

COMMONWEALTH HEALTHCARE CORPORATION
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2012

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Ms. Esther L. Muna
Chief Executive Officer
Commonwealth Healthcare Corporation:

We were engaged to audit the financial statements of the Commonwealth Healthcare Corporation (CHCC), as of and for the year ended September 30, 2012, and have issued our report thereon dated December 4, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of CHCC is responsible for establishing and maintaining effective internal control over financial reporting. In planning our audit, we considered CHCC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CHCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CHCC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 3 through 22), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2012-01 through 2012-09 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHCC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2012-04, 2012-07 and 2012-08.

We noted certain matters that we reported to management of CHCC in a separate letter dated December 4, 2014.

CHCC's responses to the findings identified in our engagement to audit are described in the accompanying Schedule of Findings and Responses. We did not audit CHCC's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

December 4, 2014

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses Year Ended September 30, 2012

General Ledger System

Finding No. 2012-01

Criteria: An effective system of internal control over financial reporting includes maintenance of a separate general ledger system that records transactions and generates timely, reliable, and relevant financial information. Additionally, transfers of assets and liabilities that attach to discretely presented component units should be documented.

CNMI Public Law 16-51 created the Commonwealth Healthcare Corporation (CHCC) as of October 1, 2011. Health care services had previously been accounted for within the general fund of the CNMI. Public Law 16-51 requires CHCC to, among other things, establish an accounting system to produce monthly financial statements, establish required cash funds, establish a fee structure, develop a strategic plan, prudently collect accounts receivable, and develop annual budgets. Section 2813 of Public Law No. 16-51 states that within 365 days after the enactment of the Act, the appropriate authority shall transfer to CHCC all real property owned by the Department of Public Health and all other real personal property used exclusively for the functions and duties which are to be assumed by CHCC and all materials supplies used exclusively in connection therewith.

Condition: CHCC does not maintain a separate general ledger system. Specifically:

- A general ledger for CHCC transactions is maintained by the CNMI Department of Finance (DOF) but is not reconciled or monitored by DOF or CHCC. CHCC could only provide general ledger details batched by date and not by individual transactions;
- Amounts due to and from CHCC and DOF are not reconciled;
- As of September 30, 2012 fixed asset transfers to CHCC have not been recorded by CHCC or DOF as a transfer document has not been prepared, and transfers of receivables, inventory and obligations have not been documented by CHCC and DOF officials;
- CHCC was appropriated \$5,000,000 from the general fund for fiscal year 2012 but only recorded \$4,723,468 of this funding;
- Journal vouchers posted to the DOF general ledger are not approved by CHCC management and CHCC could not produce the journal vouchers for testing;
- Inventory and billing systems are not linked to the DOF general ledger;
- Accounts receivable of \$9,304,365 were recorded through a proposed audit adjustment;
- CHCC does not monitor receivables for collectability;
- Of four accounts receivable confirmations received, three indicated that no amounts were owed based on perceived medical insurance coverage, which had been denied, as follows;

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-01, Continued

Condition, Continued:

<u>Account Name</u>	<u>Claim No.</u>	<u>Amount</u>
Inpatient	C119791	\$ 29,510
Outpatient	C607310	\$ 49,288
Hemodialysis	B106140	\$ 17,399

Upon denial CHCC is not classifying the receivables to a self-pay category and is not following up on payment.

- CHCC does not reconcile inventory amounts to the DOF general ledger; and
- Adjustments to record CHCC transactions within the DOF general ledger were recorded by CHCC through compilation adjustments proposed by the CNMI Office of the Public Auditor, resulting in a clearing account expense of \$635,105 at September 30, 2012. CHCC could not provide explanation or detail for this amount.

Cause: The cause of the above condition is the lack of monitoring and timely reconciliation of transactions with DOF, the failure to implement available system controls over the financial reporting process, the lack of established monitoring control procedures to determine the accuracy and completeness of disbursements processed at DOF, and the lack of coordination of the transfer of assets and liabilities by CHCC and DOF officials.

Effect: The effect of the above condition is the lack of reliable and relevant financial information and the inability to timely detect errors and inaccuracies.

Recommendation: We recommend CHCC monitor and reconcile transactions with DOF in a timely manner, establish monitoring control procedures over disbursements, perform periodic reconciliations with DOF to verify the accuracy and completeness of disbursements processed, and approve all journal vouchers posted to the general ledger maintained by DOF.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Ms. Cora P. Ada, Acting Chief Financial Officer

Corrective Action: CHCC fully acknowledges these findings as a result of the separation of CHCC from the Executive Branch.

CHCC does not have its own financial management system and DOF and CHCC mutually agreed to continue using the JDE System. CHCC immediately developed a new general ledger (GL) account (1075) dedicated for CHCC.

These findings may continue to reflect for ensuing fiscal years as complete transition is not fully in place. There are payables still open in the 1012 GL account which require resolution and discussion with DOF as to proper clearing.

Current procedures need to be refined and formalized which will affect the entire process.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Payroll

Finding No. 2012-02

Criteria: Personnel expense should be supported by an authorized notification of personnel action (NOPA) which documents employee pay rate, position, effective starting and end dates, and the correct account number to be charged, and signed timecards, approved leave forms, overtime summary sheets and payroll registers.

Condition: Of seventy-five payroll expense items tested totaling \$98,219, of a population of \$15,869,511, the following were noted:

1. Our tests of twenty-nine NOPAs (or 39%) noted the following inconsistencies in business unit charged:

<u>Employee No.</u>	<u>Payroll Period</u>	<u>Business Unit Per General Ledger</u>	<u>Business Unit Per NOPA</u>
102840	08/11/12	1820	1832
103010	02/25/12	1976	1905
103010	07/14/12	1976	1905
103127	02/25/12	1912A	1887
103126	03/10/12	1912A	1886
103126	06/02/12	1912A	1886
103017	03/10/12	1976	1905
159521	04/21/12	1912A	1912
100654	09/22/12	1912A	1467
102980	06/16/12	1864	1863
100953	02/11/12	1801	1901
100953	05/19/12	1801	1901
242276	04/21/12	1912A	1912
246281	05/05/12	1912A	1912
477304	04/07/12	1906A	1906
212317	04/21/12	1912A	1912
102852	07/28/12	1823A	1823
296144	01/28/12	1865A	1905
200053	01/28/12	1863A	1844
580274	10/06/12	1842A	1642
403515	06/16/12	1912A	1912
651062	04/07/12	1832A	1832
651062	08/25/12	1832A	1832
678360	05/19/12	1827A	1826A
678362	09/22/12	1842A	1842
378362	07/14/12	1832A	1832
678365	12/16/11	1832A	1632
680005	09/22/12	1832	1832A
558334	01/14/12	1831	1831A

2. Timecards for all seventy-five employees (or 100%) were not signed by the employee.
3. NOPA's for forty-one employees (or 55%) were not signed as approved by the Human Resources Officer at a reasonable time from the effective date:

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-02, Continued

Condition, Continued:

<u>Employee No.</u>	<u>Effective Date</u>	<u>Signed Date</u>	<u>Number of Days Elapsed</u>
102643	09/16/07	10/10/07	24
102648	09/16/07	10/10/07	24
102827	06/27/04	08/04/04	38
102996	11/30/92	02/22/06	4,832
103017	11/08/02	04/02/03	145
168445	07/20/07	10/03/07	75
100654	06/08/99	12/11/00	552
415462	11/02/09	11/30/09	28
100953	08/29/11	09/19/11	21
161183	07/27/01	08/08/01	12
242276	06/24/06	07/12/16	18
246281	06/24/06	09/19/06	87
102651	06/24/08	04/09/10	654
402333	11/25/05	02/14/06	81
416241	11/25/05	02/01/06	68
477275	01/03/06	02/15/06	43
477304	01/09/06	02/01/06	23
102852	02/06/07	03/19/07	41
296144	12/13/08	01/15/09	33
577198	01/14/11	05/13/11	119
651062	11/24/09	02/24/10	92
678360	11/28/11	09/23/13	665
678361	11/27/09	12/14/09	17
678362	11/27/09	12/14/09	17
678363	11/27/09	12/14/09	17
678365	11/27/09	12/14/09	17
102815	12/16/09	01/04/10	19
449676	09/15/10	12/22/10	98
676668	10/13/10	11/16/10	34
415495	11/02/09	11/30/09	28
713742	03/07/11	03/30/11	23
518305	03/20/11	05/11/11	52
553899	04/30/11	05/27/11	27
519540	05/30/11	07/05/11	36
714918	06/27/11	07/26/11	29
698465	07/07/11	07/20/11	13
402156	07/18/11	08/10/11	23
680005	09/21/12	11/16/12	56
415111	11/02/09	11/25/09	23
415425	01/01/09	11/30/09	333
415442	01/12/11	07/26/13	926

4. NOPAs for four employees (or 5%) did not evidence an effective date:

<u>Employee No.</u>	<u>Payroll Period</u>	<u>Business Unit Per General Ledger</u>
102931	02/25/12	1851
103127	02/25/12	1912A
103126	03/10/12	1912A
103126	06/02/12	1912A

5. For one employee (or 1%) (employee no.558334) the NOPA was signed as approved by the Human Resources Officer but was not dated.

6. Tests of employee leave forms noted the following deficiencies:

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-02, Continued

Condition, Continued:

<u>Employee No.</u>	<u>Payroll Period</u>	<u>Hours of Leave Per Leave Form</u>	<u>Description</u>
518305	06/02/12	24	Leave form not approved/disapproved by CEO
102727	04/07/12	24	Employee was paid 32 hours
103010	02/25/12	8	Leave form not approved and signed by CEO

7. The overtime summary sheet for one employee (employee no. 416241) was not signed and approved by the Chief Financial Officer (CFO) (general ledger date, 02/11/12, for forty hours overtime).
8. For all seventy-five employees tested, variances existed between the payroll report and the general ledger posting report. Explanation of the variances could not be explained by management. Further, complete payroll registers covering the entire fiscal year were not available; however, historical payroll registers were generated at our request.

<u>PPE</u>	<u>Gross Pay Per Payroll Report</u>	<u>Gross Pay Per GL Report</u>	<u>Variance</u>
07/28/12	\$ 10,981	\$ (5,922)	\$ 16,903
02/25/12	\$ 2,462	\$ (6,958)	\$ 9,420
06/30/12	\$ 16,034	\$ (5,987)	\$ 22,021
11/19/11	\$ -	\$ (6,864)	\$ 6,864
04/07/12	\$ 1,473	\$ 5,083	\$ (3,610)
10/22/11	\$ 6,872	\$ (7,553)	\$ 14,425
04/07/12	\$ 9,221	\$ 5,083	\$ 4,138
07/28/12	\$ 7,165	\$ (5,922)	\$ 13,087
02/11/12	\$ 14,893	\$ (7,811)	\$ 22,704
08/11/12	\$ 38,594	\$ (5,951)	\$ 44,545
02/25/12	\$ 8,423	\$ (6,958)	\$ 15,381
07/14/12	\$ 7,317	\$ (5,905)	\$ 13,222
02/25/12	\$ 31,721	\$ (6,958)	\$ 38,679
03/10/12	\$ 44,053	\$ (7,145)	\$ 51,198
06/02/12	\$ 42,129	\$ 6,759	\$ 35,370
03/10/12	\$ 8,423	\$ (7,145)	\$ 15,568
04/21/12	\$ 41,928	\$ (4,622)	\$ 46,550
03/10/12	\$ 26,514	\$ (7,145)	\$ 33,659
09/22/12	\$ -	\$ (6,922)	\$ 6,922
05/05/12	\$ 11,622	\$ (7,118)	\$ 18,740
06/16/12	\$ 1,910	\$ (6,812)	\$ 8,722
02/11/12	\$ 12,017	\$ (7,811)	\$ 19,828
05/19/12	\$ 12,805	\$ (3,968)	\$ 16,773
12/17/11	\$ 14,711	\$ (8,186)	\$ 22,897
04/21/12	\$ 41,928	\$ (4,622)	\$ 46,550
05/05/12	\$ 42,393	\$ (7,567)	\$ 49,960
11/19/11	\$ 34,700	\$ (6,864)	\$ 41,564
12/03/11	\$ 28,203	\$ (6,360)	\$ 34,563
09/22/12	\$ -	\$ (6,922)	\$ 6,922
02/11/12	\$ 3,862	\$ (7,811)	\$ 11,673
05/19/12	\$ 10,472	\$ (3,968)	\$ 14,440
04/07/12	\$ 27,998	\$ 5,083	\$ 22,915
04/21/12	\$ 41,928	\$ (4,622)	\$ 46,550
05/19/12	\$ 15,028	\$ (3,968)	\$ 18,996
07/28/12	\$ 14,374	\$ (5,922)	\$ 20,296
01/28/12	\$ -	\$ (7,322)	\$ 7,322
12/17/11	\$ 31,851	\$ (8,186)	\$ 40,037
01/28/12	\$ -	\$ (7,322)	\$ 7,322
10/06/12	\$ 14,164	\$ -	\$ 14,164
06/16/12	\$ -	\$ (6,812)	\$ 6,812
04/07/12	\$ 35,419	\$ 5,083	\$ 30,336
08/25/12	\$ 47,455	\$ (6,015)	\$ 53,470
05/19/12	\$ 1,391	\$ (3,968)	\$ 5,359

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-02, Continued

Condition, Continued:

<u>PPE</u>	<u>Gross Pay Per Payroll Report</u>	<u>Gross Pay Per GL Report</u>	<u>Variance</u>
10/22/11	\$ 29,127	\$ (7,553)	\$ 36,680
09/22/12	\$ -	\$ (6,922)	\$ 6,922
07/14/12	\$ 36,679	\$ (5,905)	\$ 42,584
12/03/11	\$ -	\$ -	\$ -
09/08/12	\$ 48,507	\$ (7,250)	\$ 55,757
12/17/11	\$ 14,711	\$ (8,186)	\$ 22,897
11/19/11	\$ -	\$ (6,864)	\$ 6,864
10/22/11	\$ 17,842	\$ (6,761)	\$ 24,603
11/19/11	\$ -	\$ (6,864)	\$ 6,864
05/19/12	\$ 20,432	\$ (3,968)	\$ 24,400
06/02/12	\$ 17,648	\$ 6,759	\$ 10,889
05/05/12	\$ 5,144	\$ (7,118)	\$ 12,262
12/31/11	\$ 11,381	\$ (7,209)	\$ 18,590
06/02/12	\$ 21,289	\$ -	\$ 21,289
10/22/11	\$ 21,875	\$ (7,553)	\$ 29,428
02/11/12	\$ 17,319	\$ (7,811)	\$ 25,130
10/22/11	\$ 10,405	\$ (6,761)	\$ 17,166
12/03/11	\$ 21,057	\$ (6,360)	\$ 27,417
04/21/12	\$ 22,744	\$ (4,622)	\$ 27,366
03/24/12	\$ 12,168	\$ (7,816)	\$ 19,984
03/24/12	\$ 182,026	\$ (7,816)	\$ 189,842
05/05/12	\$ 172,400	\$ (7,567)	\$ 179,967
12/03/11	\$ 28,203	\$ (6,360)	\$ 34,563
04/07/12	\$ 14,610	\$ 5,083	\$ 9,527
03/24/12	\$ 26,813	\$ (7,816)	\$ 34,629
06/02/12	\$ 16,253	\$ 6,759	\$ 9,494
09/22/12	\$ -	\$ (6,922)	\$ 6,922
01/14/12	\$ 27,540	\$ (7,653)	\$ 35,193
09/22/12	\$ -	\$ (6,922)	\$ 6,922
10/22/11	\$ 10,571	\$ (7,553)	\$ 18,124
01/14/12	\$ 21,587	\$ (7,653)	\$ 29,240
10/22/11	\$ 17,842	\$ (7,553)	\$ 25,395

9. Eleven employees (or 15%) were not included in the payroll distribution report:

<u>Employee No.</u>	<u>Payroll Period</u>	<u>Gross Pay Per General Ledger Posting</u>
102643	11/19/11	\$ 6,864
100654	09/22/12	\$ 6,922
402333	09/22/12	\$ 6,922
296144	01/28/12	\$ 7,322
200053	01/28/12	\$ 7,322
403515	06/16/12	\$ 6,812
678362	09/22/12	\$ 6,922
676668	11/19/11	\$ 6,864
713742	11/19/11	\$ 6,864
680005	09/22/12	\$ 6,922
415111	09/22/12	\$ 6,922

10. Two employees (or 3%) were not included in the general ledger postings:

<u>Employee No.</u>	<u>Payroll Period</u>	<u>Gross Pay Per General Ledger Posting</u>
580274	10/06/12	\$ 14,164
100654	415502	\$ 21,289

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-02, Continued

Condition, Continued:

11. The following documents were not provided:

<u>Business Unit.</u>	<u>General Ledger Date</u>	<u>Employee No.</u>	<u>Description</u>
1842	02/11/12	402764	NOPA was not provided
1830	12/03/11	645850	NOPA was not provided
1906A	04/07/12	477304	Seven hours annual leave
1906A	04/07/12	477304	Twenty-four hours sick leave
1845	11/19/11	102643	Timesheet not provided
1808	10/22/11	102648	Timesheet not provided
1840	12/17/11	161183	Timesheet not provided
1912A	11/19/11	295272	Timesheet not provided
1831	12/03/11	102651	Timesheet not provided
1912A	12/17/11	577198	Timesheet not provided
1831A	10/22/11	678361	Timesheet not provided
1840	12/17/11	449676	Timesheet not provided
1821	11/19/11	676668	Timesheet not provided
1824	10/22/11	415495	Timesheet not provided
1807	11/19/11	713742	Timesheet not provided
1976	10/22/11	553899	Timesheet not provided
1812	10/22/11	102731	Timesheet not provided
1830	12/03/11	645850	Timesheet not provided
1831	12/03/11	698465	Timesheet not provided
1822	10/22/11	415111	Timesheet not provided
1824	10/22/11	415442	Timesheet not provided
1801	02/11/12	100953	Timesheet not provided
1912A	04/21/12	212317	Timesheet not provided
1823A	05/19/12	102852	Timesheet not provided
1830	06/02/12	415502	Timesheet not provided
1842	02/11/12	402764	Timesheet not provided
1807	03/24/12	445155	Timesheet not provided
1828	06/02/12	715909	Timesheet not provided
1832	09/22/12	680005	Timesheet not provided
1831	01/14/12	558334	Timesheet not provided
1822	05/05/12	415462	Employee time card
1832A	07/14/12	678363	Overtime Summary Sheet for four hours
1832A	12/03/11	678365	Supporting documents for back pay not provided

Additionally, CHCC could provide no support or documentation for authorizing housing benefits and contributions to retirement programs.

Cause: The cause of the above condition is the lack of controls to timely approve NOPAs for accuracy and completeness, failure to timely review effective dates and account numbers of the program to be charged, a lack of policies and procedures to maintain required documentation, a lack of awareness to maintain contemporaneous records documenting time charged to applicable programs and timecards are not signed by the employee.

Effect: The effect of the above condition is the risk of invalid expenses.

Recommendation: We recommend that CHCC strengthen controls over documentation of personnel expense.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-02, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Vivian Deleon Guerrero, Human Resources Manager and Ms. April Camacho, Payroll Supervisor

Corrective Action:

1. Effective October 2011, to effectuate each NOPA transaction to transition from the CNMI Government to CHCC, all Unit Managers must communicate with the Human Resource Department (HR) whenever an employee is permanently moved to another business unit to accommodate and address shortages of staff or for other reasons. Meetings will be scheduled with respective Unit Managers to discuss the findings. Policies and procedures will be implemented for accountability.
2. Timecards for all seventy-five employees that were not signed were immediately addressed and corrected during the audit process.
3. CHCC's HR has reviewed and acknowledged the findings related to the forty-one employee NOPAs that were not signed at a reasonable time. HR will enforce and regulate a 45-day time frame for all Requests for Personnel Actions to be processed and fully executed to avoid lapses on work days.
4. A thorough review of NOPAs by the Human Resources Manager will be performed to ensure all important elements in the NOPAs are completed.
5. Ultimately, the auditor's recommendation will be highly considered.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Purchases/Disbursements

Finding No. 2012-03

Criteria: Expenses should be recorded in the period incurred and related documentation should be properly supported, filed and maintained.

Condition: Of fifty-three nonpayroll items tested totaling \$10,602,922 of a total population of \$17,233,366, the following were noted:

1. Three items relate to purchases incurred in a prior fiscal year and one item relates to a travel advance as follows:

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
1828A	04/27/12	1071104	\$ 8,425
1807A	09/27/12	1099422	\$ 6,012
1831A	04/25/12	1070721	\$ 37,842
1878	10/24/11	601448	\$ 218,000

Management requested that proposed adjusting entries not be recorded.

2. Twenty-three items or (43%), including contracts, purchase orders, invoices and journal entries, were not provided as follows:

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
1855A	09/29/12	1099709	\$ 242,257
1802A	11/23/11	1053573	\$ 450
1801A	02/27/12	1062519	\$ 10,000
1840A	05/16/12	1073057	\$ 160,257
1847A	04/12/12	1069669	\$ 18,713
1815A	09/30/12	234588	\$ 1,199,724
1831A	04/25/12	1070721	\$ 37,843
1831A	04/25/12	1070767	\$ 20,653
1831A	04/25/12	1070801	\$ 27,310
1831A	06/14/12	1075758	\$ 10,399
1831A	06/14/12	1075785	\$ 2,048
1840A	11/30/11	1054139	\$ 35,843
1826A	04/03/12	40916	\$ 577
1830A	09/30/12	41821	\$ 28
1831A	09/30/12	41583	\$ 150,645
1831A	09/30/12	41583	\$ 33,552
1831A	09/30/12	41583	\$ 38,837
1878	10/24/11	601448	\$ 218,000
1817A	06/21/12	1094576	\$ 87,000
1817A	08/08/12	1094578	\$ 87,000
1817A	08/29/12	1094580	\$ 87,000
1817A	02/01/12	1094636	\$ 109,000
1840A	09/29/12	1099708	\$ 50,000

Cause: The cause of the above condition is the lack of monitoring and approval of cash disbursements and the lack of proper and systematic filing of relevant documents.

Effect: The effect of the above condition is the misstatement of expenses.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-03, Continued

Recommendation: We recommend that CHCC strengthen controls over processing, recording and monitoring disbursements. We also recommend CHCC properly maintain filing of relevant documents.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Ms. Cora P. Ada, Acting Chief Financial Officer

Corrective Action: CHCC fully acknowledges the auditor's recommendation. We are currently in the process of revising our policies and procedures which will eventually address this finding. Hiring of additional staff will also alleviate the cause and the finding.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Procurement

Finding No. 2012-04

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, the CNMI procurement regulations state the following:

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- Written justification for sole source procurement shall be prepared by the official with expenditure authority and should include what specific efforts were made to obtain competition.
- Contractors shall not be allowed to continue working beyond expiration term of the original contract in the absence of an approved new contract or change order. Change orders shall be processed using the procedures for processing new contracts.
- No contract is effective against the CNMI until all of the parties whose signatures are required on the contract form have signed the contract.

Condition: Of fifty-three nonpayroll items tested aggregating \$10,602,922 of a total population of \$17,233,366, the following were noted:

1. For one item purchased through sole source procurement, efforts to obtain quotes from qualified sources were not evident.

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Obligating Document No</u>	<u>Amount</u>
1812	12/07/11	1054492	537255-OP	\$ 2,000

2. For three items, the contract expired yet the contractor continued to provide services without a renewed contract or change order.

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Obligating Document No</u>	<u>Amount</u>
1851A	05/16/12	1057591	466400-OC	\$ 39,000
1852A	03/07/12	1063220	543106-OP	\$ 13,501
1840A	09/29/12	1099708	None	\$ 50,000

3. Competitive bidding did not occur after a contract expired for one item and justification to not bid out services was not evident.

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Obligating Document No</u>	<u>Amount</u>
1851A	04/25/12	1070825	Memo	\$ 21,250

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-04, Continued

4. For five items, the contract was not signed by the contractor.

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
1878	10/24/11	601448	\$ 218,000
1817A	06/21/12	1094576	\$ 87,000
1817A	08/08/12	1094578	\$ 87,000
1817A	08/29/12	1094580	\$ 87,000
1817A	02/01/12	1094636	\$ 109,000

5. For three professional services contracts tested, we were not provided the approved contracts, and one (document no. 1062519) indicated that proper procurement regulations were not performed as there was no record on file of any agreement.

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
1801A	02/27/12	1062519	\$ 10,000
1840A	05/16/12	1073057	\$ 160,257
1847A	04/12/12	1069669	\$ 18,712

Cause: The cause of the above condition is the failure to comply with applicable procurement regulations and procurement files not being properly maintained.

Effect: The effect of above condition is noncompliance with procurement regulations.

Recommendation: We recommend that CHCC comply with procurement regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Cora P. Ada, Acting Chief Financial Officer and Mr. John Diego Urumelog, Acting Procurement Officer

Corrective Action: Public Law 16-51, Section 2804(g), Corporate Powers, further states that CHCC can rely on the CNMI's procurement and supply regulations or adopt, pursuant to CNMI law, procurement and supply regulations.

Since the inception of CHCC in October 2011, most of CHCC's active contracts continued despite the obligation of such contracts being evident under the CNMI's GL fund 1012. As a result of the transition, all payments (PVs) were processed "direct" without a purchase order and without reference to the specific contract. During the transition period, CHCC was also faced with financial difficulty that had led CHCC's Medicare certification to be in "Jeopardy Status". In order to assist CHCC, the Office of the Governor issued an emergency declaration to provide CHCC flexibility while addressing issues thereby using the sole source procurement method to expedite requests.

We fully acknowledge that we are mandated to adhere to the CNMI's procurement regulations to ensure that orderly and systematic filing be in place ensuring accountability and presence of legal documents.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-04, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

As we continue to immediately address Medicare's citations, the sole source procurement method is very imminent. However, in order to fully address our compliance with the CNMI's procurement regulations, a meeting will be conducted immediately with Business Unit Managers that will require services from outside vendors to review their respective needs, refine previous bidding specifications and initiate the bidding process.

To further improve CHCC's procurement process, new procurement rules and regulations were developed and are currently under review by our Legal Counsel.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Revenue/Receipts

Finding No. 2012-05

Criteria: An effective system of revenue/receipts control includes procedures for cash receipts to be recorded in the period in which they are received and for collections to be timely deposited. Further, relevant supporting documents should be properly filed and maintained.

Condition: Of forty-four cash receipts tested aggregating \$15,060,477 of a total population of \$20,342,349, the following were noted:

1. Deposits related to five journal entries could not be traced to the bank statement:

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
1863A	09/30/12	229791	\$ 966,977
1863A	12/05/11	218894	\$ 191,217
1863A	07/27/12	226505	\$ 130,772
1863A	07/27/12	226503	\$ 234,483
1863A	09/30/12	234366	\$ 71,229

2. For three journal entries, the supporting receipts were not provided. Memorandums requesting payment were only provided.

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
1863A	07/27/12	226499	\$ 1,392,729
1863A	07/27/12	226513	\$ 462,061
1863A	07/27/12	226514	\$ 500,000

3. The composition and source of one deposit was not provided.

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Document Type</u>	<u>Amount</u>
1863A	05/07/12	224060	CR	\$ 62,055

Cause: The cause of the above condition is inadequate file maintenance.

Effect: The effects of the above condition are unsupported revenue transactions, the potential for cash misappropriation, unreported collections and unrecorded revenues.

Recommendation: We recommend CHCC strengthen controls over processing, recording and monitoring collections. We also recommend that journal entries be supported and relevant documents be filed and maintained.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Cora P. Ada, Acting Chief Financial Officer and Ms. Roxanne Aranda, Cashier Lead Supervisor

Corrective Action: CHCC fully acknowledges this finding and the recommendations as provided are doable and therefore will be used as guidelines.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-05, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

CHCC will identify reconciliation personnel to monitor and reconcile collections daily and orderly and systematic filing will be implemented.

As we address this finding, a meeting will be initiated between our Treasurer and Cashier Supervisors and a reconciliation personnel will be identified immediately.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Liabilities

Finding No. 2012-06

Criteria: Liabilities should be recorded when incurred.

Condition: Our tests of liabilities noted the following:

1. We noted \$29,498 of liabilities which pertain to the prior year that were recorded as a liability in the current year. Management requested that proposed adjusting entries not be recorded.
2. Supporting invoices and/or documents were not provided for the following:

<u>Voucher No.</u>	<u>Amount</u>
1099669	\$ 26,890
1099709	\$ 81,309
1099709	\$ 25,000
1099709	\$ 25,000
1099709	\$ 85,948
1099709	\$ 25,000
1020151	\$ 128,530
6965	\$ 639,022
6966	\$ 162,373
7026	\$ 122,560
7121	\$ 159,109
7471	\$ 120,542

3. Four vouchers did not have proper approval prior to actual payment as follows:

<u>Voucher No.</u>	<u>Amount</u>
1070834	\$ 14,363
1070835	\$ 14,363
1070838	\$ 15,000
1094669	\$ 7,221

4. Supporting schedules for accrued payroll did not agree with the general ledger by \$455,859. Explanation of the difference could not be provided and management requested that proposed adjusting entries not be recorded.
5. Accrued taxes of \$254,372 were unsupported.
6. A negative retirement liability of \$21,233 could not be explained.
7. Detailed ledgers for accrued vacation and sick leave were not provided for testing.

Cause: The cause of the above condition is the lack of appropriate cut-off procedures and controls.

Effect: The effect of the above condition is a misstatement of liabilities and expenses.

Recommendation: We recommend that CHCC implement appropriate policies and procedures to record liabilities when incurred and maintain all relevant supporting documents.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Finding No. 2012-06, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Ms. Cora P. Ada, Acting Chief Financial Officer

Corrective Action: CHCC acknowledges this finding and the recommendation is doable and will be used as a guideline to adopt and implement policies and procedures.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Withholding Taxes Payable

Finding No. 2012-07

Criteria: CNMI tax laws require employers to withhold taxes (Chapter 2 local tax and Chapter 7 NMTIT) from each employee's salary and to remit and report on the last day of the month following the end of the quarter to the CNMI Division of Revenue and Taxation (R&T), the taxing authority of the CNMI Government. Further, the Annual Reconciliation of Taxes Withheld (Form OS 3710) is required to be filed on or before February 28 of the following year.

Condition: CHCC did not report or remit Chapter 2 and Chapter 7 withholding taxes withheld from employee salaries and the related employer share. At September 30, 2012, the total withholdings for Chapter 2 and Chapter 7 amounted to \$1,136,778 and \$239,579, respectively. Although payments were subsequently remitted, the related interest and penalties have not been determined by management.

Cause: The cause of the above condition is the lack of monitoring of required payments for each payroll period.

Effect: The effect of the above condition is the possibility of interest and penalties for nonpayment and failure to file.

Recommendation: We recommend that withholding taxes payable be reported and remitted to R&T in accordance with applicable laws and due dates; and all general ledger accounts should be properly reconciled in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Ms. Delia Johnson, Treasurer

Corrective Action: CHCC acknowledges the above finding and the recommendations is doable and will be used as a guideline to adopt and implement policies and procedures.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Medicare Payments

Finding No. 2012-08

Criteria: Medicare withholdings from employee salaries and employer's share are required to be remitted to the United States Treasury in accordance with Publication 15 of the Internal Revenue Service (IRS).

Condition: CHCC did not report or remit Medicare payments withheld from employee salaries and the related employer share as of September 30, 2012. At September 30, 2012, the total Medicare liability amounted to \$313,333. Although payments were subsequently remitted, the related interest and penalties have not been determined by management.

Cause: The cause of the above condition is the lack of monitoring of required payments for each payroll period.

Effect: The effect of the above condition is noncompliance with Publication 15 of the IRS and the possibility of interest and penalties for nonpayment.

Recommendation: We recommend that management address this issue with the IRS as soon as possible and require all payroll allotments to be made in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Ms. Delia Johnson, Treasurer

Corrective Action: CHCC acknowledges the above finding and the recommendation is doable and will be used as a guideline to adopt and implement policies and procedures.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Inventory

Finding No. 2012-09

Criteria: Inventory should be reconciled to the general ledger control total on a periodic basis.

Condition: CHCC does not reconcile inventory to a general ledger control total and inventory valuation reports were not provided.

Cause: The cause of the above condition is weaknesses with CHCC's financial management system and the lack of a valuation system for inventory.

Effect: The effect of the above condition is lack of control over inventory, misstatement of inventory and the potential for fraud.

Recommendation: We recommend that CHCC reconcile inventory to the general ledger on a periodic basis and establish a valuation system for inventory.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. John Diego Urumelog, Acting Procurement Officer

Corrective Action: CHCC acknowledges the above finding and the recommendation is doable and will be used as a guideline to adopt and implement an inventory system. The system will be coordinated with CHCC's Central Supply Unit.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Unresolved Prior Year Findings
Year Ended September 30, 2012

There are no unresolved findings from prior year audits of CHCC.