



Highlights of [GAO-07-436T](#), a testimony to Committee on Energy and Natural Resources, U.S. Senate

## Why GAO Did This Study

The U.S. insular area of the Commonwealth of the Northern Mariana Islands (CNMI) is a self-governing commonwealth of the United States that comprises 14 islands in the North Pacific.

In a December 2006 report—*U.S. Insular Areas: Economic, Fiscal, and Financial Accountability Challenges* ([GAO-07-119](#))—regarding four insular areas including CNMI, GAO identified and reported the following: (1) economic challenges, including the effect of changing tax and trade laws on their economies; (2) fiscal condition; and (3) financial accountability, including compliance with the Single Audit Act.

The Chairman of the Senate Committee on Energy and Natural Resources, which requested the December 2006 report, asked GAO to present and discuss the results as they pertain to CNMI. Our summary and conclusions are based on our work performed for our December 2006 report on U.S. insular areas. For this testimony we also had available CNMI's fiscal year 2005 audited financial statements, which we have included in our review, along with some recent developments in fiscal year 2006.

[www.gao.gov/cgi-bin/getrpt?GAO-07-436T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-436T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jeanette Franzel, (202) 512-9471, [franzelj@gao.gov](mailto:franzelj@gao.gov).

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Serious Economic, Fiscal, and Accountability Challenges

### What GAO Found

The Commonwealth of the Northern Mariana Islands (CNMI) faces serious economic, fiscal, and financial accountability challenges. CNMI's economy depends heavily on two industries, garment manufacturing and tourism. However, recent changes in U.S. trade law have increased foreign competition for CNMI's garment industry, while other external events have negatively affected its tourism sector.

CNMI's garment industry has declined in recent years with factory closings and reduced production. The value of garment shipments to the United States dropped by more than 16 percent between 2004 and 2005 and by an estimated 25 percent in 2006.

Tourism in CNMI declined sharply in the late 1990s as a result of a series of external events, including the Asian financial crisis; cancellation of Korean Air service; and fears of international crises such as the SARS epidemic, terrorism, and the Iraq war. In 2005, Japan Airlines withdrew direct flights to the capital.

The fiscal condition of CNMI's government has steadily weakened from fiscal year 2001 through fiscal year 2005, as government spending has exceeded revenues each year since 2002. CNMI ended fiscal year 2005 with a deficit of \$84.1 million in its governmental fund balance. CNMI's liabilities also exceed its assets for its primary government. Indicators point to a severe financial crisis in fiscal year 2006. In response, the CNMI government has implemented 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.

CNMI's long-standing financial accountability problems include the late submission of financial audit reports, inability to achieve "clean" opinions in its financial statements by the independent financial auditors, and reports showing serious internal control weaknesses over financial reporting. Many of the auditors' findings are longstanding, going back in some cases to 1987.

Federal agencies and CNMI have sponsored and participated in conferences, training sessions, technical assistance, and other programs to improve CNMI's economy, fiscal condition, and accountability. During 2006, the CNMI government took steps to reverse its prior patterns of deficit spending. It will need to continue to work toward long-term sustainable solutions, with concentrated attention on the challenges facing the islands and feedback mechanisms for continuing improvement. Leadership on the part of the CNMI government and the Department of the Interior's Office of Insular Affairs is critical to providing long-term stability and prosperity for this U.S. insular area.