

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, 2013

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, 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, the basic financial statements of the Commonwealth Healthcare Corporation (CHCC), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 24, 2015.

Internal Control Over Financial Reporting

In planning our audit of the financial statements, we considered CHCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of CHCC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses (pages 3 through 39), we identified certain deficiencies in internal control 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 2013-01 through 2013-15 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHCC's financial statements are free from 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2013-01, 2013-04, 2013-10 and 2013-13, 2013-14 and 2013-15.

CHCC's Response to Findings

CHCC's response to the findings identified in our engagement to audit are described in the accompanying Schedule of Findings and Responses. CHCC's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLC

February 24, 2015

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses Year Ended September 30, 2013

General Ledger System/Financial Reporting

Finding No. 2013-01

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.

Condition: Our tests of the financial reporting process noted the following:

- (1) The general ledger (funds 1012 and 1075) for CHCC transactions is maintained by the CNMI Department of Finance (DOF) but is not reconciled or monitored by DOF or CHCC;
- (2) Transactions in fund 1012 contain balances prior to CHCC's inception which have not been reconciled or transferred to fund 1075;
- (3) An agreement between DOF and CHCC relating to the transfer of assets and liabilities to CHCC was not made available;
- (4) No accounting policies or controls exist over financial reporting and the preparation of journal entries;
- (5) Journal entries prepared by CHCC are not in sequence, are unsupported and there is no evidence that journal entries posted are being reviewed or approved by management;
- (6) Monthly financial statements and/or reports are prepared on an as needed basis;
- (7) General ledger accounts are not reconciled to subsidiary ledgers; and
- (8) A budget to actual report is not being prepared.

Cause: The cause of the above conditions is the lack of accounting policies and controls over the financial reporting process and the lack of established monitoring control procedures to determine the accuracy and completeness of recorded transactions.

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

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-01, Continued

Recommendation: We recommend CHCC:

- Establish accounting policies and control procedures over the financial reporting process;
- Verify the accuracy and completeness of transactions processed and recorded;
- Reconcile general ledger accounts with subledgers;
- Ensure journal entries are monitored, reviewed and evidenced as approved for posting;
- Examine the nature of the account balances in fund 1012 and determine appropriate accounting treatment;
- Prepare financial reports as required by Public Law 16-51; and
- Prepare a budget to actual report to determine if actual expenses are within approved budget amounts.

Prior Year Status: The lack of accounting policies and controls over the financial reporting process and the lack of established monitoring control procedures to determine the accuracy and completeness of recorded transactions was reported as a finding in CHCC's audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Corazon P. Ada, Acting Chief Financial Officer (CFO)

Corrective Action: CHCC agrees with the finding and the recommendation is doable. Policies and procedures have been drafted and we anticipate completion on or before February 28, 2015.

Control and monitoring of journal entries are already in practice; however, sequence in the JDE system may not be prevalent as we share the system with the central government and the system automatically assigns batches as the journal entry is transacted. Thus, an internal control numbering system can be implemented and will be established as soon as possible.

Fund 1012 will be closed out in fiscal year 2014 and adjusted to the audit. Coordination with the Secretary of Finance is expected to be completed on or before June 30, 2015.

CHCC will do its due diligence to also comply with the Public Law 16-51 in preparing monthly financial reports.

Proposed Completion Date: Stated above and ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Journal Entries

Finding No. 2013-02

Criteria: Journal entries and supporting documentation should be reviewed and approved prior to posting to the general ledger.

Condition: Tests of journal entries noted the following:

1. Of ten journal entries selected for testing none were made available.

<u>Journal Entry Number</u>	<u>Posting Date</u>	<u>Amount</u>
236107	03/20/13	\$ 7,284
240039	08/21/13	\$ 149,038
244614	09/30/13	\$ 1,663,123
244942	05/01/13	\$ 500,255
240036	08/31/13	\$ 1,089,494
239774	04/18/13	\$ 1,403,048
239475	04/30/13	\$ 1,696,578
235091	03/12/13	\$ 3,006,937
234468	02/19/13	\$ 1,624,506
231540	10/31/12	\$ 2,213,947

2. A summary of journal entries extracted from general ledger details did not balance by \$156,322 as two did not have corresponding credit entries.

<u>Journal Entry Number</u>	<u>Posting Date</u>	<u>Amount</u>
236107	03/20/13	\$ 7,284
240039	08/21/13	\$ 149,038

Although the general ledger balanced, the extraction of journal vouchers from general ledger details did not. No explanation was given for this condition.

3. Monitoring of journal entries at CHCC is not performed and gaps in the numeric sequence of journal entries were noted.
4. Variances between general ledger details and the trial balance were as follows:

<u>Account Code</u>	<u>Account Name</u>	<u>Beginning Balance 10/01/12</u>	<u>Debit</u>	<u>Credit</u>	<u>Ending Balance 09/30/13</u>	<u>Preliminary Balance Per Trial Balance</u>	<u>Variance</u>
14110	CHC-Material Management	\$ (1,066,855)	\$ 1,831,867	\$ (3,090,001)	\$ (2,324,989)	\$ (2,323,429)	\$ (1,560)
21120	FICA	\$ (3,835)	\$ 3,020,536	\$ (2,989,528)	\$ 27,173	\$ (29,929)	\$ 57,102
21130	Medicare Coverage	\$ (313,333)	\$ 1,165,558	\$ (1,026,454)	\$ (174,229)	\$ (187,583)	\$ 13,354
64550	Computer Systems & Equip	\$ -	\$ 17,377	\$ (14,530)	\$ 2,847	\$ 17,377	\$ (14,530)

Cause: The cause of the above conditions is the lack of policies and procedures related to the processing and recording of information in the general ledger.

Effect: The effect of the above conditions is the misstatement of account balances.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-02, Continued

Recommendation: We recommend that CHCC establish policies and procedures to appropriately process and record information in the general ledger and maintain numerical control of journal entries.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Corazon P. Ada, Acting CFO

Corrective Action: CHCC agrees with the finding. Policies and procedures have been drafted and completion is anticipated on or before February 28, 2015. CHCC further acknowledges proper accountability of all journal entry vouchers must be in sequence.

Proposed Completion Date: Specified in the corrective action.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Revenue/Receipts

Finding No. 2013-03

Criteria: An effective system of control includes procedures for recording revenue when earned and cash receipts in the period received and for collections to be deposited in a timely manner. Further, relevant supporting documents should be properly filed and maintained.

Condition: Our tests of revenues and receipts noted the following:

- (1) Revenues are recorded based on cash collections and not when services are rendered;
- (2) Material amounts of billings have not been processed;
- (3) For one receipt tested (cash receipt # 002784549, dated 09/04/13), the encounter form was not available and the related deposit slip was not evidenced as reviewed.
- (4) Unrecorded collections from the Rota Health Center, for the period May 2013 through September 2013, were identified during preparation of the bank reconciliation of June 2014. This condition was corrected through proposed audit adjustments.
- (5) For one (document no. 246185) Tinian Health Center collection, the amount recorded was based on total deposits for the month per the bank statement.
- (6) Of fifty-three revenue items tested, totaling \$26,940,353, we noted the following:
 - (a) Twenty-seven items were not supported by approved journal vouchers:

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
10/17/12	231022	\$ 848,289	05/28/13	237268	\$ 848,289
10/31/12	231873	\$ 115,690	06/12/13	237815	\$ 848,289
10/31/12	231873	\$ 37,245	08/03/13	239189	\$ 848,289
11/27/12	231841	\$ 848,289	08/13/13	239477	\$ 816,991
11/30/12	232722	\$ 45,562	09/30/13	246103	\$ 7,904,040
12/19/12	232551	\$ 848,289	09/30/13	242039	\$ 1,800,498
12/31/12	233066	\$ 812,253	09/30/13	246103	\$ 1,224,148
01/11/13	233280	\$ 162,723	09/30/13	246103	\$ 1,320,553
01/17/13	233429	\$ 848,289	09/30/13	246103	\$ 3,240,483
02/21/13	234543	\$ 57,899	09/30/13	246103	\$ 798,334
03/08/13	235074	\$ 848,289	09/30/13	246103	\$ 175,685
03/08/13	235074	\$ 848,289	03/20/13	1116784	\$ (31,350)
04/09/13	236095	\$ 848,256	09/30/13	246727	\$ (1,779,237)
04/30/13	239476	\$ 498,709			

- (b) Billing documents for eight items were not made available:

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
12/31/12	233066	\$ 812,253
04/30/13	239476	\$ 498,709
01/11/13	233280	\$ 162,723
10/31/12	231873	\$ 115,690
02/21/13	234543	\$ 57,899
11/30/12	232722	\$ 45,562
10/31/12	231873	\$ 37,245
09/30/13	242039	\$ 21,260

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-03, Continued

- (c) The Memorandum of Agreement to support Medicaid Interim Payment of Federal Financial Participation (FFP) for eleven items was not provided:

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
10/17/12	231022	\$ 848,289
11/27/12	231841	\$ 848,289
12/19/12	232551	\$ 848,289
01/17/13	233429	\$ 848,289
03/08/13	235074	\$ 848,289
03/08/13	235074	\$ 848,289
04/09/13	236095	\$ 848,256
05/28/13	237268	\$ 848,289
06/12/13	237815	\$ 848,289
08/03/13	239189	\$ 848,289
08/13/13	239477	\$ 816,991

- (d) Of thirteen billings tested we noted the following for all:

1. Service rates or unit cost per the billings did not agree with amounts on the charge master list;
2. Services identified in the billings could not be located in the charge master list;
3. No evidence was available to support the approval of changes to the charge master list;
4. In-patient pharmacy charges were manually entered and were not coded to allow tracing to the charge master list; and
5. In-patient pharmacy charges could not be verified due to the lack of a price listing.

<u>General Ledger Date</u>	<u>Billing No.</u>	<u>Amount</u>
08/07/13	2521003B	\$ 140,788
09/11/13	2453548A	\$ 76,120
02/13/13	2407667B	\$ 23,391
04/02/13	2374776B	\$ 14,131
07/31/13	2506202A	\$ 13,358
07/19/13	2493602A	\$ 12,766
11/15/12	2388999A	\$ 11,626
10/01/12	2378291B	\$ 10,321
01/28/13	2425810A	\$ 10,162
08/24/13	2550593A	\$ 9,996
03/13/13	2384588B	\$ 9,457
05/09/13	2477506A	\$ 7,773
04/17/13	2379959B	\$ 7,309

- (e) Ten receipts were not recorded within a reasonable period of time. Further, we were advised that the system automatically creates document numbers as transactions are uploaded; therefore, duplicate document numbers pertaining to one or more transactions are recorded at the same time.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-03, Continued

<u>Deposit Date</u>	<u>Document No.</u>	<u>Posting Date</u>	<u>Amount</u>
12/01-31/12	233066	01/11/13	\$ 812,253
04/01-30/13	239476	08/13/13	\$ 498,709
08/08/13	239720	08/21/13	\$ 211,386
07/31/13	239651	08/19/13	\$ 145,707
10/16/12	231873	10/31/12	\$ 115,690
09/12/13	240749	09/24/13	\$ 65,851
11/18/12	232722	11/30/12	\$ 45,562
10/25/12	231873	10/31/12	\$ 37,245
07/02/13	239651	08/19/13	\$ 26,963
08/26/13	240099	09/03/13	\$ 17,500

- (f) For fifteen receipts there was no evidence that the deposit slips were reviewed.

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount Deposited</u>
08/07/13	239720	\$ 226,446
07/19/13	239651	\$ 178,903
07/31/13	239651	\$ 150,667
09/11/13	240749	\$ 146,479
04/02/13	235877	\$ 134,138
01/28/13	233823	\$ 111,210
02/13/13	234325	\$ 107,116
05/09/13	237394	\$ 92,975
04/17/13	237288	\$ 65,479
03/13/13	235173	\$ 64,478
10/01/12	229804	\$ 56,827
12/27/12	232746	\$ 15,405
08/24/13	240099	\$ 11,135
11/15/12	231508	\$ 4,006
12/05/12	232125	\$ 2,232

- (g) Receipt detail for one revenue item totaling \$26,963 (batch no. 4608 dated 07/02/13) was not made available.

- (h) Supporting documents for eight items were not made available.

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Document Type</u>	<u>Amount</u>
09/30/13	245765	&&	\$ 209,724
09/30/13	245764	&&	\$ 91,403
09/30/13	245805	&&	\$ 63,625
09/30/13	245774	&&	\$ 90,693
09/30/13	245776	&&	\$ 40,275
09/30/13	245761	&&	\$ 26,423
09/30/13	245760	&&	\$ 14,650
09/30/13	245762	&&	\$ 7,512

- (i) Reimbursement (document no. 1116784) for services rendered by a health provider collected in fiscal year 2011 was deducted from current year revenue.

- (7) CHCC received and recorded a litigation settlement of \$1,779,237 at September 30, 2013. The supporting settlement agreement or other relevant data was not made available.

Cause: The cause of the above conditions is the lack of established policies and procedures for revenue recognition, inadequate file maintenance and untimely recording of transactions.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-03, Continued

Effect: The effects of the above conditions are the potential for cash misappropriation, unreported collections and the misstatement of revenues.

Recommendation: We recommend CHCC establish policies and procedures for the processing, recording and monitoring of collections. We also recommend that relevant documents be filed and maintained.

Prior Year Status: The lack of established policies and procedures for revenue recognition, inadequate file maintenance and untimely recording of transactions was reported as a finding in CHCC's audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roxanne Aranda, Business Office Manager

Corrective Action: We agree with the recommendation of the auditors in having policies and procedures in place for processing, recording and monitoring of collections. The Business Office revenue team has begun drafting policies and procedures to address proper monitoring of collections and to maintain adequate filing and timely recording of all transactions.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Purchases/Disbursements

Finding No. 2013-04

Criteria: An effective system of internal control includes policies and procedures to determine that transactions are substantiated by proper and valid documents. Further, relevant supporting documents should be properly filed and maintained.

Condition: Tests of purchases and disbursements noted the following:

- CHCC does not have a travel advance sub-ledger nor does it monitor travel advances prepared during the year.
- Of thirty-five items tested totaling \$1,554,154, we noted the following:
 - (1) One item (PV # 1120768; check # 2940 dated 05/08/13) totaling \$12,743 was not evidenced as paid.
 - (2) For six items, the journal or accounts payable voucher and invoices were not made available. The items represent advance payments to a vendor that was recorded as expense. In addition, one item (JE # 244641 totaling \$15,000) was not supported by an invoice or other supporting document.

<u>Business Unit</u>	<u>Document No</u>	<u>Type</u>	<u>Amount</u>
1817A	1105909	PV	\$ 92,000
1817A	1115197	PV	\$ 92,000
1817A	239608	JE	\$ 92,000
1817A	1109942	PV	\$ 87,000
1817A	239605	JE	\$ 87,000
1817A	244648	JE	\$ 87,000

- (3) For seventeen items, procurement documents evidencing full and open competition were not made available:

<u>Object No.</u>	<u>Business Unit</u>	<u>Reference No.</u>	<u>Amount</u>
62750	1851A	PV 1120317	\$ 25,000
62500	1801A	PV 1144621	\$ 6,185
62090	1842A	PV 1112985	\$ 19,219
63020	1848A	PV 1106573	\$ 3,039
63090	1817A	JE 239605	\$ 87,000
63090	1817A	JE 239608	\$ 92,000
63090	1817A	JE 244648	\$ 87,000
63090	1817A	PV 1105909	\$ 92,000
63090	1817A	PV 1109942	\$ 87,000
63090	1817A	PV 1115197	\$ 92,000
63070	1831A	PV 1108926	\$ 21,602
63070	1831A	PV 1112593	\$ 38,790
63070	1831A	PV 1117360	\$ 67,629
63070	1831A	PV 1144928	\$ 35,310
63080	1840A	PV 1122896	\$ 11,310
63080	1840A	PV 1146024	\$ 13,285
62060	1842A	JE 244641	\$ 15,000

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-04, Continued

Condition, Continued:

- (4) For twelve items the supporting invoice was not made available.

<u>Business Unit</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
1906A	63090	09/30/13	242965	\$ 138,307
1831A	63070	08/05/13	42996	\$ 88,935
1840A	62060	05/28/13	1122440	\$ 50,000
1842A	62090	02/04/13	1112985	\$ 19,219
1831A	63070	04/16/13	1118782	\$ 13,649
1831A	63070	02/15/13	40989	\$ 6,696
1831A	63070	02/14/13	40955	\$ 3,630
1831A	63070	09/13/13	43509	\$ 1,200
1851A	63050	08/20/13	43207	\$ 172
1808A	63070	07/02/13	42826	\$ 131
1832A	63070	09/11/13	43487	\$ 44
1840A	63070	08/14/13	43096	\$ 15

- (5) Accounts payable vouchers for two items (PV #s 1112985 and 1122896 amounting to \$19,219 and \$11,310, respectively) were not evidenced as reviewed or approved.
- (6) Prior year expenses for two items (PV #s 1117360 and 1108926 amounting to \$67,629 and \$21,602, respectively) were recorded as fiscal year 2013 expenses. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.
- (7) One item (PV # 1108184), exceeding the small purchases threshold (\$10,000), was procured through price quotations.
- (8) One item (document no. 232917) amounting to \$8,220 was procured using two quotations. Three quotations are required for small purchases between \$2,500 to \$10,000.

Cause: The cause of the above conditions is the lack of control over monitoring and approval of purchases/disbursements, travel advances, adherence to procurement rules and regulations and proper and systematic filing of relevant documents.

Effect: The effect of the above conditions is the misstatement of expenses, advances and noncompliance with procurement regulations.

Recommendation: We recommend that CHCC establish controls over the processing, recording, monitoring and approval of purchases/disbursements and advances. We also recommend CHCC strengthen procedures to comply with procurement regulations and to establish and maintain an efficient filing of relevant documents.

Prior Year Status: The lack of controls over purchases/disbursements, travel advances and lack of adherence to procurement rules and regulations was reported as a finding in CHCC's audit for fiscal year 2012.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-04, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Lucy Sanchez, AP Supervisor and Diego Urumelog, MSO Manager

Corrective Action: The above contact persons failed to provide their corrective action; however, as the Acting CFO, I fully agree with the finding. Internal control policies and procedures have been drafted and a comprehensive guideline checklist has been established and presented to the staff. The overall recommendation is doable.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Payroll/Employee Benefits

Finding No. 2013-05

Criteria: Personnel expense should be supported by an authorized notification of personnel action (NOPA), signed timecards, approved leave/overtime forms and approved timesheets with relevant supporting documents filed and maintained. In addition, employee benefits should be recorded in the general ledger in the proper period.

Condition: Tests of payroll noted the following:

- (1) Payroll registers were not maintained or backed up during the fiscal year.
- (2) There is no evidence of review of general ledger payroll entries and auto deposit bank registers. In addition, the processing of payroll disbursements by the Treasurer is not documented.
- (3) One employee's (employee no. 813093) NOPA did not indicate the employee's acknowledgement of receiving or reading CHCC's personnel manual.
- (4) Annual leave totaling \$1,659,713 at September 30, 2013 was not recorded in the general ledger and the accounting and monitoring of accrued annual leave does not appear to be performed.
- (5) Of fifty-seven payroll items tested, totaling \$2,248,867, we noted the following:
 - a. Retroactive salary adjustments for three employees effective fiscal year 2013 were paid in the subsequent year. An accrual for the salary adjustment was not recorded. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.

<u>Employee No.</u>	<u>Payroll Periods Covered</u>	<u>Hours Worked</u>	<u>Rate Increase/ Decrease</u>	<u>Total Amount</u>
415493	11/02/12 - 09/30/13	1,930	\$ 4.07	\$ 7,855
714353	02/01/13 - 09/30/13	880	\$ 4.33	3,810
103131	07/16/13 - 08/10/13	152	\$ (2.46)	(374)
				<u>\$ 11,291</u>

- b. The Form W-4 for twenty-five items were not made available.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>
102951	08/24/13	102840	02/23/13	102735	10/20/12
102991	01/26/13	100695	11/03/12	102727	05/18/13
597243	10/20/12	478206	07/27/13	517227	10/20/12
516821	10/20/12	480094	04/06/13	403515	09/07/13
338812	06/15/13	714268	06/01/13	251134	12/15/12
212638	08/24/13	413284	09/07/13	554805	06/29/13
200053	03/09/13	712628	08/25/13	402333	02/23/13
774206	08/10/13	102727	03/23/13	102709	08/10/13
794509	05/04/13				

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-05, Continued

Condition, Continued:

- c. Chapter 7 tax calculations for eight employees did not exclude retirement contributions (401k contributions) which are not subject to income tax withholding.

<u>Employee No.</u>	<u>Payroll Period Ended</u>
714353	04/20/13
791802	05/04/13
775106	12/29/12
712630	06/29/13
442850	11/17/12
523649	07/27/13
769699	06/01/13
769699	09/07/13

- d. The timecards for two employees (employee nos. 774206, PPE 08/10/13 and 523649, PPE 07/27/13) were not made available.
- e. Authorization for six employees exempted from using timecards was not made available.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>
1807A	714353	04/20/13
1807A	597243	10/20/12
1807A	102709	01/12/13
1807A	480094	04/06/13
1807A	714268	06/01/13
1807A	102709	08/10/13

- f. Eight timecards provided were not signed by the employees.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>
1863A	200053	03/09/13
1906A	712630	06/29/13
1833A	591729	05/20/13
1912A	103131	06/15/13
1906A	442850	11/17/12
1906A	103162	11/17/12
1810A	102735	10/20/12
1912A	403515	09/07/13

- g. Vacation leave forms for three employees were approved after the vacation date.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>
1832A	210058	06/02/13
1831A	415418	06/29/13
1848A	208422	08/10/13

- h. The approved sick leave form for one employee (employee no. 338812; PPE 06/15/13) was not made available.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-05, Continued

Condition, Continued:

- i. For seven employees, the business unit charged for salaries differed from the business unit per the approved NOPA.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Business Unit Per General Ledger</u>	<u>Per NOPA</u>
102951	08/24/13	1801A	1807A
791802	05/04/13	1832A	1821A
102840	02/23/13	1820A	1832A
678363	06/15/13	1831A	1832A
712630	06/29/13	1906A	1809A
103010	10/06/12	1865A	1905A
200053	03/09/13	1863A	1844A

- j. NOPAs for eleven employees were approved by the Human Resources Officer after September 30, 2013. The employees worked and were paid during fiscal year 2013.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Effective Date</u>	<u>Date of Approval</u>	<u>Days Elapsed</u>
1824A	415481	11/02/12	02/24/14	479
1808A	415493	11/02/12	10/11/13	343
1820A	102840	10/01/11	05/01/14	943
1831A	678363	11/27/11	06/12/14	928
1833A	591729	11/28/12	06/09/14	558
1841A	102861	11/08/12	04/22/14	530
1824A	518305	11/28/12	03/31/14	488
1813A	415488	11/02/12	04/09/14	523
1833A	591729	11/28/12	06/09/14	558
1831A	415418	11/02/12	01/29/14	453
1831A	775100	08/06/13	06/24/14	322

- k. NOPAs for thirty-six employees were not signed as approved by the Human Resources Officer at a reasonable time from the effective date:

<u>Business Unit</u>	<u>Employee No.</u>	<u>Effective Date</u>	<u>Date of Approval</u>	<u>Days Elapsed</u>
1801A	102951	04/30/13	07/18/13	79
1807A	714353	02/01/13	05/08/13	96
1832A	791802	02/13/13	03/15/13	30
1832A	775106	08/06/12	08/27/12	21
1854A	402333	11/25/05	02/14/06	81
1841A	402802	04/28/12	06/01/12	34
1807A	597243	05/12/12	05/03/12	11
1906A	516821	08/02/06	12/06/06	126
1863A	338812	11/18/12	01/23/13	66
1861A	212638	05/20/13	06/09/13	20
1863A	200053	05/21/12	05/31/12	10
1861A	774206	07/16/13	08/22/13	37
1807A	102709	12/14/12	05/31/13	168
1832A	794509	12/17/12	12/28/12	11
1832A	794090	03/03/13	04/22/13	50
1808A	769669	3/13/13	04/22/13	40
1906A	712630	10/1/12	06/17/13	259
1912A	103131	06/01/04	09/08/04	99
1865A	103010	05/06/12	07/14/12	69
1863A	478206	02/22/06	04/17/06	54
1807A	714268	12/01/12	01/23/13	53
1831A	294539	01/01/04	08/16/04	228
1906A	442850	04/25/12	07/23/12	89

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-05, Continued

Condition, Continued:

<u>Business Unit</u>	<u>Employee No.</u>	<u>Effective Date</u>	<u>Date of Approval</u>	<u>Days Elapsed</u>
1826A	415453	11/02/12	07/12/13	252
1832A	413284	09/13/12	03/18/13	186
1906A	712628	10/01/12	6/28/13	270
1828A	102802	01/28/13	4/22/13	84
1847A	102727	07/30/00	08/09/00	10
1832A	210058	03/28/11	04/27/11	30
1810A	102735	12/13/99	12/27/99	14
1847A	102727	07/30/00	08/09/00	10
1861A	401161	05/21/12	05/31/12	10
1848A	208422	07/01/13	07/16/13	15
1822A	554805	11/02/12	09/23/13	325
1854A	402333	11/25/05	02/14/06	81
1807A	102709	12/14/12	05/31/13	168

- (6) Subsistence expenses recorded in fiscal year 2013 amounted to \$1,740,962 of which \$639,793 relates to fiscal year 2012 which was corrected through a proposed audit adjustment.

Cause: The cause of the above conditions are the lack of controls over payroll and employee benefits, the timely approval of NOPAs, the review and approval of payroll documents and the maintenance of required documentation.

Effect: The effect of the above conditions is the risk of invalid/unauthorized expenses.

Recommendation: We recommend that CHCC design and implement an effective system of internal controls over the payroll process. We also recommend:

- The payroll register, related payroll entries and auto deposit bank registers be reviewed by someone other than the preparer;
- All payroll related transactions be reviewed and evidenced as approved before posting to the general ledger;
- Employment contracts be updated in a timely manner;
- Hours paid to employees be properly supported with signed timecards and approved leave/comptime forms;
- Employee deductions be properly authorized and supported; and
- Electronic copies or backups of payroll registers be maintained to support employee payroll and amounts recorded in the general ledger.
- Payroll expenses be recorded in the proper period.

Prior Year Status: The lack of internal controls over the payroll process was reported as a finding in CHCC's audit for fiscal year 2012.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-05, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: April Camacho (Payroll Supervisor)

Corrective Action: The above contact person failed to submit her corrective action; however, as the Acting CFO, I fully acknowledge the auditor's finding and the recommendation is doable.

The Payroll Supervisor will closely collaborate with Human Resources to ensure validity of employee status prior to processing their payrolls. Internal control policies and procedures have been drafted for review and approval.

An internal reminder has been disseminated with regards to timely filing of leave and the signing of timecards. A more stringent protocol will be mandated to ensure compliance.

The proper filing of documents will be assessed to ensure existence and availability.

The Payroll Supervisor will work collaboratively with the Treasurer to ensure processing of payroll is documented and approved.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Cash

Finding No. 2013-06

Criteria: Bank reconciliations should be performed, reviewed and approved in a timely manner. Reconciling items should be posted in the general ledger after approval and fund transfers should be evidenced as reviewed and approved prior to actual transfer.

Condition: Tests of bank reconciliations as of September 30, 2013 noted the following:

- Review and approval of the final bank reconciliation for the payroll account (GL account # 11350) as of September 30, 2013 was not evident.
- Bank reconciliations for the following accounts were prepared nine to ten months after fiscal year-end.

<u>Bank Code</u>	<u>Account Name</u>
11340	BOG - CHC Corp General Fund
11350	BOG - CHC Corp Payroll Account
11370	BOG - CHC Patient Rcvbl Account
11380	BOG - CHC EHR (MPLT LOC)
11390	BOG - KAGMAN COMM HEALTH CNTR
11520	Credit Card Account
11635	BOG - TDOA Savings

- At September 30, 2013, the bank reconciliations for five cash accounts did not agree to the general ledger. Audit adjustments were proposed to adjust general ledger cash balances as follows:

<u>Bank Code</u>	<u>Adjusted Book Balance</u>	<u>Amount per General Ledger</u>	<u>Variance</u>
11340	\$ (546,092)	\$ 3,649	\$ (549,741)
11350	\$ (10,826)	\$ 573,244	\$ (584,070)
11390	\$ 51,948	\$ 51,918	\$ 30
11520	\$ 141,256	\$ 136,348	\$ 4,908
11635	\$ 3,567,750	\$ 3,926,683	\$ (358,933)

- Of twenty-eight subsequent bank disbursements tested, supporting documentation evidencing the review and approval of twenty-one wire transfers were not provided. We were advised that the reviewer and approver is the same individual authorized to transfer funds; therefore, no documentation is available.

<u>Bank Code</u>	<u>Bank Clearance Date</u>	<u>Amount</u>	<u>Bank Code</u>	<u>Bank Clearance Date</u>	<u>Amount</u>
11350	10/02/13	\$ 555,720	11635	10/02/13	\$ 555,720
11350	10/17/13	\$ 564,274	11635	10/03/13	\$ 162,539
11350	10/30/13	\$ 577,609	11635	10/09/13	\$ 259,844
11350	10/23/13	\$ 64,052	11635	10/17/13	\$ 564,274
11350	10/31/13	\$ 80,267	11635	10/21/13	\$ 233,785
11370	10/01/13	\$ 300,000	11635	10/17/13	\$ 104,363
11370	10/07/13	\$ 200,000	11635	10/25/13	\$ 121,817
11370	10/21/13	\$ 150,000	11635	10/30/13	\$ 577,609
11520	10/01/13	\$ 100,000	11635	10/22/13	\$ 98,297
11635	10/01/13	\$ 152,182	11635	10/16/13	\$ 91,824
11635	10/02/13	\$ 165,749			

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-06, Continued

Cause: The cause of the above conditions is the lack of policies and procedures related to timely preparation of bank reconciliations and procedures to review and approve fund transfers.

Effect: The effect of the above conditions is the possible misstatement of cash balances and unauthorized fund transfers.

Recommendation: We recommend that CHCC establish policies and procedures related to timely preparation of bank reconciliation and the review and approval of fund transfers. Further, we recommend that bank reconciling items be recorded in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Delia Johnson, Treasurer and Ruby Acosta, Accountant I (in-charge of bank reconciliations)

Corrective Action: We agree with the recommendation as we do lack policies and procedures. Policies and procedures have been drafted and we hope to adapt them on or before February 28, 2015.

Daily and monthly reconciliations are now fully in place; however, timely recording has to be performed consistently and the reconciliation person must ensure adherence to the process. Protocol and procedures have been developed and drafted for review.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Accounts Receivable

Finding No. 2013-07

Criteria: Receivables should be reconciled to sub-ledger balances.

Condition: At September 30, 2013, CHCC recorded receivables totaling \$244,257,411. The total receivable per the sub-ledger was \$228,823,487. Audit adjustments totaling \$15,668,518 were proposed to correct this condition. Details are as follows:

	<u>Fund 1012</u>	<u>Fund 1075</u>	<u>Total</u>
Accounts Receivable per subledger	\$ 203,341,611	\$ 25,481,876	\$ 228,823,487
Accounts Receivable per general ledger	<u>203,107,017</u>	<u>41,150,394</u>	<u>244,257,411</u>
Variance	\$ <u>234,594</u>	\$ <u>(15,668,518)</u>	\$ <u>(15,433,924)</u>

At management's request, the \$234,594 variance noted in fund 1012 was not adjusted pending discussions with the Board of Trustees.

In addition, we noted the following:

- The receivable balance in fund 1012 (account #s 12020 and 12030) has no movement from the prior year;
- The receivable account in fund 1075 (account # 12030) had no entries/postings during the year other than year-end adjustments;
- Amounts due to and from CHCC and DOF are not reconciled;
- Detailed subledgers for all receivable accounts were not made available. We were unable to determine the adequacy and reasonableness of the allowance for doubtful accounts.
- Receivables from Tinian and Rota are not recorded in the general ledger;

Cause: The cause of the above condition is the lack of reconciliation and support of receivable balances.

Effect: The effect of the above condition is the possible misstatement of accounts receivable.

Recommendation: We recommend that CHCC reconcile all receivable accounts.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roxanne Aranda, Business Office Manager and Corazon P. Ada, Acting CFO

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-07, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We fully acknowledge the finding and the recommendation is doable. The Acting CFO will coordinate close out of Fund 1012 with the Department of Finance. The Acting CFO and the Business Office Manager will coordinate with Tinian and Rota to ensure that the accounts receivable report is submitted to the Acting CFO to record receivables in a timely manner.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Accounts Receivable

Finding No. 2013-08

Criteria: Receivables for services rendered should be billed timely and follow-up procedures should be undertaken to collect outstanding accounts.

Condition: Our tests of CHCC receivables at September 30, 2013 noted the following:

1. As of September 30, 2013, CHCC's receivables amounted to \$228,588,894 (which excludes the \$234,594 variance referred to at 2013-07) of which \$203,107,022 date back to fiscal years 2011 and prior. An aging of the outstanding receivables by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 15,969,011
2012	9,512,861
2011 and prior	<u>203,107,022</u>
	\$ <u>228,588,894</u>

The large receivable balance, the aged individual balances and the backlog of billing files all reflect inadequate billing and collection procedures.

2. The billing system is not linked to the general ledger and receivables at September 30, 2013 are not supported by system-generated detailed reports.
3. Detailed reports for two receivable categories (Private Companies-NR and Non Beneficiary Patients) totaling \$46,599 and \$3,906,663, respectively, at September 30, 2013 were not provided.
4. The 2011 and prior receivables totaling \$203,107,022 are fully provided for; however, a determination of the validity and collectability of the receivables has not been assessed.
5. Payment of accounts is recorded as revenue when received.
6. One account receivable confirmation confirmed a balance \$648,371 less than the amount recorded by CHCC. A reconciliation was not made available.

Cause: The cause of the above condition is a lack of adequate policies and procedures related to billing and collection.

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

Recommendation: We recommend that CHCC implement procedures to timely process all billings and implement standard procedures to follow-up on aged accounts. Uncollectible accounts should be considered for write-off.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-08, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roxanne Aranda, Business Office Manager

Corrective Action: We agree with the finding and the recommendation is doable. A consultant assessed our backlogs and has provided analysis and guidance in ensuring bills are generated at the earliest possible time. Also, to fully illuminate our backlogs, Electronic Health Record (EHR) is now fully in place, although great improvements will manifest slowly as training and execution is performed on a phase by phase basis.

The Acting CFO along with the Chief Executive Officer have agreed to write-off bad debts in Fund 1012 as of fiscal year ended 2011.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Inventory

Finding No. 2013-09

Criteria: An effective system of control includes procedures to: (1) reconcile inventory to the general ledger on a periodic basis and (2) monitor the movement and recording of inventory.

Condition: Our tests of inventory noted the following:

- (1) The inventory system is not linked to the general ledger.
- (2) Receiving report numbers are not in sequential order.
- (3) Changes to the inventory master file/database are not documented.
- (4) A valuation of inventory items at pharmacy is not performed regularly resulting in an understatement of inventory of \$13,831 in the general ledger.
- (5) Advances to vendors (vendor ID no. 816749) for pharmacy purchases are recorded as supplies expense. Further, invoices received for purchases are not reviewed. We were unable to quantify the remaining advances at September 30, 2013.
- (6) For one inventory issuance (document no. 43389), we noted that a credit to the inventory account was recorded. The initial recording upon the receipt of the item was a debit to expense.
- (7) The recording of two receiving reports (document nos. 233590 and 232208) were inconsistent. One receiving report (document no. 232208) was recorded as an expense while the other (document no. 233590) was recorded as inventory. CHCC does not have a standard entry for recording the receipt of inventory.
- (8) Our tests of the inventory subledger noted the following:
 - a. As of September 30, 2013, general ledger inventory balances in Fund 1075 were not adjusted to reflect results of year-end physical counts. Variances between the general ledger and the physical inventory balances are summarized as follows:

	<u>General Ledger Account No.</u>	<u>Physical Inventory Balance</u>	<u>General Ledger Balance</u>	<u>Variance</u>
Medical Supply	14110	\$ 905,342	\$ (2,323,429)	\$ (3,228,771)
Central Supply	14120	\$ 45,530	\$ (50,042)	\$ (95,572)
Pharmacy	14140	\$ 480,393	\$ 466,562	\$ (13,831)

This condition was corrected through a proposed audit adjustment.

- b. Inventory valuation reports for the following inventory accounts in Fund 1012 were not provided:

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-09, Continued

Condition, Continued:

	<u>General Ledger Account No.</u>	<u>General Ledger Balance</u>
Medical Supply	14110	\$ 1,009,479
Central Supply	14120	\$ (804)

- c. The CHCC pharmacy does not maintain perpetual inventory records.
- d. Of twenty inventory items variances between the physical count and final inventory listing were noted for the following:

<u>Product Description</u>	<u>Physical Inventory Balance</u>	<u>Final Inventory Report</u>	<u>Variance</u>
Potassium Chloride Injection, 20 MEQ per 10 ML	59	60	1
Sodium Chloride 0.9% Bacteriostatic, 30 ml	26	51	25
Calcium Gluconate 10% 4.56meq/10ml	41	42	1

- e. For six medical supply items tested, we noted the following:
 - i. The latest invoice and receiving report for one item (index number 023272) could not be provided.
 - ii. The inventory movement schedule for one item (index number 031194) could not be provided. We were informed that the inventory system (the Cardex) encountered an error which resulted in the history of the item (receipts and issuances) not being available.
 - iii. One item (index number 030147) last purchased in January 2001 had no movement for more than ten years.
- f. An assessment of inventory obsolescence has not been performed.

Cause: The cause of the above conditions is lack of reconciliation of inventory to the general ledger and lack of policies and procedures to value inventories at net realizable value.

Effect: The effect of the above conditions is lack of control over inventories and the potential for fraud.

Recommendation: We recommend that CHCC establish policies and procedures to monitor, record and reconcile inventory to the general ledger and to adopt a perpetual inventory system. We also recommend that inventory be valued at net realizable value.

Prior Year Status: The lack of reconciliation of inventory to the general ledger was reported as a finding in CHCC's audit for fiscal year 2012.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-09, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Juan Diego Urumelog, MSO Manager, Rodilyn Bacani, Pharmacist/Manager (in-charge of inventory) and Corazon P. Ada, Acting CFO

Corrective Action: The MSO Manager failed to provide a response; however, the Pharmacist/Manager was not formally asked to address the finding but as the Acting CFO, I take responsibility and fully acknowledge the finding and the recommendation is highly accepted.

I will set-up a meeting with both Managers in charge of inventory to address this finding. Procedures need to be developed and both Managers will be asked to synchronize and come up with a better solution. At the same time, we will address the system problem that causes inventory not to be directly linked to the general ledger.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Capital Assets

Finding No. 2013-10

Criteria: Capital assets should be properly recorded and maintained.

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 (DPH) and all other real and 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: During the year ended September 30, 2013, CHCC recorded machinery and equipment expenses totaling \$1,287,134. Of the total amount, four items totaling \$890,058 were tested. The following were noted:

- (1) Three items with estimated useful lives of more than one year were recorded as expense.

<u>Business Unit</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
1841A	64540	11/10/12	1105512	\$ 325,000
1840A	64540	06/04/13	244487	\$ 322,203
1822A	64540	12/04/12	231682	\$ 73,926

- (2) One item (PV 1149184) totaling \$299,463, representing final payment to a vendor, was recorded as expense. The item was acquired in the prior year at a total cost of \$798,569.
- (3) An advance payment (75% of contract price) for the acquisition of an item (PV 1105512) exceeded 50% of the contract price limit allowed by procurement regulations Article 5, Section 5-101 2.a. No justification was provided as required by the procurement regulations. Additionally, we noted that the advance payment was recorded as a debit to vouchers payable (account # 1075.20100) and upon receipt of the item, another account was credited (account # 1075.20120; received not vouchered).
- (4) The accounts payable voucher and invoice for one item (document no. 231682, check no. 1303) totaling \$24,642 was not provided. Based on the procurement documents provided, the item was procured through price quotation which exceeded the small purchases procurement threshold of \$2,500 to \$10,000.
- (5) Procurement documents evidencing full and open competition for two items (document nos. 244487 and 1149184) totaling \$621,666 were not made available.

In addition, as of September 30, 2013, all real property and all other real and personal property used exclusively for the functions and duties of CHCC had not been transferred.

Cause: The cause of the above conditions is the lack of established policies and procedures for the accounting and maintenance of capital assets and inadequate file maintenance.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-10, Continued

Effect: The effect of the above conditions is the misstatement of capital assets.

Recommendation: We recommend:

- Upon finalization of the capital assets transfer agreement between CHCC and the CNMI Government, CHCC should record capital assets and restate its financial statements for capital asset additions totaling \$1,287,134 for the year ended September 30, 2013;
- Management establish policies and procedures for the accounting and maintenance of capital assets;
- A complete physical count of all buildings and equipment be performed, properly documented and the results reflected in CHCC's accounting records/general ledger; and
- Relevant invoices and other supporting documents be maintained and filed.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Corazon P. Ada, Acting CFO

Corrective Action: I fully acknowledge the finding and the recommendation is highly acceptable. Fund accounting for fixed assets has been created except for the module. Once the module is set up through our JDE Technical Support Consultant, training will be provided to MSO staff in order to manage our fixed assets records.

CHCC policies and procedures must be adapted to ensure adherence to procurement regulations.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Liabilities

Finding No. 2013-11

Criteria: Liabilities should be recorded when incurred and relevant supporting documents should be properly filed and maintained.

Condition: Our tests of accounts payable noted the following:

- (1) Of eight accounts payable items totaling \$13,187,400 tested, the invoice, a statement or equivalent documents for five items were not made available

<u>Supplier ID No.</u>	<u>Payable at 09/30/13</u>	<u>Unsupported Amount</u>
110032	\$ 166,320	\$ 100,090
112046	\$ 248,990	\$ 248,990
113323	\$ 17,722	\$ 17,722
210073	\$ 668,988	\$ 358,915
340362	\$ 60,066	\$ 35,066

Additionally, purchase orders (PO #s 567063, 567064 and 567065) dated September 30, 2013 supporting a disbursement (check # 3203) totaling \$48,903 were recorded as a payable at year-end.

- (2) Of thirty-six subsequent disbursement items tested totaling \$6,485,829, seventeen items were not supported by an invoice, a statement or equivalent document.

<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>
3316	10/17/13	\$ 250	4171	02/06/14	\$ 2,253
3345	10/22/13	\$ 50,000	4216	02/25/14	\$ 32,550
3416	11/05/13	\$ 201,426	4363	03/21/14	\$ 42,213
3456	11/08/13	\$ 4,819	4493	04/17/14	\$ 590
3486	11/08/13	\$ 266,682	4517	04/29/14	\$ 50,688
3526	11/20/13	\$ 200,000	4616	05/28/14	\$ 50,585
3527	11/20/13	\$ 534,012	4731	06/05/14	\$ 25,000
3748	12/19/13	\$ 23,648	4879	06/30/14	\$ 50,000
4062	01/17/14	\$ 3,469			

In addition, for one item amounting to \$255,348 (check no. 3274), only \$94,342 was supported by invoices. The supporting documents for the remaining \$161,006 were not made available.

- (3) At September 30, 2013, CHCC recorded a payable to the Commonwealth Utilities Corporation (CUC) and utilities expense of \$8,996,577 and \$5,766,767, respectively. CUC confirmed receivable and utility revenue from CHCC of \$9,366,240 and \$6,388,675 resulting in a difference of \$369,663 and \$621,908, respectively. Of the \$621,908 difference, \$742,368 relates to penalties assessed by CUC for late payment. An explanation and/or reconciliation of the remaining difference was not made available. Management requested that proposed adjusting entries not be recorded.

Cause: The cause of the above conditions is the lack of appropriate cut-off procedures, reconciliation and controls to properly maintain files.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-11, Continued

Effect: The effect of the above conditions is the possible understatement of expenses and liabilities.

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

Prior Year Status: The lack of appropriate cut-off procedures and controls to properly maintain files was reported in CHCC's audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Lucy Sanchez, AP Supervisor and Corazon P. Ada, Acting CFO

Corrective Action: The Supervisor failed to provide a response and corrective action; however, as the Acting CFO, I take responsibility for this finding and agree to it. The recommendation is doable.

Policies and procedures are set to be adapted on or before February 28, 2015. Staff and management will meet and discuss improvement plans to ensure physical existence of documents and timely processing and reconciliation of all accounts.

Proposed Completion Date: As specified and ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Due to Related Parties

Finding No. 2013-12

Criteria: Related party transactions should be properly recorded in the general ledger and reconciled in a timely manner.

Condition: Our tests of due to related parties noted the following:

1. At September 30, 2013, CHCC recorded due to the Northern Mariana Islands Retirement Fund (NMIRF) of \$2,932,906 for unpaid employer contributions related to its Defined Benefit plan. The amount confirmed by NMIRF was \$6,842,972. A reconciliation of the variance was not made available.
2. CHCC recorded employer contributions of \$30,014 related to its Defined Contribution plan during the year ended September 30, 2013. The actual employer contributions amounted to \$236,877 resulting in a difference of \$206,863. In addition, at September 30, 2013, the total outstanding and unrecorded contributions payable (employer share) amounted to \$149,583. An audit adjustment was proposed to correct the account balances.
3. Public Law 3-91 was enacted in January 4, 1984 to establish the Office of the Public Auditor. In accordance with Chapter 3, Section 300 (a) the director of finance shall withhold 1% of all amounts appropriated by Commonwealth law for all commonwealth agencies' operations and activities as well as for all capital improvement projects.

Section 300 (b) states that the executive director of all public corporations or other autonomous agencies of the Commonwealth which are not funded primarily by legislative appropriations shall pay to the Commonwealth Treasurer an amount not less than the greater of one percent (1%) of its total operations budget from sources other than legislative appropriations or the amount paid by the agency for its last annual audit or pursuant to any other formula upon which the Public Auditor and the agency may agree.

Public Law 16-51 establishes CHCC as a corporation and is subject to compliance with Public Law 3-91. At September 30, 2013, based on CHCC's operational budget for fiscal year 2013, an audit adjustment amounting to \$402,939 was proposed to record the 1% fee.

In addition, Public Law 17-85 (Appropriations and Budget Authority Act 2013) requires the expenditure authority to submit an itemized expenditures report on operations and personnel and payments of the public auditor's fee to the presiding officers of the legislature at the end of each quarter and year to date totals as of the close of the reporting period, if applicable. We have been advised that such a report has not been provided to the legislature.

Cause: The cause of the above condition is the lack of recording related party transactions and reconciliation of account balances in a timely manner.

Effect: The effect of the above condition is the misstatement of account balances.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-12, Continued

Recommendation: We recommend CHCC record and reconcile all related party transactions and accounts.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Corazon P. Ada, Acting CFO

Corrective Action: I fully acknowledge and agree to the finding and the recommendation is accepted. To further address, the Payroll Supervisor will be asked to establish data and a breakdown every pay period to account for retirement contribution and allotments.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Withholding Taxes Payable

Finding No. 2013-13

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 on or before the due date for the first, second and fourth quarters of fiscal year 2013. At September 30, 2013, CHCC recorded Chapter 2 and Chapter 7 withholding taxes outstanding of \$1,143,931. The actual amount due per the employee withholding returns amounted to \$665,083. An audit adjustment was proposed to agree the outstanding balance to the withholding return.

<u>Quarter</u>	<u>Total Taxes</u>	<u>Penalty and Interest</u>	<u>Total</u>	<u>Amount Paid</u>	<u>Amount Outstanding</u>
Oct - Dec 2012	\$ 457,582	\$ -	\$ 457,582	\$ 457,582	\$ -
Jan - Mar 2013	408,532	20,729	429,261	429,168	93
Apr - June 2013	359,827	-	359,827	133,327	226,500
Jul - Sept 2013	<u>438,490</u>	<u>-</u>	<u>438,490</u>	<u>-</u>	<u>438,490</u>
	\$ <u>1,664,431</u>	\$ <u>20,729</u>	\$ <u>1,685,160</u>	\$ <u>1,020,077</u>	665,083
				Per General Ledger	<u>1,143,931</u>
				Variance	\$ <u>(478,848)</u>

Outstanding penalties of \$220,596 and interest of \$27,158 at September 30, 2013 have subsequently been assessed by R&T. Management did not consider the amounts sufficiently material to the financial statements to warrant an adjustment.

Cause: The cause of the above condition is the lack of compliance with CNMI tax laws and 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 CNMI laws.

Prior Year Status: The failure to report and remit withholding taxes payable was reported as a finding in CHCC's audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Delia Johnson, Treasurer, April Camacho, Payroll Supervisor and Corazon P. Ada, Acting CFO

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-13, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We fully acknowledge the finding and the recommendation is doable. However, CHCC continues to struggle with cash flow and relies on the allotments from the central government as payment of our employee withholding tax return. Thus, with insufficient funding from the central government, we utilize the same to pay CUC, whichever comes first.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Social Security and Medicare Payments

Finding No. 2013-14

Criteria: Social security and 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).

Publication 15 states that if the total tax reported for the lookback period (twelve month period ending the preceding June 30) is more than \$50,000, the employer is a semiweekly depositor for the current year. If an entity is a semiweekly schedule depositor, the entity must make a deposit as follows:

1. If payday is on Wednesday, Thursday, and/or Friday, deposit taxes by the following Wednesday.
2. If payday is on Saturday, Sunday, Monday, and/or Tuesday, deposit taxes by the following Friday.

Deposits should be reported quarterly by filing Form 941SS.

Condition: CHCC reported and paid FICA (social security and Medicare) withheld from employee salaries and the related employer share during fiscal year 2013. The returns and amounts due, however, were reported and paid after the due date or were filed on time but were paid late.

<u>Quarter</u>	<u>Return Due Date</u>	<u>Date of Return</u>	<u>Payment Due Date</u>	<u>Actual Payment Date</u>
October - December 2012	January 31, 2013	March 8, 2013	Semiweekly	March 19, 2013
January - March 2013	April 30, 2013	April 30, 2013	Semiweekly	May 2, 2013
April - June 2013	July 31, 2013	July 15, 2013	Semiweekly	May through July 2013
July - September 2013	October 31, 2013	November 6, 2013	Semiweekly	October 10, 2013

Although payments were subsequently remitted, the related interest and penalties could not be determined due to inconsistent payments and lack of information available to calculate the amounts. In addition, CHCC recorded FICA liability totaling \$212,718 at September 30, 2013. The actual amount due at September 30, 2013 was \$64,564 resulting in a difference of \$148,154. Management did not consider the amount material to warrant an audit adjustment.

Cause: The cause of the above conditions is the lack of policies and procedures for monitoring FICA reporting requirements and payments for each payroll period.

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

Recommendation: We recommend all reporting requirements and payments be made in accordance with Publication 15 of the IRS.

Prior Year Status: Noncompliance with social security and Medicare reporting requirements was reported as a finding in CHCC's audit for Fiscal Year 2012.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-14, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Delia Johnson, Treasurer

Corrective Action: Although the above person in-charge did not elaborate on her response, we fully acknowledge and agree with the finding. The recommendation is doable and we will ensure the Treasurer processes timely deposits of FICA and filing of quarterly returns.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Electronic Health Record (EHR) Incentive Award

Finding No. 2013-15

Criteria: An effective system of control includes policies and procedures for transactions to be substantiated by proper and valid documents. Further, relevant supporting documents should be properly filed and maintained.

Condition: During the year ended September 30, 2013, CHCC received an EHR Incentive Award through the CNMI Medicaid office totaling \$1,403,048 to upgrade its record system. Our tests noted the following:

- The EHR grant award was not made available. We were unable to determine if grant requirements and federal rules and regulations were followed.
- The trial balance for fund 1076 which accounts for the EHR program was not provided until requested for as CHCC was unaware the program was not accounted for within their financial statements.
- The total amount received of \$1,403,048 was recorded as revenue in CHCC's fund 1075 (JE #239774), however, actual expenses totaling \$268,907 were accounted for in CHCC's fund 1076. Interfund transactions in fund 1076 indicated EHR transactions were recorded between the CNMI General Fund (fund 1010) and CHCC's fund 1075. An explanation was not made available. Additionally, we did not note evidence that JE #239774 was reviewed and approved.

An audit adjustment was proposed to record grant revenue and unearned income of \$268,907 and \$1,134,141, respectively, in fund 1076. Similarly, an audit adjustment was proposed in fund 1075 to adjust revenue and interfund balances for \$1,403,048.

- General ledger expense details provided for fund 1076 amounted to \$276,856. Total expenses per the trial balance were \$318,736, resulting in a difference of \$41,881. An explanation of the variance was not made available. Further, of the \$276,856, \$7,949 represents expense transactions for the Board of Nursing Examiners, a non-profit organization.
- Of the total EHR expenses of \$268,907, two items totaling \$318,656 were tested and the following were noted:
 - (1) The total EHR expenses of \$268,907 is net of revenue recorded totaling \$149,037 received from the Rural Health Network Development (RHND) program. Supporting schedules and details of the RHND program was not made available. In addition, we noted interfund transactions between funds 1075, 1076 and the CNMI's fund 1010 related to this \$149,037. An explanation was not made available.
 - (2) One item (PV 1112331, check no. 1781) totaling \$129,038 incurred in prior year was recorded as expense in fiscal year 2013 upon payment to vendor.
 - (3) The supporting invoice was not made available for one item (PV 1112335, check no. 1782) totaling \$189,618.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-15, Continued

Condition, Continued:

- (4) The procurement documents for the two items (PV #s 1112331 and 1112335) tested were not made available.

Cause: The cause of the above conditions is the lack of policies and procedures for recording transactions and maintaining files.

Effect: The effect of the above conditions is misstatement of expenses for EHR Incentive Award and noncompliance with procurement regulations.

Recommendation: We recommend that CHCC file and maintain all relevant documentation supporting the transactions of the EHR Incentive Award. We also recommend CHCC strengthen procedures to comply with procurement regulations and to establish and maintain an efficient filing of relevant documents.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Corazon P. Ada, Acting CFO

Corrective Action: I fully acknowledge the finding and the recommendation is doable. Accounts payable files and records are well maintained and managed. CHCC procurement regulations are set to be adapted on or before February 28, 2015.

Proposed Completion Date: Specified and ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Unresolved Prior Year Findings
Year Ended September 30, 2013

The status of unresolved findings is discussed in the Schedule of Findings and Responses section of this report (pages 3 through 39).