
BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

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

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

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



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

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

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

A handwritten signature in black ink, appearing to read "James A. Stacks".

Comptroller General
of the United States

D I G E S T

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

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

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

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

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

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

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

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

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

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

RECOMMENDATIONS TO THE CONGRESS

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

MATTERS FOR CONGRESSIONAL
CONSIDERATION

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

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

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

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

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

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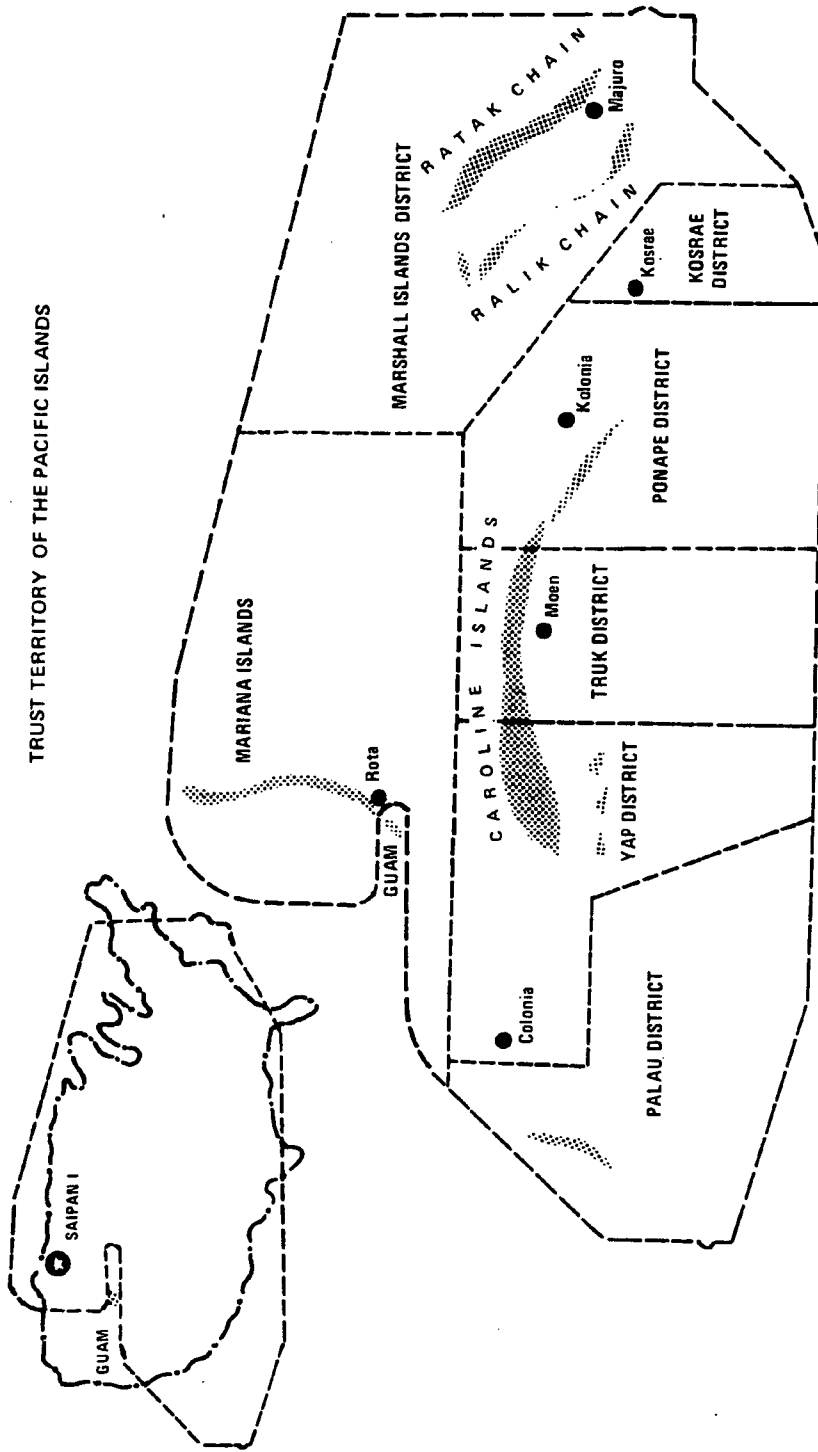
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ABBREVIATIONS

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

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