

July 15, 2010

Statement of CNMI Commerce Secretary
Michael J. Ada
Before the House of Representatives
Subcommittee on Insular Affairs, Oceans and Wildlife
Oversight Hearing on the “Technical Assistance Program: Evaluating Its Ability to Meet the
Needs of the Insular Areas”

On behalf of the Honorable Governor Benigno R. Fitial and the people of the Commonwealth of the Northern Mariana Islands, I would like to thank the honorable committee members for affording me the opportunity to testify before the Subcommittee relevant to the Effectiveness of Technical Assistance to the Insular Areas.

While the CNMI has been a beneficiary of Technical Assistance funding through the Department of Interior’s Office of Insular Affairs (“OIA”), the effectiveness of the program can be measured with the successes that the CNMI has been afforded as a result of funding. Although the CNMI has been able to realize substantial progress in specific areas, opportunities remain to enhance the effectiveness of the program toward having a more significant impact on meeting the future needs of the CNMI.

The OIA Technical Assistance program provides the jurisdiction with an expedient funding source that meets the specific and unique needs of the CNMI. In addition, the CNMI has been able to address critical capacity gaps in the areas of accounting, financial management, auditing, and other governmental processes which are absent of funding through other federal sources. These benefits have yielded success in the areas of financial management, accountability, auditing, and capacity building.

There is no doubt that the OIA Technical Assistance program is critical to the well-being and development of the CNMI and the other insular areas. However processes and performance associated with the program must undergo consideration to enhance its effectiveness. A primary challenge that hampers the effectiveness of the program is centered on meeting documented deficiencies within the CNMI. As the CNMI is subject to competitive allocations with other insular jurisdictions, the focus of technical assistance should be focused on achieving progress of marked areas of deficiencies. This provides an opportunity to ensure that all insular areas perform at the highest levels possible.

While an evaluation of the effectiveness of the OIA Technical Assistance program is achieved by outlining benefits and opportunities, the continual development of the program is of great importance to the CNMI. For this reason, the CNMI has developed recommendations that are geared toward ensuring increased effectiveness of the program. These recommendations require changes to be done on the part of the CNMI as well as OIA, since a harmonious partnership is required to ensure maximum effectiveness of these critical funds.

Benefits of the OIA Technical Assistance Program

The Technical Assistance program provides for a variety of benefits to the CNMI. Outside of the financial assistance and outcomes produced as a result of technical assistance awards, the program provides three primary benefits as follows: 1) It provides funding with specificity that no other funding source can provide; 2) Provides assistance that is specific to the jurisdiction needs versus the grantor's needs; and 3) Provides opportunity to develop overall government operations where programmatic funds fail to address these issues.

Provides funding with specificity that no other funding source can provide:

The level of specificity that the technical assistance grant program allows for is beneficial to the CNMI in addressing unique circumstances. While the Technical Assistance program parameters are broad in nature, the ability to meet specific and unique needs of the jurisdiction is monumental. The OIA Technical Assistance program has been able to provide grant funding to address issues specific to the CNMI.

In 2009, the CNMI was awarded \$27,572 to reweigh the commodities basket for the Consumer Price Index ("CPI"). This project was critical to the CNMI as the CPI contains the data that is used to measure price changes in the economy. This is the primary index that is utilized in the CNMI's negotiations with the United States Department of Agriculture ("USDA") for its Nutrition Assistance Program. In addition, the CPI was a major data source for the development of the first Gross Domestic Product ("GDP") measure done for the CNMI and all the insular areas. The development of a GDP measure for the insular areas is significant as now the CNMI and the other insular jurisdictions have a true method to measure economic health.

The ability for the CNMI to update the CPI for its annual negotiations with the USDA, as well as the utilization of the data for the development of the GDP, is a shining example of meeting both immediate and long-term needs. This project yielded results that were useful for both the local and federal governments, as well as narrowed the data gap that has historically existed throughout all the insular areas. This project would not have come to fruition without the existence of the OIA Technical Assistance program as there were no alternative funding sources outside of the CNMI's scarce local revenues.

Provides assistance that is specific to the needs of the jurisdiction versus the needs of the grantor:

The OIA Technical Assistance program provides funding for the specific needs of the CNMI rather than the CNMI trying to fit its needs within a federal program. This flexibility provides for the CNMI to address its unique needs within the parameters required by the jurisdiction rather than those imposed on the CNMI by the grantor. While terms and conditions must be adhered to, the nature of the Technical Assistance program provides more flexibility to address unique circumstances of the CNMI.

As noted earlier, the program definitions are broad in nature, thus inhibiting the need for the CNMI to seek out other federal sources of funding prior to requesting OIA Technical Assistance. While the CNMI should be encouraged to seek out alternative federal sources of funding, many times these funding sources have program outcomes that must be achieved in order to avail of the funding. This is evident in outcome-based programs readily available in the areas of health, safety, energy, and education.

In 2008, the CNMI was provided a technical assistance award of \$278,000.00 to conduct a Geothermal Resource Assessment in an effort to explore alternative fuel sources for the islands. The CNMI subsequently sought out additional funding available under the United States Geological Service (“USGS”) in 2009 through the American Recovery and Reinvestment Act (“ARRA”). However, this application was declined due to the infancy stage of the geothermal development in the CNMI. While the USGS program goals aligned with the CNMI’s project, the exploratory phase that the CNMI was in disqualified its application for funding. Fortunately, this dynamic does not exist within OIA’s Technical Assistance program and serves as a benefit to the CNMI to address the unique needs of the jurisdiction.

Provides opportunity to develop overall governmental operations where other sources will not fund:

OIA aids in many of the difficulties faced by the governments in the insular areas. While many of these dynamics are externally driven, a large portion of effectively responding to these challenges is a function of effective governance, inclusive of financial management, accountability, and administration of programs and projects. While there are program funds available throughout Federal agencies to help address many of the problems that the CNMI encounters, the “back office” capacity is never addressed through these funding sources.

As noted in GAO-10-347, *Interior Grants to Insular Areas*, the insular areas reported a lack of skilled workers and limited opportunities for training and education in disciplines such as grant management. The GAO findings specifically recommended that the insular areas avail of OIA Technical Assistance funding to fund these skill gaps. While these funds are readily available for capacity building, OIA Technical Assistance provides an added benefit in allowing the CNMI to address systemic issues that hamper the effective management of programs and projects. This includes systemic issues such as procurement processes, auditing, financial management systems, and accounting.

Absent OIA Technical Assistance funding, the CNMI and other insular governments are left to develop capacity on limited local resources. As the CNMI must utilize its dwindling local revenues to address critical public services, such as education, safety, and health, limited resources remain to address administrative gaps. A widening of capacity gaps may lead to loss of federal funding, inclusive of Capital Improvement funding through OIA. While many challenges have been addressed through efforts of both the local government and OIA, the CNMI relies heavily on technical assistance to realize continual improvements.

CNMI Successes with OIA Technical Assistance

According to OIA data, the CNMI has been awarded approximately \$3.63 million over the course of FY07-FY09. These funds have yielded positive results in the area of financial management, inclusive of the implementation of new systems in the CNMI Department of Finance. These new upgrades allow for more efficient and accountable delivery of services through the CNMI Department of Finance.

Other successes in the area of financial management, as well as accountability, were realized through a technical assistance award to the CNMI Department of Commerce. The award was to aid the CNMI in the management and oversight of the ARRA funds that were awarded to the CNMI. Without this funding, the CNMI would have been unable to effectively adhere to all the requirements of the ARRA, inclusive of the development of a website for announcement of all awards, opportunities and job vacancies funded under the ARRA. This Technical Assistance grant also allowed the CNMI to avail of trainings and workshops geared towards fiscal responsibility and the proper management of funds. As a result, the CNMI was the first insular area to receive its State Fiscal Stabilization Funds, as well as successfully walk through audits conducted by the Center for Disease Control and the CNMI Public Auditor.

The CNMI has also benefited from the Technical Assistance awards provided to the CNMI Office of the Public Auditor (“OPA”). This technical assistance has allowed for the professional development of the OPA staff and improvements in the area of reporting, response times, and resolution. As a result, the CNMI was scored with the most possible points on OIA’s Competitive Allocation Criteria #9 (Island government audit office). The success of the technical assistance provided to OPA has yielded positive quantitative and qualitative results.

The CNMI has also realized success in the area of capacity building. In its participation of the Executive Leadership Development Program, the CNMI was able to avail of a year long program aimed at developing government leaders. This training program provides in-depth training sessions in the areas of financial accounting, auditing, leadership, conflict resolution, communication, federal processes, and management. This program allowed for the development of a network of island public servants from all the insular areas and focused on succession planning for future island leadership with core competencies required for effective governance. While this program was in its infancy phase, it has yielded two CNMI graduates who are currently holding leadership positions as the CNMI Retirement Fund Administrator and the CNMI Secretary of Commerce.

Challenges that Impact the Effectiveness of the Technical Assistance Program

While there are a number of benefits and success that have resulted directly from the OIA Technical Assistance program, there are some challenges that continue to hamper the effectiveness of the program in the CNMI. These challenges are noted in GAO-10-347 and are results of weaknesses identified within the CNMI, as well as OIA. In an effort to maximize the impact that the technical assistance funding has in the CNMI, it is critical that

attention be brought to areas which present the biggest hindrances. The CNMI has noted three areas that should be identified for consideration by the committee. These include 1) The absence of technical assistance funding priorities and criteria; 2) The lack of a single database which minimizes data inconsistencies between the CNMI and OIA; and 3) No focus on funding that is based on documented long-term planning.

The absence of technical assistance funding priorities and criteria:

Although technical assistance funding allows for flexibility which benefits the CNMI, it lacks a prioritization of funding activities. The technical assistance program encompasses broad definitions which are covered under the program; however, these activities are not prioritized in any orderly fashion. As a result, it becomes a “catch-all” fund which results in projects that are completed and shelved or never completed at all. By developing a prioritization of funding activities, the CNMI will be better positioned to tie all funding proposals to activities which OIA and the CNMI have deemed beneficial to the long-term development of the islands.

Along with the prioritization of funding activities, the establishment of a criteria for selection should be made in order to effectively address both the short-term and long-term needs of the islands. This component is essential in being able to address immediate concerns. However, it allows for evaluation of a proposal on the long-term strategy of the island. As an example, if the CNMI were to propose a funding request for a labor study which considers the extension of federal immigration policies to the CNMI, the funding request could be evaluated on the short-term need for the data and the long-term need for policy decision.

The establishment of an agreed upon criteria would alleviate concerns that funding requests were ignored for subjective reasons and allow an objective and transparent process to be implemented. This provides both OIA and the CNMI with clear documentation that funding priorities and criteria which have been agreed upon between the CNMI and OIA are applied across all technical assistance requests.

The lack of a single database that is used by both the CNMI and OIA:

A big source of frustration in the administration of technical assistance grants is the lack of consistent data between OIA and the CNMI. This dynamic occurs internal to the CNMI and OIA, as well as between the two entities. This is of utmost concern for purposes of ensuring that financial data and project progress is accurately documented. As noted in GAO-10-347, the inconsistencies that existed within OIA included data that was inconsistent with respect to grant extensions, grant close-outs, and progress reporting from the grantees.

Issues surrounding reprogramming requests and approvals are not formalized, making it difficult for the grantee to understand what documents are required for the various components of managing the grant funds. This extends to reprogramming requests between allowable categories, grant extension requests, and expenditure and fund encumbrance data. While OIA may have a process or form in place which addresses these issues, the utilization of any such form or process is not closely adhered to.

No focus on funding based on long-term planning:

While the OIA Technical Assistance program provides for funding in broad categories of need, the funding is not tied to a planning document by the CNMI. As noted in GAO-10-347, the absence of planning documentation is a core cause of shifting priorities and accounts for a large portion of project delays and incomplete projects. While the CNMI is capable of providing annual project priorities, the short-term nature of the annual priorities allows for competing priorities that may not yield long-term gain for the CNMI.

The CNMI recently engaged in economic development planning and has seen the success of planning documentation. Through a technical assistance grant under the U.S. Department of Commerce, the *CNMI's Comprehensive Economic Development Strategy* (CEDS), provides a five-year plan of infrastructure projects that yield high economic value. A recent review of the CEDS revealed that over 40% of the project priorities have been acted on, funded, or under construction. Many of these priorities were funded under the ARRA.

While OIA has been supportive of planning, most recently in its award to the CNMI for a tourism master plan, there is an absence of a comprehensive master plan that encompasses infrastructure, economic development, and government vision. In an effort to minimize disruption due to changes in leadership, the planning documents should focus on development of at least five years.

The effectiveness of the technical assistance program can be increased through a focus on tying funding to the development of long-term planning documentation. This will aid the CNMI in ensuring that the CNMI maximizes all federal funds that come into its jurisdiction. While OIA may continue to adhere to an annual priority listing for the CNMI, it should aim to require that the CNMI develop a comprehensive master plan and aid in the funding of such a project.

CNMI Recommendations to Improve Effectiveness

As noted earlier, the OIA Technical Assistance program provides a tremendous benefit to the CNMI and other insular areas. While the CNMI has been the recipient of generous financial aid from OIA and has realized progress in many critical areas, there is still room for improvement in an effort to enhance the effectiveness of the Technical Assistance program. Given the challenges previously outlined, it is critical that the CNMI and OIA begin the process of addressing some of these opportunities. While there are several methods to address the challenges of the program, the most pressing matters can be address through the following recommendations: 1) Provide a clear criteria which ties Technical Assistance funding to documented areas of CNMI government deficiencies, 2) Develop a mutually agreed upon database to be utilized by both the CNMI and OIA, and 3) Require the development of a CNMI Master plan, inclusive of infrastructure and economic development planning, to be tied to Technical Assistance funding.

Provide clear criteria which ties Technical Assistance funding to documented areas of deficiencies:

As the CNMI and other insular governments are rated annually through the OIA competitive allocation criteria, the CNMI's areas of deficiencies are well documented for the preceding year. In an effort to minimize the capacity gaps that are rooted in the area of deficiency, it is logical to assign attention to those specified areas. The CNMI proposes that OIA develop criteria that consider prioritizing Technical Assistance funding to projects that focus on effectively addressing the areas of deficiencies. This recommendation aims to ensure that capacity issues are met immediately and allow for the correction of issues that may negatively impact the CNMI's ability to maximize its funding through the competitive allocation process.

The establishment of clear criteria not only benefits OIA in justifying funding for particular projects, it also provides the CNMI with clear guidance on what type of projects should be included in its submission of funding requests. While the criteria should include a factor that prioritizes capacity deficits, it allows for the inclusion of evaluation factors that yield measurable results.

In GAO-10-347, the findings reported that the CNMI was deficient in the area of procurement processes. In this instance, if subsequent technical assistance funding considered a component which would address improvements in this area, the CNMI would be able to address the deficiency immediately and prevent the capacity gap from widening over time.

Develop a mutually agreed upon database to be utilized by both the CNMI and OIA:

A large portion of the frustration that exists with the management of technical assistance funding includes the disparity between data sets. This includes financial data, progress reporting, reprogramming requests, and project completion. While GAO findings cited that 62% of issues arise out of weaknesses associated with the grant recipient, 14% of total weakness is derived from OIA grant management activities including discrepancies in grant management data. With advances in technology, the CNMI and OIA are in a position to develop an automated system that provides for streamlining of essential data.

The CNMI is currently in the process of developing a grant management reporting system to address the multitude of reports that are mandated through the ARRA. As a result of technical assistance funding, the CNMI Department of Commerce is in the final stages of implementation of a web-based application that will allow for federal grantors to access real-time data inclusive of job creation, expenditures, obligations, fund balances, and project progress. This system will allow grantors to view the grantee data on a real-time basis, allowing for reconciliation of data on a regular basis. This provides flexibility for all parties to address any inconsistency that are found during the reporting period.

Through automation, both the CNMI and OIA can avail of real time data that coincide between the CNMI Financial Management system, grantee progress reporting, and document grant management changes, such as reprogramming requests and grant extensions. The

streamlining of a central database that is utilized by all relevant parties lends itself to audit performance and encourages a transparent process.

Requirement to tie Technical Assistance funding to projects and priorities outlined in a comprehensive Master plan:

While the CNMI has made improvements in the area of grant management through technical assistance funding, a historical look at the projects funded yield minimal relevance to infrastructure and economic development needs. The ability to tie all funding request to meet listed priorities included in an overall master plan yields measurable results and minimizes changing priorities.

As noted in GAO-10-347, the only insular area to develop and adhere to a master plan was American Samoa. While the master plan process does not cement the CNMI's priorities, it dramatically reduces the need to reprogram funds to shifting priorities. While the CNMI has embarked on its economic development planning through Technical Assistance funding from the U.S. Department of Commerce's Economic Development Administration ("EDA"), it is essential to include this planning document into the overall master plan for the jurisdiction.

By promoting the development of a CNMI master plan, it requires the planning of infrastructure to be tied directly into the economic development goals of the jurisdiction. This process should be able to guide capital improvement spending and yields measurable economic development goals. The funding of a master plan through technical assistance funding is a strong investment that provides stability to the historical redirection of grant funds.

* * *

Thank you for the opportunity to participate in this oversight process and to have our views considered by the Subcommittee.