, focusing on internal
10 compliance and financial management practices.

11 Thus, this legislation establishes both the Office of Financial Integrity and
12 Compliance (OFIC) within the Department of Finance and the OFIC Oversight
13 Committee (OOC). The OFIC's primary responsibilities include developing and
14 implementing robust internal control systems, monitoring and enforcing
15 compliance with GASB standards, conducting regular internal audits, and
16 providing training and support to financial management personnel. The OFIC is
17 required to report its findings to the Legislature, aiming to ensure accurate financial
18 reporting and maintain strong internal controls within government departments. To
19 ensure the OFIC remains effective and that the overall objectives of this Act are
20 met, the OOC, an independent body providing strategic direction and oversight to
21 the OFIC, will, among other things, review and assess the OFIC's performance,

1 approve OFIC plans and audit schedules, and conduct independent investigations
2 into financial discrepancies.

3 **Section 3. Amendment.** The Legislature finds that 1 CMC § 7849 could
4 potentially be interpreted as criminalizing the sharing of information between OPA
5 and OFIC. Because such interpretation would defeat the purpose of authorizing
6 collaboration between OPA and OFIC, 1 CMC § 7849 is hereby amended to read
7 as follows:

8 **“1 CMC § 7849. Secrecy of Records; Penalty for Violation.**

9 All records of the Public Auditor shall be confidential unless it is deemed
10 necessary for the Public Auditor to make the records public in the performance of
11 his or her duties. Notwithstanding the foregoing, the Public Auditor may share
12 records with the Office of Financial Integrity and Compliance; provided, the
13 sharing of records does not directly affect an ongoing investigation being conducted
14 by the Public Auditor. Violations relative to the secrecy of proceedings by the
15 Public Auditor or any member of the Public Auditor's staff shall be punished by
16 imprisonment for not more than six months or by a fine for not more than \$1,000.”

17 **Section 3 4. Enactment.** The Act shall read as follows:

18 **“___ CMC § 100: Definitions**

19 For purposes of this Part, the following terms shall have the
20 meanings set forth below:

1 (a) “Act” shall mean the CNMI Financial Integrity and Compliance
2 Act.

3 (b) “Audit report” shall mean a formal opinion or disclaimer, issued
4 by an auditor as a result of an internal audit, detailing the findings,
5 discrepancies, inefficiencies, and areas of non-compliance, along with
6 recommended corrective actions.

7 (c) “Component units” shall mean legally separate organizations for
8 which the CNMI Government is financially accountable as well as other
9 entities for which the nature and significance of their relationship with the
10 CNMI are such that exclusion would cause the CNMI’s basic financial
11 statements to be misleading or incomplete. An entity is a component unit if
12 the CNMI Government has appointed a voting majority of an organization’s
13 governing body and either has the ability to impose its will on the entity or
14 there is potential for the entity to provide specific financial benefits to or
15 impose specific financial burdens on the CNMI Government.

16 (d) “Compliance” shall mean adherence to laws, regulations,
17 guidelines, and specifications relevant to financial management and
18 accounting practices.

19 (e) “Financial management software” shall mean the modern
20 technological tools and systems used to automate and improve the accuracy
21 of financial reporting, budgeting, and compliance processes implemented

1 as of the effective date of this Act or as determined by the Office of
2 Financial Integrity and Compliance (OFIC) and the OFIC Oversight
3 Committee.

4 (f) "Fiscal Year" shall mean October 1 of one year through
5 September 30 of the next year and shall be named by the latter year.

6 (g) "Governmental Accounting Standards Board (GASB)
7 standards" shall mean the accounting and financial reporting standards for
8 U.S. state and local governments, set by the GASB, to ensure consistency,
9 transparency, and accountability in financial reporting.

10 (h) "Internal audit" shall mean an independent and objective
11 evaluation and advisory service aimed at assessing and improving an
12 organization's internal controls, risk management, and governance
13 processes.

14 (i) "Internal controls" shall mean the processes designed to ensure
15 the accuracy and reliability of financial reporting; compliance with
16 applicable laws, standards, and regulations; and the efficiency and
17 effectiveness of operations.

18 (j) "Legislature" shall mean the legislative body of the Government
19 of the Commonwealth of the Northern Mariana Islands, which is composed
20 of the Senate and the House of Representatives and is vested with the
21 legislative power of the CNMI Government.

1 (k) "OFIC Oversight Committee (OOC)" shall mean the
2 independent body responsible for providing oversight, guidance, and
3 strategic direction to the Office of Financial Integrity and Compliance.

4 (l) "Office of Financial Integrity and Compliance (OFIC)" shall
5 mean the independent office within the Department of Finance responsible
6 for implementing, monitoring, and enforcing internal controls, as well as
7 ensuring compliance with applicable laws, standards, and regulations across
8 all CNMI Government departments and component units.

9 (m) "Semi-annual" shall mean occurring twice within one Fiscal
10 Year.

11 (n) "Whistleblower" shall mean an employee or individual who
12 reports financial mismanagement, irregularities, or non-compliance with
13 financial and accounting standards within the CNMI Government or its
14 component units.

15 **___ CMC § 101: Establishment of the Office of Financial**
16 **Integrity and Compliance**

17 (a) There is hereby established the Office of Financial Integrity and
18 Compliance (OFIC), which shall operate as an independent office within
19 the Department of Finance. The OFIC is the operational body responsible
20 for implementing, monitoring, and enforcing internal controls and
21 compliance with accounting standards across all CNMI Government

1 departments and component units. The OFIC operates under the strategic
2 direction and oversight of the OFIC Oversight Committee (OOC).

3 **___ CMC § 102: Powers and Duties of the Office of Financial**
4 **Integrity and Compliance**

5 The OFIC shall have the power and duty to:

6 (a) Oversee the implementation of robust internal controls.

7 (1) Develop and implement robust internal control systems to ensure
8 the accuracy and reliability of financial reporting.

9 (2) Regularly review and update internal control procedures to
10 address any emerging risks or issues.

11 (3) Provide day-to-day management of internal controls and
12 compliance.

13 (b) Ensure compliance with Governmental Accounting Standards
14 Board (GASB) standards.

15 (1) Ensure all government departments and component units comply
16 with GASB standards.

17 (2) Provide guidance and support to ensure proper accounting
18 practices are followed.

19 (c) Conduct regular internal audits and reviews of financial
20 activities.

1 (1) Perform semi-annual internal audits of all financial transactions
2 and activities.

3 (2) Identify discrepancies, inefficiencies, and areas of non-
4 compliance, and recommend corrective actions.

5 (3) Investigate whistleblower complaints and take appropriate
6 action.

7 (d) Provide training and support to accounting and financial
8 management personnel.

9 (1) Coordinate training programs for accounting and financial
10 management personnel to ensure they are knowledgeable about current
11 accounting standards and best practices.

12 (2) Oversee certification processes to maintain high standards of
13 financial integrity.

14 (e) Report its findings to the OFIC Oversight Committee (OOC), the
15 Legislature, and the public.

16 (1) Prepare and publish reports and findings to the OOC, the
17 Legislature, and the public to maintain transparency.

18 (2) Develop a standardized reporting template to ensure consistency
19 in audit reports.

20 ___ **CMC § 103: Director and Staff of the Office of Financial**
21 **Integrity and Compliance**

1 (a) The office is headed by a Director of the OFIC, appointed by the
2 Governor based on their qualifications and experience in financial
3 oversight.

4 (b) The OFIC shall be staffed by professionals with expertise in
5 accounting, auditing, compliance, and financial management.

6 **___ CMC § 104: Training and Certification of Accounting and**
7 **Financial Management Personnel**

8 (a) All accounting and financial management personnel within the
9 CNMI Government and its component units must undergo training and
10 certification in GASB standards, best practices in government accounting,
11 and financial management software within one year of the enactment of this
12 Act. The accounting and financial management personnel within the CNMI
13 Government and its component units include those individuals primarily
14 responsible for the financial management of the entity, all personnel
15 substantially involved in financial management as determined by the
16 individual primarily responsible, and personnel who will use the selected
17 financial management software.

18 (b) The OFIC shall coordinate with accredited institutions to provide
19 necessary training programs.

20 **___ CMC § 105: Mandatory Compliance with Accounting**
21 **Standards**

1 (a) The CNMI Government and its component units are required to
2 comply with all relevant financial and accounting laws, regulations, and
3 standards, including GASB standards.

4 (b) The OFIC shall establish a compliance timeline, with full
5 compliance to be achieved within two fiscal years of the enactment of this
6 Act.

7 (c) The OFIC shall submit periodic progress reports to the
8 Legislature detailing the status of compliance efforts. The Legislature may
9 request the submission of these reports, and the OFIC shall fulfill that
10 request within a reasonable time period.

11 **___ CMC § 106: Regular Internal Audits and Public Reporting**

12 (a) Semi-annual internal audits of the CNMI Government and its
13 component units' financial transactions shall be conducted by the OFIC.

14 (b) Audit reports shall be submitted to the Legislature and made
15 publicly available within 30 days of completion.

16 (c) The OFIC shall develop a standardized audit procedure and
17 reporting template.

18 **___ CMC § 107. Performance Metrics**

19 (a) The OFIC shall establish and regularly review performance
20 metrics to evaluate the effectiveness of its efforts in enhancing financial
21 accountability within the CNMI Government.

1 (b) The performance metrics shall include, but not be limited to, the
2 following:

3 (1) Timeliness and accuracy of financial reporting.

4 (2) Compliance with Governmental Accounting Standards
5 Board (GASB) standards and other relevant financial and
6 accounting laws, regulations, and standards.

7 (3) Reduction in audit findings and material weaknesses
8 identified in external audits.

9 (4) Efficiency gains in financial management processes,
10 such as cost savings achieved through improved controls or
11 streamlined procedures.

12 (c) The OFIC shall report performance metrics to the OFIC
13 Oversight Committee (OOC) on a quarterly basis. The OFIC shall make
14 performance metrics and related reports available to the public.

15 (d) Based on the results of performance metrics, the OFIC shall
16 develop action plans to address areas of improvement and enhance the
17 overall effectiveness of financial accountability efforts.

18 **___ CMC § 108: Financial Management Software**

19 (a) The Department of Finance shall invest in and implement
20 modern financial management software to automate and improve the
21 accuracy of financial reporting.

1 (b) An initial assessment and phased implementation plan shall be
2 developed within six months of the enactment of this Act.

3 **___ CMC § 109: Establishment of the OFIC Oversight**
4 **Committee**

5 (a) There is hereby established the OFIC Oversight Committee
6 (OOC). The OOC is an independent body responsible for providing
7 oversight, guidance, and strategic direction to the OFIC. The OOC shall
8 ensure that the OFIC remains effective and that the overall objectives of the
9 CNMI Financial Integrity and Compliance Act are met.

10 (b) The OOC shall conduct independent reviews of the OFIC's
11 implementation of internal controls and accounting improvements. The
12 OOC shall provide guidance to the OFIC, approve OFIC plans, ensure the
13 effectiveness of the OFIC's efforts, review audit reports, assess
14 governmental compliance with accounting standards, recommend
15 corrective actions, and report its findings to the Legislature.

16 (c) The OOC shall be comprised of financial experts, government
17 officials, and independent auditors. The Governor shall appoint five
18 members, with the advice and consent of the Senate, and all members shall
19 be appointed based on their expertise in financial management, auditing,
20 and public administration. The Chair of the Committee shall have
21 significant experience in financial oversight.

1 (d) The OOC shall be compensated in accordance with 1 CMC §
2 8247.

3 **CMC § 110: Powers and Duties of the OFIC Oversight**
4 **Committee**

5 The OOC shall have the power and duty to:

6 (a) Oversee OFIC activities.

7 (1) Review the performance and effectiveness of the OFIC in
8 implementing internal controls and compliance measures.

9 (2) Assess the OFIC's audit reports and findings, and ensure that
10 appropriate actions are taken to address identified issues.

11 (b) Provide guidance and strategic direction.

12 (1) Provide strategic direction and recommendations to enhance the
13 effectiveness of financial management practices across the government.

14 (2) Identify emerging risks and areas for improvement in financial
15 oversight and compliance.

16 (c) Review and approve plans.

17 (1) Review and approve the OFIC's annual plans, audit schedules,
18 and key initiatives.

19 (2) Ensure that the OFIC's activities align with the broader goals of
20 financial accountability and transparency.

21 (d) Report to the Legislature.

1 (1) Submit periodic reports to the Legislature on the status of
2 financial oversight and compliance efforts.

3 (2) Highlight significant issues, progress, and recommendations for
4 legislative action.

5 (e) Investigate financial discrepancies.

6 (1) Conduct independent investigations into financial discrepancies
7 or non-compliance issues reported by the OFIC or other sources.

8 (2) Provide recommendations for corrective actions and policy
9 changes based on investigation findings.

10 **___ CMC § 111: OFIC Whistleblower Protection Plan**

11 (a) The OFIC shall establish and maintain an OFIC Whistleblower
12 Protection Plan to safeguard employees who report financial
13 mismanagement, irregularities, or non-compliance with financial and
14 accounting standards within the CNMI Government and its component
15 units.

16 (b) Reporting System

17 (1) The OFIC shall set up a secure and anonymous reporting system,
18 such as a hotline or online portal, to facilitate the reporting of financial
19 misconduct or irregularities.

1 (2) The OFIC Whistleblower Protection Plan shall include
2 provisions to ensure confidentiality and anonymity for individuals reporting
3 concerns.

4 (c) Investigation and Reporting

5 (1) Upon receiving a whistleblower complaint, the OFIC shall
6 promptly investigate the allegations and take appropriate action to address
7 any substantiated concerns.

8 (2) All reported issues shall be investigated within 30 days.

9 (3) The OFIC shall submit reports on the number and nature of
10 whistleblower complaints received, investigations conducted, and actions
11 taken to the OOC on a semi-annual basis.

12 (4) The OFIC shall make information about whistleblower
13 complaints and investigations available to the public to the extent permitted
14 by law, while maintaining confidentiality and privacy protections for
15 individuals involved.

16 (d) Protection Against Retaliation

17 (1) Retaliation against employees who report financial misconduct
18 or irregularities is strictly prohibited. Any instances of retaliation shall be
19 subject to disciplinary action, up to and including termination of
20 employment.

1 (2) Any person with authority to take, direct others to take,
2 recommend, or approve any personnel action shall not retaliate against
3 anyone making a complaint or disclosing information, unless the complaint
4 or information was made with actual knowledge of its falsehood or with
5 willful disregard for its truth or falsity.

6 (e) Confidentiality

7 (1) The OFIC shall not disclose the identity of the whistleblower
8 without their written consent unless necessary and unavoidable. In such
9 cases, the person shall be notified in writing prior to the disclosure.

10 (f) Training and Awareness

11 (1) The OFIC shall provide training and awareness programs to
12 educate CNMI Government employees about their rights and protections
13 under OFIC Whistleblower Protection Plan.

14 (2) Information about the OFIC Whistleblower Protection Plan,
15 including reporting procedures and employee rights, shall be readily
16 available to all CNMI Government employees through employee
17 handbooks, training materials, or other appropriate channels.

18 (g) Compliance

19 (1) The OFIC shall ensure that OFIC Whistleblower Protection Plan
20 complies with all relevant laws and regulations governing whistleblower
21 protections.

1 ___ **CMC § 112: Funding and Resources**

2 (a) Adequate funding shall be allocated to support the operations of
3 the OFIC and OOC.

4 (b) An annual budget proposal shall be submitted to the Legislature
5 to ensure ongoing support for the initiatives outlined in this Act.

6 ___ **CMC § 113: Collaboration Between the Office of Financial**
7 **Integrity and Compliance (OFIC) and the Office of the Public Auditor**
8 **(OPA)**

9 (a) The Office of Financial Integrity and Compliance (OFIC) and
10 the Office of the Public Auditor (OPA) shall collaborate to the extent
11 authorized by law to avoid duplication of efforts and ensure efficient use of
12 public resources.

13 (b) The OFIC and the OPA may share information regarding
14 ongoing and upcoming audits, investigations, and other relevant activities.
15 Joint audit planning sessions may be conducted to identify potential areas
16 for collaboration and to prevent overlapping audits.

17 (c) The OFIC and OPA may establish and administer joint training
18 programs and provide shared access to financial management software.

19 (d) The OFIC and OPA may share specialized knowledge,
20 personnel, or tools to enhance the effectiveness of audits and investigations.

1 (e) The OFIC and OPA are authorized to enter into written
2 agreements to establish and set the requirements for their collaboration
3 efforts, including provisions related to the safeguarding and protection of
4 confidential information, the roles and responsibilities of each office in
5 collaborative efforts, the protocols for communication and coordination, the
6 sharing and management of data and information, and any other
7 requirements deemed necessary to facilitate effective collaboration.”

8 **Section 3 5. Severability.** If any provisions of this Act or the application of
9 any such provision to any person or circumstance should be held invalid by a court
10 of competent jurisdiction, the remainder of this Act or the application of its
11 provisions to persons or circumstances other than those to which it is held invalid
12 shall not be affected thereby.

13 **Section 4 6. Savings Clause.** This Act and any repealer contained herein
14 shall not be construed as affecting any existing right acquired under contract or
15 acquired under statutes repealed or under any rule, regulation, or order adopted
16 under the statutes. Repealers contained in this Act shall not affect any proceeding
17 instituted under or pursuant to prior law. The enactment of the Act shall not have
18 the effect of terminating, or in any way modifying, any liability, civil or criminal,
19 which shall already be in existence on the date this Act becomes effective.

20 **Section 5 7. Effective Date.** This Act shall take effect upon its approval by
21 the Governor, or it becoming law without such approval.

HOUSE BILL 23-112, HD1

Prefiled: 6/20/2024

Date: _____

Introduced by: /s/ Rep. Marissa R. Flores

/s/ Rep. Vincent R. S. Aldan

/s/ Rep. Blas Jonathan "BJ" T. Attao

/s/ Rep. Roman C. Benavente

/s/ Rep. Angelo A. Camacho

/s/ Rep. Diego V. F. Camacho

/s/ Rep. Joel C. Camacho

/s/ Rep. Vicente C. Camacho

/s/ Rep. Manny G. T. Castro

/s/ Rep. Joseph A. Flores

/s/ Rep. Thomas J. DLC. Manglona

/s/ Rep. Julie M.A. Ogo

/s/ Rep. John Paul P. Sablan

/s/ Rep. Edmund S. Villagomez

/s/ Rep. Ralph N. Yumul

Reviewed for Legal Sufficiency by:

/s/ Joseph M. Hallanhan

House Legal Counsel