

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, 2014

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN ENGAGEMENT TO AUDIT 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 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, 2014, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 15, 2015. Our report disclaims an opinion on such financial statements because the propriety of capital assets, accumulated depreciation, depreciation expense, receivables, inventories, due to/from CNMI, accounts payable, due to related parties, accrued payroll, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense) could not be determined.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of CHCC, 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 Questioned Costs (pages 9 through 97), 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 Questioned Costs as items 2014-001 through 2014-015 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-044 to be a significant deficiency.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of CHCC, 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, 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 Questioned Costs as items 2014-001, 2014-004, 2014-010 and 2014-012 through 2014-015. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

CHCC's Responses to Findings

CHCC's responses to the findings identified in our engagement are described in the accompanying Schedule of Findings and Questioned Costs. CHCC's responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on them.

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 results 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 engagement to perform an audit 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

September 15, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Commonwealth Healthcare Corporation's (CHCC's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CHCC's major federal programs for the year ended September 30, 2014. CHCC's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 97).

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of CHCC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CHCC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of CHCC's compliance.

Basis for Qualified Opinion on Each Major Federal Program

As described in items 2014-020 through 2014-023, 2014-026 through 2014-029, 2014-033, 2014-035 and 2014-037 through 2014-044 in the accompanying Schedule of Findings and Questioned Costs, CHCC did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name/Compliance Requirement
		10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
2014-044	10.557	Equipment and Real Property Management
		93.074 HPP and PHEP Aligned Cooperative Agreements
2014-020	93.074	Period of Availability of Federal Funds
2014-021	93.074	Procurement and Suspension and Debarment
2014-022	93.074	Reporting
2014-043	93.074	Allowable Costs/Cost Principles
2014-044	93.074	Equipment and Real Property Management
		93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
2014-023	93.116	Allowable Costs/Cost Principles
2014-043	93.116	Allowable Costs/Cost Principles
2014-044	93.116	Equipment and Real Property Management
		93.224 Consolidated Health Centers
2014-026	93.224	Allowable Costs/Cost Principles
2014-027	93.224	Procurement and Suspension and Debarment
2014-028	93.224	Program Income
2014-029	93.224	Reporting
2014-043	93.224	Allowable Costs/Cost Principles
2014-044	93.224	Equipment and Real Property Management
		93.243 SAMHS Projects of Regional and National Significance
2014-033	93.243	Reporting
2014-043	93.243	Allowable Costs/Cost Principles
2014-044	93.243	Equipment and Real Property Management
		93.268 Immunization Cooperative Agreements
2014-035	93.268	Period of Availability of Federal Funds
2014-037	93.268	Program Income
2014-038	93.268	Reporting
2014-043	93.268	Allowable Costs/Cost Principles
2014-044	93.268	Equipment and Real Property Management
		93.283 CDC and Prevention Investigations and Technical Assistance
2014-039	93.283	Allowable Costs/Cost Principles
2014-040	93.283	Period of Availability of Federal Funds
2014-041	93.283	Procurement and Suspension and Debarment
2014-043	93.283	Allowable Costs/Cost Principles
2014-044	93.283	Equipment and Real Property Management
		93.505 ACA Maternal, Infant, and Early Childhood Home Visiting Program
2014-042	93.505	Allowable Costs/Cost Principles
2014-043	93.505	Allowable Costs/Cost Principles
2014-044	93.505	Equipment and Real Property Management

Compliance with such requirements is necessary, in our opinion, for CHCC to comply with the requirements applicable to each program.

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, CHCC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-016 through 2014-019, 2014-024, 2014-025, 2014-030 through 2014-032, 2014-034, 2014-036 and 2014-045. Our opinion on each major federal program is not modified with respect to these matters.

CHCC's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. CHCC's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of CHCC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CHCC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CHCC's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-020 through 2014-023, 2014-026 through 2014-029, 2014-033, 2014-035 and 2014-037 through 2014-044 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-016 through 2014-019, 2014-024, 2014-025, 2014-030 through 2014-032, 2014-034 and 2014-036 to be significant deficiencies.

CHCC's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. CHCC's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We were engaged to audit the financial statements of CHCC as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise CHCC's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 7) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Our report dated September 15, 2015, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine the propriety of capital assets, accumulated depreciation, depreciation expense, receivables, inventories, due to/from CNMI, accounts payable, due to related parties, accrued payroll, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense).

Deloitte & Touche LLC

September 15, 2015

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

CFDA #	Federal Agency/Program	Expenditures
Direct Programs:		
U.S. DEPARTMENT OF AGRICULTURE		
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 4,471,019
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>4,471,019</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.069	Public Health Emergency Preparedness	21,012
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	729,878
93.110	Maternal and Child Health Federal Consolidated Programs	220,987
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	702,876
93.136	Injury Prevention and Control Research and State and Community Based Programs	97,678
93.150	Projects for Assistance in Transition from Homelessness (PATH)	50,771
93.217	Family Planning_Services	164,569
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	816,192
93.236	Grants to States to Support Oral Health Workforce Activities	349,827
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	873,118
93.251	Universal Newborn Hearing Screening	219,846
93.268	Immunization Cooperative Agreements	810,211
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	589,819
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	482,774
93.507	PPHF National Public Health Improvement Initiative	168,101
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion	26,201
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	184,288
93.917	HIV Care Formula Grants	41,301
93.945	Assistance Programs for Chronic Disease Prevention and Control	40,544
93.958	Block Grants for Community Mental Health Services	42,076
93.959	Block Grants for Prevention and Treatment of Substance Abuse	294,607
93.991	Preventive Health and Health Services Block Grant	22,585
93.994	Maternal and Child Health Services Block Grant to the States	<u>345,652</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>7,294,913</u>
Unidentified/Unallowed		<u>214,620</u>
TOTAL FEDERAL AWARDS		<u>\$ 11,980,552</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH HEALTHCARE CORPORATION

Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2014

(1) Scope of Audit

CHCC was created through CNMI Public Law 16-51, effective October 1, 2011. All significant operations of CHCC are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior's Office of the Inspector General has been designated as CHCC's cognizant agency for the Single Audit.

All of the programs presented in the Schedule of Expenditures of Federal Awards are subject to the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All expenses and capital outlays are reported as expenditures.

Any federal funds expended in excess of federal funds received are recorded as a receivable from the grantor agency and any federal funds received in excess of federal funds expended are recorded as unearned revenue and/or restricted net position.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | | |
|----|---|------------|
| 1. | Type of auditors' report issued: | Disclaimer |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified? | Yes |
| 4. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | Internal control over major federal programs: | | | | | | | | | | | | | | | | | | | |
|---------------------|--|---------------------|--------------------------------|--------|---|--------|--|--------|---|--------|---|--------|---|--------|-------------------------------------|--------|--|--------|---|--|
| 5. | Material weakness(es) identified? | Yes | | | | | | | | | | | | | | | | | | |
| 6. | Significant deficiency(ies) identified? | Yes | | | | | | | | | | | | | | | | | | |
| 7. | Type of auditors' report issued on compliance for major federal programs: | Qualified | | | | | | | | | | | | | | | | | | |
| 8. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes | | | | | | | | | | | | | | | | | | |
| 9. | Identification of major federal programs: | | | | | | | | | | | | | | | | | | | |
| | <table border="0" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;"><u>CFDA Numbers</u></th> <th style="text-align: left;"><u>Name of Federal Program</u></th> </tr> </thead> <tbody> <tr> <td>10.557</td> <td>Special Supplemental Nutrition Program for Women, Infants, and Children</td> </tr> <tr> <td>93.074</td> <td>Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements</td> </tr> <tr> <td>93.116</td> <td>Project Grants and Cooperative Agreements for Tuberculosis Control Programs</td> </tr> <tr> <td>93.224</td> <td>Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)</td> </tr> <tr> <td>93.243</td> <td>Substance Abuse and Mental Health Services_Projects of Regional and National Significance</td> </tr> <tr> <td>93.268</td> <td>Immunization Cooperative Agreements</td> </tr> <tr> <td>93.283</td> <td>Centers for Disease Control and Prevention_Investigations and Technical Assistance</td> </tr> <tr> <td>93.505</td> <td>Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program</td> </tr> </tbody> </table> | <u>CFDA Numbers</u> | <u>Name of Federal Program</u> | 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | 93.074 | Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements | 93.116 | Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.224 | Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) | 93.243 | Substance Abuse and Mental Health Services_Projects of Regional and National Significance | 93.268 | Immunization Cooperative Agreements | 93.283 | Centers for Disease Control and Prevention_Investigations and Technical Assistance | 93.505 | Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | |
| <u>CFDA Numbers</u> | <u>Name of Federal Program</u> | | | | | | | | | | | | | | | | | | | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | | | | | | | | | | | | | | | | | | | |
| 93.074 | Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements | | | | | | | | | | | | | | | | | | | |
| 93.116 | Project Grants and Cooperative Agreements for Tuberculosis Control Programs | | | | | | | | | | | | | | | | | | | |
| 93.224 | Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) | | | | | | | | | | | | | | | | | | | |
| 93.243 | Substance Abuse and Mental Health Services_Projects of Regional and National Significance | | | | | | | | | | | | | | | | | | | |
| 93.268 | Immunization Cooperative Agreements | | | | | | | | | | | | | | | | | | | |
| 93.283 | Centers for Disease Control and Prevention_Investigations and Technical Assistance | | | | | | | | | | | | | | | | | | | |
| 93.505 | Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | | | | | | | | | | | | | | | | | | | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$359,417 | | | | | | | | | | | | | | | | | | |
| 11. | Auditee qualified as a low-risk auditee? | No | | | | | | | | | | | | | | | | | | |

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Reference Number	Findings	Refer Page #
2014-001	General Ledger System/Financial Reporting	11 - 12
2014-002	Journal Entries	13 - 14
2014-003	Revenue/Receipts	15 - 17
2014-004	Purchases/Disbursements	18 - 21
2014-005	Payroll/Employee Benefits	22 - 26
2014-006	Cash	27 - 28
2014-007-008	Accounts Receivables	29 - 31
2014-009	Inventory	32 - 34
2014-010	Capital Assets	35 - 36
2014-011	Liabilities	37 - 39
2014-012	Due to Related Parties	40 - 41
2014-013	Withholding Taxes Payable	42
2014-014	Social Security and Medicare Payments	43 - 44
2014-015	Local Noncompliance	45 - 46

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference Number	CFDA Number	Findings	Questioned Costs	Refer Page #
2014-016	10.557	Allowable Costs/Cost Principles	\$ -	47
2014-017	10.557	Period of Availability of Federal Funds	\$ -	48 - 49
2014-018	10.557	Procurement and Suspension and Debarment	\$ -	50 - 51
2014-044	10.557	Equipment and Real Property Management	\$ -	93 - 96
2014-019	93.074	Allowable Costs/Cost Principles	\$ 4,743	52 - 53
2014-020	93.074	Period of Availability of Federal Funds	\$ 49,913	54 - 55
2014-021	93.074	Procurement and Suspension and Debarment	\$ 113,266	56 - 57
2014-022	93.074	Reporting	\$ -	58
2014-043	93.074	Allowable Costs/Cost Principles	\$ -	91 - 92
2014-044	93.074	Equipment and Real Property Management	\$ -	93 - 96
2014-023	93.116	Allowable Costs/Cost Principles	\$ 22,834	59 - 60
2014-024	93.116	Period of Availability of Federal Funds	\$ 22,952	61 - 62
2014-025	93.116	Procurement and Suspension and Debarment	\$ 4,845	63
2014-043	93.116	Allowable Costs/Cost Principles	\$ -	91 - 92
2014-044	93.116	Equipment and Real Property Management	\$ -	93 - 96
2014-026	93.224	Allowable Costs/Cost Principles	\$ 24,189	64
2014-027	93.224	Procurement and Suspension and Debarment	\$ 23,592	65 - 66
2014-028	93.224	Program Income	\$ 51,068	67
2014-029	93.224	Reporting	\$ -	68
2014-030	93.224	Special Tests and Provisions	\$ -	69
2014-043	93.224	Allowable Costs/Cost Principles	\$ -	91 - 92
2014-044	93.224	Equipment and Real Property Management	\$ -	93 - 96
2014-031	93.243	Allowable Costs/Cost Principles	\$ 6,987	70 - 71
2014-032	93.243	Period of Availability of Federal Funds	\$ 17,998	72 - 73
2014-033	93.243	Reporting	\$ -	74 - 75
2014-043	93.243	Allowable Costs/Cost Principles	\$ -	91 - 92
2014-044	93.243	Equipment and Real Property Management	\$ -	93 - 96
2014-034	93.268	Allowable Costs/Cost Principles	\$ 10,500	76
2014-035	93.268	Period of Availability of Federal Funds	\$ 157,120	77 - 78
2014-036	93.268	Procurement and Suspension and Debarment	\$ 15,966	79 - 80
2014-037	93.268	Program Income	\$ -	81
2014-038	93.268	Reporting	\$ -	82
2014-043	93.268	Allowable Costs/Cost Principles	\$ -	91 - 92
2014-044	93.268	Equipment and Real Property Management	\$ -	93 - 96
2014-039	93.283	Allowable Costs/Cost Principles	\$ 10,366	83 - 84
2014-040	93.283	Period of Availability of Federal Funds	\$ 44,339	85 - 86
2014-041	93.283	Procurement and Suspension and Debarment	\$ 23,320	87 - 88
2014-043	93.283	Allowable Costs/Cost Principles	\$ -	91 - 92
2014-044	93.283	Equipment and Real Property Management	\$ -	93 - 96
2014-042	93.505	Allowable Costs/Cost Principles	\$ 7,548	89 - 90
2014-043	93.505	Allowable Costs/Cost Principles	\$ -	91 - 92
2014-044	93.505	Equipment and Real Property Management	\$ -	93 - 96
2014-045	93.236	Allowable Costs/Cost Principles	\$ 22,158	97
2014-045	93.251	Allowable Costs/Cost Principles	\$ 19,917	97

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

General Ledger System/Financial Reporting

Finding No. 2014-001

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) No accounting policies or controls exist over financial reporting and the preparation of journal entries;
- (4) Journal entries prepared by CHCC are not in sequence, are unsupported and there is no evidence that journal entries are reviewed or approved by management;
- (5) Monthly financial statements and/or reports are prepared on an as needed basis;
- (6) General ledger accounts are not reconciled to subsidiary ledgers; and
- (7) A budget to actual report is not prepared.

At September 30, 2014, the beginning net position of \$3,823,697 does not agree to the audited ending net position of (\$1,651,343) at September 30, 2013. The variance is due to unposted fiscal year 2013 audit adjustments. This condition was corrected through a proposed audit adjustment.

In addition, the Schedule of Expenditures of Federal Awards includes \$214,620 of unidentified and unallocated expenditures. An explanation of the unidentified and unallocated expenditure is not available.

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.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-001, Continued

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

Recommendation: We recommend CHCC:

- Establish accounting policies and control procedures over the financial reporting process;
- Verify the accuracy and completeness of recorded transactions;
- Reconcile general ledger accounts with subledgers;
- Monitor, review and approve journal entries before posting;
- Examine fund 1012 account balances and determine appropriate accounting treatment;
- Prepare financial reports required by Public Law 16-51; and
- Prepare a budget to actual report to document if actual expenses are within approved budgetary levels.

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 audits for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan:

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

Corrective Action: CHCC fully accepts the findings. Accounting policies and control procedures have been drafted with the assistance of our consultant and should be finalized on or before September 30, 2015.

However, CHCC would like to reiterate that Condition 2 wherein Fund 1012 balances can only be transacted by the CNMI Government.

In addition, the unidentified and unallocated amount of \$214,620 reported on the Schedule of Expenditures of Federal Awards is due to overlapping of Funds 2020 and 2023 during the transition of federal accounts/programs from the CNMI to CHCC.

Proposed Completion Date: As stated above and ongoing.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Journal Entries

Finding No. 2014-002

Criteria: Journal entries should be reviewed and approved prior to posting.

Condition: Tests of journal entries noted the following:

1. Monitoring of journal entries at CHCC is not performed and gaps in the numeric sequence of journal entries were noted.
2. A summary of journal entries extracted from general ledger details did not balance by \$8,306,657 as sixty-seven did not have corresponding debit or credit entries. Although the general ledger balanced, the extraction of journal vouchers from general ledger details did not. No explanation was given for this condition.
3. Variances between general ledger details and the trial balance occurred due to the inclusion of unposted items. The unposted items were entered into the JDE system prior to management review and approval.
4. One \$300,748 journal entry (&& 250817) was recorded (2023A.62810) at September 30, 2014. The transaction was recorded by the CNMI Department of Finance (DOF) and represents the net transfer of federal account balances from DOF (fund 2020) to CHCC (fund 2023). The amount has not been allocated to the respective programs
5. Of twenty journal vouchers tested, the following were noted:
 - a. Six were not available.
 - b. Three were not reviewed and approved.
 - c. Three were printed from the system and were not supported by approved journal vouchers.
 - d. The supporting invoices for one (JE 247737 totaling \$169,500) included prior year expenses totaling \$54,500 that were recorded in fiscal year 2014.

Cause: The cause is the lack of policies and procedures related to processing and recording information.

Effect: The effect is the misstatement of account balances.

Recommendation: We recommend that CHCC establish policies and procedures to appropriately process and record information and maintain numerical control over journal entries.

Prior Year Status: The lack of policies and procedures related to processing and recording information was reported as a finding in CHCC's audit for fiscal year 2013.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-002, Continued

Auditee Response and Corrective Action Plan:

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

Corrective Action: CHCC fully accepts the findings. Accounting policies and control procedures have been drafted with the assistance of our consultant and should be finalized on or before September 30, 2015.

The Treasurer, the Accountant in charge for bank reconciliations and the Accounts Payable Supervisor along with the CFO have established a review and approval process that all personnel must adhere to.

CHCC further acknowledges that proper accountability of all journal vouchers is necessary. A process has been developed to address this matter and was implemented in the latter part of fiscal year 2014.

Proposed Completion Date: Specified in the corrective action.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Revenue/Receipts

Finding No. 2014-003

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 timely deposited. Further, relevant supporting documents should be filed and maintained.

Condition: Tests of revenues and receipts noted the following:

- (1) Revenues are recorded when cash is collected and not when services are rendered;
- (2) Billings are not processed in a timely manner;
- (3) Revenues from the Tinian Health Center and Rota Health Center were not posted during January 2014.
- (4) Of forty-nine revenue items tested, totaling \$27,522,935, we noted the following:
 - (a) One (JE # 245655) was recorded nineteen days after funds were received.
 - (b) Nineteen were not supported by approved journal vouchers:
 - (c) The FY 2014 schedule of payments collected relating to prior year claims excludes partial payments from accounts with outstanding balances.
 - (d) Of seventeen billings tested, we noted the following for all:
 - The service rates or unit cost per billings did not agree with amounts on the charge master list.
 - The services identified in the billings could not be located in the charge master list.
 - The in-patient pharmacy charges were manually entered and were not coded to allow tracing to the charge master list.
 - (e) Billing documents for thirteen were not available.
 - (f) Reimbursements (document no. 1161954) for services rendered by a health provider collected between fiscal years 2010 through 2013 were deducted from current year revenue. In addition, the attached explanation of benefits statement did not confirm the patients' receiving the services and there was no evidence of review and approval of the supporting statements.
 - (g) The Memorandum of Agreement to support Medicaid Interim Payment of Federal Financial Participation (FFP) for twelve was not provided:

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-003, Continued

Condition, Continued:

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
242634	10/11/13	\$ 816,991
246729	10/11/13	\$ 816,991
244633	01/15/14	\$ 1,633,981
245384	02/21/14	\$ 1,633,981
245309	03/14/14	\$ 1,720,314
248108	07/18/14	\$ 860,157
248686	08/15/14	\$ 860,157
249538	09/08/14	\$ 860,157
246184	04/11/14	\$ 1,720,314
246573	04/11/14	\$ 1,980,449
246574	04/11/14	\$ (200,135)
246568	04/11/14	\$ (1,720,314)

- (h) Supporting journal vouchers for two (JE #242128 and 247166 totaling \$663,286 and \$26,344, respectively) were not available.
- (5) Of ten federal grant receipts tested totaling \$405,238, the drawdown request for one (CR #241851) was not provided. In addition, the funds were drawn (October 25, 2013) after the project (grant #2U90TP921818-09) expiration date of August 9, 2013.
- (6) Fiscal year 2013 (JE 246729; GL date 10/11/13) revenues totaling \$816,991 were recorded as fiscal year 2014 revenues.

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

Effect: The effect is the potential for cash misappropriation, unreported collections and revenue misstatements.

Recommendation: We recommend CHCC establish policies and procedures over 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 audits for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roxanne Aranda, Business Office Manager

Corrective Action:

CHCC accepts the findings, except as follows:

Condition 4(d), bullet points 1 and 2:

We disagree. As requested, the chargemaster list was provided via email on April 2, 2015 to the auditor to support the service rates or unit cost per billing amount.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-003, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Condition 4(e):

We disagree. Supporting documents for the items listed were not requested. We are able to provide copies of billing documents.

The Business Office revenue team has begun drafting policies and procedures for the processing and recording of revenues, monitoring of collections, timely recording of transactions and the maintenance and filing of all supporting documents.

Proposed Completion Date: September 30, 2015.

Auditor Response:

Condition 4 (d), bullet points 1 and 2:

The chargemaster list was provided; however, as stated in the condition, the services selected for testing were not included in the list.

Condition 4 (e):

The documents selected for testing consist of journal entries which did not have supporting documents or billings attached.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Purchases/Disbursements

Finding No. 2014-004

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

Condition: Tests of purchases and disbursements noted the following:

1. CHCC does not have a travel advance sub-ledger and does not monitor travel advances.
2. CHCC recorded \$362,953 of advances (account # 1075.12430) at September 30, 2014. Tests of advances noted the following:
 - a. Two (check #s 4158 and 4590) totaling \$33,064 were not reversed upon receipt of goods. Additionally, documents requiring prepayment were not available.
 - b. Minimal prepayment transactions were reversed resulting in an understatement of expenses.
3. Of thirty-five disbursements tested totaling \$1,554,154, we noted the following:
 - a. Two (OV # 236179 and PV # 1162936) aggregating \$11,902 were procured using one quotation. Three quotations are required for small purchases between \$2,500 and \$10,000.
 - b. For thirteen, procurement documents evidencing full and open competition were not available:

<u>Object No.</u>	<u>Business Unit</u>	<u>Reference No.</u>	<u>Amount</u>
62090	1807A	PV 1184216	\$ 18,000
62500	1807A	PV 1194356	\$ 12,620
62750	1851A	PV 1187186	\$ 25,000
1840A	62060	PV 1153606	\$ 50,000
1805A	62060	PV 1165800	\$ 20,000
1840A	62060	PV 1168018	\$ 67,142
1840A	62060	PV 1188290	\$ 50,000
1852A	62750	PV 1156695	\$ 15,528
1812A	63030	PV 1159447	\$ 15,589
1840A	63080	PV 1196361	\$ 13,250
1831A	63070	PV 1194469	\$ 27,457
1831A	63070	PV 1158348	\$ 39,341
1831A	63070	PV 1160681	\$ 69,650

- c. One (PV # 1194356; check #5291 dated 09/05/14) totaling \$12,620 did not include vouchers or invoices that were marked/stamped as paid.
- d. One \$8,717 accounts payable voucher (PV #233880) was not evidenced as reviewed or approved.
- e. Two prior year expenses (PV #s 1154094 and 1156695 amounting to \$8,400 and \$15,528, respectively) were recorded as fiscal year 2014 expenses.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-004, Continued

Condition, Continued:

- f. Two (551877-OC and 570690-OP) were procured through emergency procurement; however, written approval from the Director of Procurement and Supply was not available.
- g. One contract (567737-OC) was procured through sole source. Documentation substantiating efforts to obtain competition was not provided.
- h. One (PV # 1156695 for \$15,528) is not supported by a valid contract. The payment relates to services provided in September 2013.
- i. For one travel authorization (306535-OT), the initial travel request was not provided. Further, the travel voucher did not include an itemization of expenses and was submitted two days late. Travel Guidelines and Procedures provided were not approved by management.
- j. Supporting invoices for three were not available.

<u>Business Unit</u>	<u>Object No.</u>	<u>Reference No.</u>	<u>Amount</u>
1840A	62060	PV 1153606	\$ 50,000
1840A	62060	PV 1168018	\$ 67,142
H3236M	62060	PV 1162720	\$ 1,500

- k. One item (contract 556635-OC) totaling \$8,400 was processed as a contract. Another (570690-OP) totaling \$29,708 and procured through emergency procurement, was processed as a purchase order. Procurement performed for these amounts do not agree to CNMI procurement regulations.
- l. One purchase order (574339-OP) was not approved by the Procurement & Supply Officer.
- m. For sixteen, voucher or journal or invoices were not available.

<u>Business Unit</u>	<u>Object No.</u>	<u>Reference No.</u>	<u>Amount</u>
1822A	63070	II 43611	\$ 1,391
1817A	63070	BE 242125	\$ 419,642
1817A	63090	JE 243521	\$ 179,000
1817A	63090	JE 243521	\$ 179,000
1817A	63090	JE 244514	\$ 100,000
1851A	63050	II 44179	\$ 88
1815A	63070	IA 4326	\$ 1,022,625
1831A	63070	II 44420	\$ 1,043,008
1831A	63070	II 44420	\$ 88,330
1817A	63090	JE 247788	\$ 92,000
1843A	63070	II 44949	\$ 207
1828A	63070	II 43656	\$ 60
1866A	63070	II 45306	\$ 44
1843A	63070	PV 1198543	\$ 5,230
1963A	62060	PV 1155160	\$ 534,012
1963A	62060	BE 247877	\$ 183,658

- n. The \$12,376 contract (PV # 1188414) was not available.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-004, Continued

Cause: The cause is the lack of control over monitoring and approving of purchases/disbursements, travel advances, adherence to procurement rules and regulations and systematically filing 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 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 audits for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Lucy Sanchez, Accounts Payable Supervisor and Diego Urumelog, Procurement Officer/Material Supply Office Manager

Corrective Action: CHCC fully accepts the findings as follows:

Conditions 3(a) and (b):

Whenever CHCC requires sole source procurement of services and goods, a suitable justification is always associated and made part of the process. CHCC recognizes the CNMI Procurement Regulations; however, there are services that are not available on-island and such vendors were identified by several programs and units through direct recommendation.

Condition 3(c):

PV # 1194356, check # 5291 dated 09/05/14 totaling \$12,620 was not evidenced as paid.

A reference is available for review.

Condition 3(d):

PV # 233880 for \$8,717 was not evidenced as reviewed and approved. CHCC does not make payments unless the PV is approved and posted. Check # 3873 was prepared electronically, therefore, this PV cannot be pulled into the payee group unless it is approved and posted.

The overall recommendation is doable.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-004, Continued

Auditor Response:

Conditions 3(a) and (b):

The CNMI Procurement Regulations require evidence of full and open competition.

Condition 3(d):

As indicated in the Condition, the PV did not have evidence of review and approval.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Payroll/Employee Benefits

Finding No. 2014-005

Criteria: Personnel expenses should be supported by an authorized personnel action (NOPA), signed timecards, approved leave/overtime forms and approved timesheets. Relevant supporting documents should be on file. In addition, employee benefits should be recorded in the appropriate period.

Condition: Tests of payroll noted the following:

- (1) Review of general ledger payroll entries and auto deposit bank registers is not documented.
- (2) One time card (employee # 212676; PPE 04/19/14) appeared to be manually changed/corrected. An explanation of the change was not attached.
- (3) One NOPA (employee no. 816693) did not indicate the employee acknowledgement of receiving or reading the personnel manual.
- (4) Annual leave of \$2,403,117 at September 30, 2014 was not recorded and no monitoring of accrued annual leave appears to be performed.
- (5) Of seventy-five payroll items tested, totaling \$2,695,773, we noted the following:
 - a. Sixty-four NOPAs were not signed as approved by the Human Resources Officer and one NOPA was approved by the Human Resources Officer after September 30, 2014 (the employee worked and was paid during fiscal year 2014).
 - b. Sixty-one employees Forms W-4 were not available.
 - c. Authorizations for five timecard exemptions were not available.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>
1807	795241	07/12/14
1807	648753	05/17/14
1807	815322	08/23/14
1807	480094	08/23/14
1807	815321	11/30/13

- d. A timecard for pay period 11/30/13 was not signed by the employee.
- e. Nine annual leave forms were approved after the leave dates.
- f. Three Chapter 7 tax calculations (employee nos. 815659, 409602 and 795705 for PPE 08/09/14, 04/05/14 and 10/19/13, respectively) did not exclude 401k retirement contributions, which are not subject to income tax withholding.
- g. Four timesheets were not signed by the preparer and/or were not evidenced as reviewed and approved by the department head.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-005, Continued

Condition, Continued:

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>
1801	11/30/13	100176
1863	08/23/14	102902
1861	01/11/14	100683
1861	06/28/14	578377

- h. Six timesheets were not evidenced as reviewed and approved by the department head.

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>
1801	05/17/14	442719
1824	01/25/14	795543
1832	11/02/13	415135
1861	04/05/14	409602
1848	11/30/13	714264
1807	05/17/14	648753

- i. Three approved overtime forms were not available:

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>
1807	795241	07/12/14
1831	813092	11/16/13
1912A	768988	11/02/13

- j. The approved annual leave form for employee no. 580669 for the payroll period ended 07/12/14 was not available.

- k. Hours per three timesheets did not agree with approved hours.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Hours Reported</u>	<u>Hours Approved</u>
1832	415135	01/25/14	56 overtime	14 overtime
1832	415480	12/28/13	38.5 overtime	17.5 overtime
1801	100176	11/30/13	4 annual leave	4 sick leave

- l. For twenty employees, the number of hours per the timesheet did not agree with the hours per the timecard.

<u>Payroll Period Ended</u>	<u>Employee No.</u>	<u>Hours Per Timesheet</u>	<u>Hours Per Timecard</u>	<u>Hours Over (Under) Reported</u>
11/16/13	813092	115.00	102.00	13.00
06/14/14	102851	80.00	77.25	2.75
02/08/14	415440	109.00	115.50	(6.50)
02/22/14	415421	80.00	82.50	(2.50)
05/17/14	102802	82.00	86.00	(4.00)
01/11/14	552991	138.25	144.00	(5.75)
01/11/14	713821	104.25	98.25	6.00
01/11/14	698465	89.25	86.00	3.25
12/28/13	415442	96.00	92.00	4.00
06/14/14	212704	109.25	103.00	6.25
03/22/14	102799	102.00	107.75	(5.75)
01/25/14	795543	129.50	126.75	2.75
01/11/14	102735	88.5	99.25	(10.75)
04/05/14	415111	102.75	106.50	(3.75)

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-005, Continued

Condition, Continued:

<u>Payroll Period Ended</u>	<u>Employee No.</u>	<u>Hours Per Timesheet</u>	<u>Hours Per Timecard</u>	<u>Hours Over (Under) Reported</u>
12/28/13	401638	80.00	68.50	11.50
06/28/14	578377	80.00	102.00	(22.00)
08/09/14	815659	122.50	126.00	(3.50)
03/22/14	207026	137.00	149.50	(12.50)
05/31/14	403073	122.75	125.00	(2.25)
05/03/14	795537	53.75	57.00	(3.25)

m. For seven employees, the timecard or timesheet was not provided.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>
1906A	516821	02/08/14
1911	103162	04/05/14
1906A	448543	10/05/13
1824	415481	11/02/13
1821	769668	09/06/14
1832	795706	10/19/13
1831	774396	04/19/14

n. Timecards for fourteen employees were manually entered.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>
1811	103037	07/12/14
1801	100176	11/30/13
1912A	159521	09/20/14
1812	100338	11/02/13
1840	295309	04/19/14
1861	100683	01/11/14
1861	578377	06/28/14
1862	580669	07/12/14
1826	678360	12/14/13
1869A	403094	04/19/14
1912A	401638	12/28/13
1843	815659	08/09/14
1820	102825	11/30/13
1912A	768988	11/02/13

o. Two approved NOPAs (employee nos. 794929 and 713821 for PPE 06/28/14 and 01/11/14, respectively) were not valid for the pay period tested.

p. Four NOPAs did not indicate the account or business unit charged.

<u>Employee No.</u>	<u>NOPA Effective Date</u>
102962	06/03/01
102982	11/07/99
100698	10/01/13
403094	10/01/13

q. Two employee deduction forms were not available.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Amount</u>
1824	415481	11/02/13	\$ 130
1826	678360	12/14/13	\$ 197

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-005, Continued

Condition, Continued:

- r. Variances exist between gross pay per the payroll register and the general ledger:

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Per Payroll Register</u>	<u>Per General Ledger</u>	<u>Variance</u>
1912A	08/23/14	\$ 42,090	\$ 42,592	\$ (502)
1869A	02/08/14	\$ 12,483	\$ 4,154	\$ 8,329
1815	06/14/14	\$ 12,144	\$ 11,528	\$ 616
1869A	04/19/14	\$ 7,542	\$ 7,500	\$ 42
1828	03/22/14	\$ 218,349	\$ 219,749	\$ (1,400)
1807	08/23/14	\$ 258,701	\$ 252,108	\$ 6,593
1801	11/30/13	\$ 12,933	\$ 15,628	\$ (2,695)
1811	07/12/14	\$ 10,269	\$ 10,073	\$ 196
1841	05/31/14	\$ 13,289	\$ 17,489	\$ (4,200)
1807	05/17/14	\$ 220,755	\$ 222,155	\$ (1,400)

- s. The net pay per the Auto Deposit Bank Register for the pay period ended October 15, 2013 was \$267 less than the net pay transferred per the bank statement.

Cause: The cause is a 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;
- Employment contracts be timely updated;
- Hours paid to employees be properly supported with signed timecards and approved leave/comp time forms;
- Employee deductions be properly authorized and supported;
- Electronic copies or backups of payroll registers be maintained to support employee payroll and amounts recorded in the general ledger; and
- Payroll expenses be recorded in the proper period.

Prior Year Status: 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 was reported as a finding in CHCC's audits for fiscal years 2012 and 2013.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-005, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: April Camacho, Payroll Supervisor and Clarinda Ngirausui, Human Resource Manager

Corrective Action:

When the Human Resources Office (HRO) prepares a Request for Personnel Action (RFPA) for an employee, the RFPA is routed to the Chief Executive Office for review and approval of the Requestor, Acting Chief Financial Officer, Human Resource Manager and Chief Executive Officer then returned to HRO. HRO will implement and enforce a one month and two week time frame for routing and approval of NOPAs. An employee is given one week to acknowledge receipt of his/her NOPA.

By resolution, HRO will enter all pertinent information into the JDE system in a timely and efficient manner once the RFPA is approved so that all accounts charged, employment dates and all actions are accounted for relieving local and federal accounts from being invalidly charged.

Effective immediately, all new hires will be required to acknowledge receipt of the *New CHCC Employment Manual*. The signed acknowledgement form will be included in the employee's personnel file.

CHCC has determined that there was no reason for the citation on Finding 2014-005 which cited deficiency for four personnel whose accounts were not indicated on their NOPAs. The document reviewed was the Within-Grade Increase which does not indicate what accounts are charged nor has it been a practice of CHCC since it became a corporation on October 1, 2011.

Proposed Completion Dates: August 21, 2015 and August 28, 2015

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Cash

Finding No. 2014-006

Criteria: Bank reconciling items should be posted to the general ledger after review and approval. Additionally, fund transfers should be evidenced as reviewed and approved prior to the actual transfer.

Condition: Tests of bank reconciliations as of September 30, 2014 noted the following:

1. Seven bank reconciliations did not agree to the general ledger.

<u>Bank Code</u>	<u>Adjusted Book Balance</u>	<u>Amount Per General Ledger</u>	<u>Variance</u>
11340	\$ (352,786)	\$ (8,250,598)	\$ (7,897,812)
11350	\$ (9,103)	\$ 1,017,532	\$ 1,026,635
11360	\$ 134,339	\$ 6,301,827	\$ 6,167,488
11370	\$ -	\$ 1,706,603	\$ 1,706,603
11390	\$ 182,979	\$ (149,405)	\$ (332,384)
11520	\$ 19,525	\$ 907,514	\$ 887,989
11635	\$ 1,100,122	\$ 1,486,595	\$ 386,473

Bank reconciliations are prepared monthly; however, reconciling items are not recorded which caused the variances. This condition was corrected through a proposed audit adjustment.

2. Of forty-eight subsequent bank disbursements tested, supporting documentation evidencing the review and approval of thirty-eight wire transfers was 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>
11340	10/14/14	\$ 92,000	11390	10/16/14	\$ 50,000
11340	10/29/14	\$ 87,000	11520	10/01/14	\$ 14,525
11350	10/02/14	\$ 600,906	11520	10/03/14	\$ 15,219
11350	10/16/14	\$ 594,544	11635	10/30/14	\$ 735,119
11350	10/30/14	\$ 631,314	11635	10/16/14	\$ 688,778
11350	10/30/14	\$ 103,805	11635	10/02/14	\$ 702,243
11350	10/02/14	\$ 100,231	11635	10/24/14	\$ 124,113
11350	10/16/14	\$ 94,234	11635	10/17/14	\$ 131,650
11360	10/17/14	\$ 860,157	11635	10/17/14	\$ 250,000
11360	10/02/14	\$ 100,231	11635	10/14/14	\$ 198,879
11360	10/30/14	\$ 103,082	11635	10/02/14	\$ 58,061
11360	10/16/14	\$ 94,234	11635	10/09/14	\$ 33,014
11360	10/21/14	\$ 20,077	11635	10/13/14	\$ 25,614
11360	10/21/14	\$ 20,466	11635	10/01/14	\$ 53,404
11360	10/27/14	\$ 37,000	11635	10/20/14	\$ 53,517
11370	10/01/14	\$ 26,514	11635	10/16/14	\$ 29,265
11370	10/02/14	\$ 60,846	11635	10/02/14	\$ 81,565
11370	10/03/14	\$ 18,602	11635	10/06/14	\$ 80,638
11390	10/16/14	\$ 200,000	11635	10/08/14	\$ 78,797

3. Bank reconciling items for five accounts (1075.11360, 1075.11370, 1075.11390, 1075.11520 and 1075.11635) represent September 2014 bank transactions. Further, the ending bank balance at August 31, 2014 is used as the ending bank balance at September 30, 2014.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-006, Continued

Cause: The cause of the above conditions is the lack of policies and procedures related to the timely recording, review and posting of bank reconciling items and procedures to review and approve fund transfers.

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

Recommendation: We recommend that CHCC establish policies and procedures related to the timely recording and posting of reconciling items. Further, we recommend all bank transfers be supported, reviewed and evidenced as to approval.

Prior year status: The lack of policies and procedures related to the timely recording, review and posting of reconciling items and procedures to review and approve fund transfers was reported as a finding in CHCC's audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Delia Johnson, Treasurer

Corrective Action: We agree with the findings, except for two items (bank codes 11340 in the amount of \$92,000 and \$87,000 on Condition 2) where information was provided to and acknowledged by the auditor.

Proposed Completion Date: Ongoing.

Auditor Response: The documentation provided did not have evidence of review and approval.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Accounts Receivable

Finding No. 2014-007

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

Condition: At September 30, 2014, CHCC recorded receivables (fund 1075) of \$33,614,700. Receivables per the sub-ledger were \$42,849,332. Audit adjustments were proposed to correct this condition.

In addition, we noted the following:

- The receivable account in fund 1075 (# 12030) had no entries/postings during the year other than fiscal year 2013 audit adjustments.
- Amounts due to and from CHCC and DOF are not reconciled.
- Detailed subledgers for all receivable accounts were not available. We were unable to determine the adequacy and reasonableness of the allowance for doubtful accounts.
- Receivables from Tinian and Rota are not recorded.

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

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

Recommendation: We recommend that CHCC reconcile all receivables.

Prior Year Status: The lack of reconciliation and support of receivables was reported as a finding in CHCC's 2013 audit.

Auditee Response and Corrective Action Plan:

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

Corrective Action: CHCC fully accepts the findings. CHCC's consultant will be on-island in September to assist in addressing our accounts receivable.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Accounts Receivable

Finding No. 2014-008

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

Condition: Tests of CHCC receivables at September 30, 2014 noted the following:

1. As of September 30, 2014, CHCC's receivables amounted to \$42,849,332. Payments received in fiscal year 2014 for prior year receivables have not been applied to the respective year. Therefore, an accurate aging of outstanding receivables is not available.

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

2. The billing system is not linked to the general ledger and receivables at September 30, 2014 are not supported by system-generated detailed reports.
3. Detailed reports for all receivable categories (Medicare, Medicaid, Guarantors, Third Party and Non Beneficiary Patients) at September 30, 2014 were not available.
4. At September 30, 2014, an additional allowance for doubtful accounts of \$9,434,557 was assessed and recorded through a proposed audit adjustment. The assessment did not include a determination of the validity and collectability of prior year outstanding receivables.
5. Payment of accounts is recorded as revenue when received. Payments received for fiscal years 2012 and 2013 receivables totaling \$7,088,472 were recorded as revenue during the year ended September 30, 2014. This condition was corrected through proposed audit adjustments.

Cause: The cause of the above condition is the 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 billings and implement standard procedures to follow-up on aged accounts. Uncollectible accounts should be considered for write-off.

Prior Year Status: The lack of adequate policies and procedures related to billing and collection was reported in CHCC's audit for fiscal year 2013.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-008, Continued

Auditee Response and Corrective Action Plan:

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

Corrective Action: We fully accept the findings. CHCC's consultant will be on-island in September to assist in addressing our accounts receivable.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Inventory

Finding No. 2014-009

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: Tests of inventory noted the following:

- (1) The pharmacy inventory system is not linked to the general ledger.
- (2) 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 total outstanding advances at September 30, 2014.
- (3) The pharmacy year end count procedures were performed by the same personnel that safeguard/monitor inventory on a daily basis.
- (4) Receiving report numbers are not in sequential order.
- (5) A valuation of pharmacy inventory is not regularly performed resulting in an understatement of \$10,351.
- (6) Changes to the inventory master file/database are not documented.
- (7) A receiving report (# 234127 dated 10/25/13) was prepared for purchases received on two different dates. Additionally, the subsequent inventory adjustment report for the same receiving report was not documented as being reviewed and approved by the Medical Supply Officer.
- (8) An assessment of inventory obsolescence was not provided.
- (9) Tests of the inventory subledger noted the following:

- a. As of September 30, 2014, general ledger inventory balances in fund 1075 were not adjusted to reflect results of year-end physical counts. Variances between the general ledger and 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	\$ 840,343	\$ (45,977)	\$ (886,320)
Central Supply	14120	\$ 37,640	\$ (123,335)	\$ (160,975)
Pharmacy	14140	\$ 470,043	\$ 480,394	\$ 10,351

In addition, we noted that \$1,127,155 of inventory transactions during the fiscal year were erroneously recorded in fund 7271 (a DOF fund) which contributed to the noted variance.

These conditions were corrected through proposed audit adjustments.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-009, Continued

Condition, Continued:

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

	<u>General Ledger Account No.</u>	<u>General Ledger Balance</u>
Medical Supply	14110	\$ 1,009,293
Central Supply	14120	\$ (804)

- c. CHCC's pharmacy does not maintain perpetual inventory records. Therefore, the general ledger is not timely adjusted.
- d. Eighteen inventory items were included twice in the inventory valuation report (Medical Supply and Central Supply) resulting in an overstatement of \$26,193. One was included three times in the inventory valuation report resulting in an overstatement of \$759.

(10) For eight medical supply items tested, we noted the following:

- a. The inventory movement schedule could not be provided.
- b. We were informed that no purchases were made for one (index number 025895); however, the quantity increased by 190 units when compared to 2013. We were advised that the inventory system (the Cardex) may have encountered an error which resulted in the discrepancy.
- c. The latest invoice and receiving report for one (index number 005967) could not be provided.
- d. The unit cost for one (index number 030259) was five dollars less than the expected amount. We were informed that the error is due to an oversight when updating the system. The correct index number for this item should be 030295.
- e. One (index number 030147) last purchased in January 2001 has had no movement for more than ten years.

(11) Of four pharmacy supplies tested, the unit cost for one (item no. 180-2636) was based on the unit cost obtained online and not the actual invoice.

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

Effect: The effect of the above 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 adopt a perpetual inventory system. We also recommend that inventory be valued at net realizable value.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-009, Continued

Prior Year Status: The lack of reconciliation of inventory to the general ledger was reported as a finding in CHCC's audits for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Juan Diego Urumelog, Procurement Officer/Material Supply Office Manager, Rodilyn Bacani, Pharmacist/Manager (in-charge of Inventory) and Corazon P. Ada, Acting Chief Financial Officer

Corrective Action: CHCC accepts the findings and the recommendations are highly taken into consideration. Our consultant was on-island during the audit. The development of protocols and systems in the MSO Inventory Management will be addressed. The Pharmacy Unit Inventory system is currently being addressed through the upgrade of the RPMS system.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Capital Assets

Finding No. 2014-010

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, 2014, CHCC recorded machinery, equipment, office equipment, improvements and vehicle expenses totaling \$1,058,246. Of that amount, four non-federal items totaling \$215,655 were tested and the following noted:

- a. Two with estimated useful lives of more than one year were expensed.

<u>Business Unit</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
1840A	64540	02/26/14	PV 1163178	\$ 78,644
1826A	64540	05/19/14	OV 235461	\$ 17,880

- b. Based on procurement documents provided, one (OV # 235461, check # 4894) totaling \$17,880 was procured through price quotations although the amount exceeded the small purchase procurement threshold of \$2,500 to \$10,000.
- c. Procurement documents evidencing full and open competition for one (PV # 1163178) totaling \$89,644 was not made available.
- d. Based on CHCC's capitalization policy, CHCC expensed \$894,238 of capital asset acquisitions during the year ended September 30, 2014.
- e. One fiscal year 2013 item totaling \$5,241 (PV # 1154936) was recorded as a fiscal year 2014 expense.

In addition, DOF transferred capital assets with a net book value of \$39,916,090 to CHCC which was recorded through a proposed audit adjustment at September 30, 2014. CHCC has not established estimated useful lives for the transferred assets and thus has not recorded depreciation expense.

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

Effect: The effect is the misstatement of capital assets.

Recommendation: We recommend:

- CHCC record capital assets and restate its financial statements for capital asset additions for the years ended September 30, 2013 and 2012;

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-010, Continued

Recommendation, Continued:

- Management establish policies and procedures for the accounting and maintenance of capital assets;
- A complete physical count of all buildings and equipment be performed and the results reflected in CHCC's financial statements;
- Relevant invoices and other supporting documents be maintained and filed; and
- Establish a capitalization policy.

Prior Year Status: The lack of established policies and procedures for the accounting and maintenance of capital assets and inadequate file maintenance was reported as a finding in CHCC's audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Juan Diego Urumelog, Procurement Officer/Material Supply Office Manager and Corazon P. Ada, Acting Chief Financial Officer

Corrective Action: The transfer of capital assets from the CNMI Government was completed in fiscal year 2014. To manage the assets, we have identified personnel to be in charge of inventory, the physical count of all assets and to identify assets that are no longer in use.

Policies and procedures will be developed as part of our consultant's deliverables. The recommendations are highly considered.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Liabilities

Finding No. 2014-011

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

Condition: Tests of accounts payable noted the following:

1. Of thirteen payables tested totaling \$15,072,112, the following were noted:
 - a. Eight subsequent payments, invoices, supporting statements or equivalent documents were not provided.

<u>Supplier ID No.</u>	<u>Payable at 09/30/14</u>	<u>Unsupported Amount</u>
793266	\$ 247,679	\$ 247,679
553391	\$ 36,405	\$ 36,405
210073	\$ 2,959	\$ 2,959
210073	\$ 63,077	\$ 63,077
110034	\$ 11,675	\$ 11,675
251551	\$ 255,828	\$ 255,828
654623	\$ 1,592	\$ 1,592
208463	\$ 89,174	\$ 89,174

- b. An invoice, a statement or equivalent document for five subsequent payments were not available.

<u>Check Date</u>	<u>Check No.</u>	<u>Check Amount.</u>	<u>Unsupported Amount</u>
02/06/15	6111	\$ 106,535	\$ 89,165
01/27/15	5959	\$ 25,064	\$ 24,128
02/02/15	6054	\$ 6,725	\$ 5,239
02/03/15	6077	\$ 6,324	\$ 4,166
10/23/14	5472	\$ 21,891	\$ 5,584

- c. One payable (supplier no. 647559) totaling \$1,631,499 was paid during fiscal year 2014. Outstanding billings for two (supplier nos. 112938 and 210073 for \$69,494 and \$66,795, respectively) incurred during fiscal year 2014 were not recorded as accounts payable at September 30, 2014.
 - d. One \$688 advance (306897-OT) for travel that was subsequently cancelled was included in accounts payable at September 30, 2014. In addition, the voucher entry journal review (batch no. 1379035) was stamped paid (PK 367 dated 03/19/14) indicating the advance was paid. The check, however, was voided and is included as outstanding at September 30, 2014.
2. Of fifty subsequent disbursements tested totaling \$3,625,919, eighteen were not fully supported by an invoice, a statement or equivalent document.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-011, Continued

Condition, Continued:

<u>Check Date</u>	<u>Check No.</u>	<u>Check Amount</u>	<u>Unsupported Amount</u>
10/09/14	5380	\$ 60,858	\$ 60,858
10/22/14	5450	\$ 11,450	\$ 11,450
11/13/14	5495	\$ 66,259	\$ 66,259
11/20/14	5552	\$ 50,727	\$ 50,727
12/10/14	5591	\$ 66,544	\$ 66,544
12/22/14	5746	\$ 50,124	\$ 50,124
01/06/15	5836	\$ 49,840	\$ 49,840
01/16/15	5906	\$ 49,149	\$ 49,149
01/29/15	5964	\$ 71,292	\$ 71,292
02/09/15	6117	\$ 69,390	\$ 69,390
03/17/15	6290	\$ 70,046	\$ 70,046
03/19/15	6322	\$ 54,960	\$ 47,394
03/27/15	6392	\$ 66,773	\$ 66,773
04/13/15	6496	\$ 67,369	\$ 67,369
05/05/15	6621	\$ 53,109	\$ 53,109
02/06/15	150010	\$ 11,652	\$ 11,652
03/17/15	2472	\$ 12,188	\$ 12,188
01/09/15	150005	\$ 19,409	\$ 19,409

3. Accounts payable subledgers did not agree to the general ledger as follows:

<u>Fund</u>	<u>Per Subledger</u>	<u>Per General Ledger</u>	<u>Variance</u>
1075	\$ (16,820,574)	\$ (16,874,675)	\$ 54,101
1012	\$ (137,262)	\$ (127,116)	\$ (10,146)
2023	\$ (2,122,275)	\$ (3,031,741)	\$ 909,466

An explanation or reconciliation of the variance was not available.

4. At September 30, 2014, CHCC recorded accrued payroll of \$938,328. Estimated accrued payroll amounted to \$1,620,764 resulting in a difference of \$682,436. An explanation of the variance was not available.

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

Effect: The effect is the possible misstatement of expenses and liabilities.

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

Prior Year Status: The lack of appropriate cut-off procedures, reconciliation and controls to maintain files was reported in CHCC's audits for fiscal years 2012 and 2013.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-011, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Tina Flores, Accounts Payable Staff, Frances Pangelinan, Supervisor and Corazon P. Ada, Acting Chief Financial Officer

Corrective Action: CHCC accepts the findings, except as follows:

Condition 1(b):

For check no. 6111, during the audit, the auditor only requested for seven invoices/PO/RFP and a copy of the check. The total amount of the seven invoices is \$17,370. The total amount of the check is \$106,535; therefore, the finding as to unsupported amounts was not included on the request for testing and should not be cited.

Check no. 5472 amounting to \$21,891 indicated an unsupported amount of \$5,584. Supporting PV and other documents are available to eliminate this finding.

Condition 2:

Check nos. 5380, 5450, 5495, 5552, 5591, 5746, 5836, 5906, 5964, 6117, 6290, 6392, 6496, 6621 and 2472 are payments for employee allotments and, therefore, are not supported by any invoice or statement. For check nos. 150010, 150005 and 6290, invoices and supporting documents are available.

To fully address these findings, policies and procedures will be put in place.

Proposed Completion Date: September 30, 2015.

Auditor Response:

Condition 1(b):

Our request (see email to Frances Pangelinan on April 24, 2015) consisted of supporting documents for amounts selected for testing. The \$106,535 check was provided; however, the supporting documents were incomplete. Supporting PV and other documents for check no. 5472 were not available during fieldwork.

Condition 2:

Invoices and supporting documents for check nos. 150010, 150005 and 6290 were not available during fieldwork.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Due to Related Parties

Finding No. 2014-012

Criteria: Related party transactions should be recorded in the financial statements and be timely reconciled.

Condition: Tests of due to related parties noted the following:

1. At September 30, 2014, CHCC recorded \$3,236,787 for unpaid employer contributions related to its defined benefit plan. The amount confirmed by the CNMI was \$6,842,972 resulting in a difference of \$3,606,185. A reconciliation of the variance was not available.
2. At September 30, 2014, CHCC recorded a payable to the Commonwealth Utilities Corporation (CUC) and utilities expense of \$11,906,995 and \$6,342,186, respectively. CUC confirmed receivables and utility revenue from CHCC of \$13,049,921 and \$6,938,888 resulting in differences of \$1,142,926 and \$596,702, respectively. Of the \$1,142,926 difference, an audit adjustment of \$721,507 (excluding assessed penalties of \$1,864,433) was proposed to reconcile accounts payable to the amount confirmed by CUC. Management requested that adjusting entries to record the assessed penalties not be recorded at September 30, 2014 pending ongoing discussions with CUC management.
3. Public Law 3-91 was enacted on 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, 2014, based on CHCC's operational budget for fiscal year 2014, an audit adjustment of \$359,421 was proposed to record the 1% fee.

In addition, Public Law 18-18 (the Appropriations and Budget Authority Act of 2014) 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.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-012, Continued

Cause: The cause is the lack of recording related party transactions and timely reconciliation of account balances.

Effect: The effect is the misstatement of account balances.

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

Prior Year Status: The lack of recording related party transactions and reconciliation of account balances in a timely manner was reported in CHCC's audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

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

Corrective Action: CHCC fully accepts and agrees with the findings.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Withholding Taxes Payable

Finding No. 2014-013

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: At September 30, 2014, CHCC recorded Chapter 2 and Chapter 7 withholding taxes outstanding of \$2,015,079. The actual amount due per the employee withholding returns amounted to \$2,352,398. An audit adjustment was proposed to agree the outstanding balance to the amount reported on the withholding returns.

<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 2013	\$ 592,816	\$ 154,489	\$ 747,305	\$ -	\$ 747,305
Jan - Mar 2014	563,153	95,761	658,914	563,153	95,761
Apr - June 2014	635,796	136,338	772,134	-	772,134
Jul - Sept 2014	<u>681,101</u>	<u>56,095</u>	<u>737,196</u>	<u>-</u>	<u>737,196</u>
	<u>\$ 2,472,866</u>	<u>\$ 442,683</u>	<u>\$ 2,915,549</u>	<u>\$ 563,153</u>	2,352,396
				Per General Ledger	<u>2,015,079</u>
				Variance	<u>\$ 337,317</u>

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 quarter of fiscal year 2014.

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 assessment 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 audits for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Delia Johnson, Treasurer

Corrective Action: Employee withholding taxes are filed accordingly without remittance due to CHCC's cash flow situation. CHCC relies on the CNMI government allotments to pay for its taxes.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Social Security and Medicare Payments

Finding No. 2014-014

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 2014. The deposits (payments), however, were made between one and one hundred twenty-one days past scheduled deposit dates.

In addition, CHCC recorded a FICA liability of \$680,646 at September 30, 2014. The actual amount due at September 30, 2014 was \$457,642 resulting in a \$223,004 variance. Management did not consider the amount material to warrant an audit adjustment. Further, the total amount due and reported on the quarterly Form 941SS was \$75,885 more than the total amount paid.

Although payments were subsequently remitted, related interest and penalties could not be determined due to inconsistent payments and lack of information available.

Cause: The cause is the lack of policies and procedures for monitoring FICA reporting requirements and payments.

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

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 audits for fiscal years 2012 and 2013.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-014, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Delia Johnson, Treasurer

Corrective Action: Social Security and Medicare payments are not consistent and deposited timely due to CHCC's cash flow situation. Quarterly returns are filed without remittance of amounts due.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Local Noncompliance

Finding No. 2014-015

Criteria: In accordance with applicable local 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:

- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the Material Supply Office (MSO) Director for approval. Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.
- Advance payments shall be limited to not more than 25 percent of the contract price or an amount equivalent to a 60 day working capital requirement, whichever is lower. The official with expenditure authority demonstrates in writing that the common business practice of a particular industry requires buyers to pay on an advance payment basis. Such advance payment shall be limited to not more than 50 percent of the contract price. Pertinent documents supporting such business practice shall be attached to the written justification.

Condition: Of two hundred twenty-seven Federal Grants Fund nonpayroll expenditures tested, aggregating \$1,587,818, the following were noted:

1. For six (or 3%), bidding was not performed for procurement in excess of \$10,000 for the following:

<u>CFDA #</u>	<u>Business Unit</u>	<u>TA/Contract No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
93.074	H3074B	578582-OP	08/14/14	236110	\$ 11,250
93.074	H3074A	578480-OP	07/15/14	1189787	\$ 23,830
93.074	H3074A	578480-OP	09/22/14	236377	\$ 23,830
93.074	H3074A	576162-OP	09/22/14	236378	\$ 17,685
93.283	H32831	552846-OC	07/11/14	1189686	\$ 10,000
93.283	CH42830	575697-OP	05/13/14	1169764	\$ 9,900

2. For three (or 1%), advance payments were made to a vendor without written justification from the expenditure authority:

<u>CFDA #</u>	<u>Business Unit</u>	<u>Contract No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
93.116	H3116C	568706-OA	03/19/14	235040	\$ 2,400
93.116	CHH4116E	575978-OA	06/17/14	235702	\$ 9,177
93.283	CH42830	575697-OP	05/13/14	1169764	\$ 9,900

Federal noncompliance and questioned costs are not reported as the procedures met federal requirements.

Cause: The cause of the above condition is the failure to comply with applicable procurement regulations.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-015, Continued

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

Recommendation: We recommend that CHCC take reasonable steps to comply with applicable procurement regulations.

Auditee Response and Corrective Action Plan:

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

Corrective Action: Condition 1 states that bidding was not performed. The CNMI Procurement Regulation does not prohibit CHCC from using Emergency Procurement (Section 70-30.3-230) and Expedited Procurement (Section 70-30.3-235) accompanied by justification. CHCC has developed its own procurement rules and regulations and is in the process of promulgation.

For Condition 2, we fully acknowledge the finding; however, purchases consist of general medical supplies for three programs. These are supplies that our local vendors could not provide and therefore, we had no choice but to seek off-island vendors who required prepayments. We assume that documentation was provided since CHCC was not cited for not providing vendor documents requiring the prepayment. Procurement regulations allow prepayment of goods for off-island vendors.

Proposed Completion Date: Promulgation of CHCC's Procurement Regulations in progress.

Auditor Response: For Condition 1, the justification was not available during fieldwork.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-016
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Grant Number: 7NM700NM7
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Criteria: In accordance with applicable allowable costs/cost principles requirements, indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Additionally, the results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. The agreed upon rates shall be made available to all Federal agencies for their use.

Condition: At September 30, 2014, indirect costs of \$60,657 were charged to the program and recorded in the general ledger.

Cause: The cause of the above condition is the lack of an indirect cost rate agreement.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements. No questioned costs results as indirect costs charged were subsequently reversed.

Recommendation: We recommend that CHCC implement procedures to comply with allowable costs/cost principle requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Carmen Cabrera, WIC Program Administrator and Imelda Benavente, WIC Program Financial Manager

Corrective Action: We disagree with this finding as the CNMI WIC Program claimed zero indirect cost at FY 2014 closeout through final journal entry adjustments to credit all indirect cost initially claimed for FY 2014. Supporting documentation was provided to the auditor on 07/30/15.

Proposed Completion Date: Not applicable.

Auditor Response: The general ledger was not adjusted at September 30, 2014 to reflect the subsequent adjustment made.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-017
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
 Grant Number: 7NM700NM7
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$-0-

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Of three subsequent nonpayroll expenditures tested, aggregating \$167,341, of a total population of \$230,584, one (or 33%) was liquidated after ninety days from the budget end date. Grant extension documentation was not provided.

<u>Business Unit</u>	<u>Document No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Days Lapsed</u>	<u>Amount</u>
CHA4557F	1209082	01/22/15	Wire transfer	02/02/15	3	\$ 166,456

No questioned costs result as the applicable Federal funds were not received as of 09/30/14.

Cause: The cause of the above condition is the lack of established policies and procedures over the recording of expenditures incurred beyond the period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements.

Recommendation: We recommend that CHCC comply with period of availability requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Carmen Cabrera, WIC Program Administrator and Imelda Benavente, WIC Program Financial Manager

Corrective Action: We disagree with the finding related to the wire transfer of food funds to the WIC Program’s third party bank account for the redemption of WIC food benefits that was stated as liquidated after the ninety day period. This wire transfer is based on a final adjusting entry initiated by the WIC Program to adjust WIC Program food expenditures in the JDE financial management system to agree with actual food outlays that will be reported on the FY 2014 FNS 798A closeout report based on WIC Food Instruments (FIs) issued through September 30, 2014 and paid by our banking contractor through December 31, 2014. This adjusting entry was liquidated/expensed on 01/22/15 within the FY 2014 FNS extended liquidation deadline of 01/30/15. The WIC Program reports outlays based on expenditures “recognized” in the financial management *accrual* accounting system when the expenditure is recorded to the WIC food account expenditure ledger and not based on when the check cleared the bank.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-017, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants,
and Children
Grant Number: 7NM700NM7
Area: Period of Availability of Federal Funds
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Furthermore, the final debit adjusting entry was initiated for FI vouchers redeemed by our participants and already paid by our banking contractor as of the FY 2014 closeout cutoff date of 12/31/14 but not yet recorded to the WIC Program's food expenditure account in the JDE financial management system. The WIC Program's third party bank account is continuously funded to pay the daily redemption of WIC FIs through monthly food funds transfers estimated by the WIC Program to fund our account each four-week period. Supporting documentation was provided to the auditor on 07/30/15.

Proposed Completion Date: Not applicable.

Auditor Response: Payment was made on 02/02/15, which was three days after the extended liquidation period of 01/30/15.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-018
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
 Grant Number: 7NM700NM7
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$-0-

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.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented and submitted to the MSO Director for approval.
- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.

Condition: Of twenty-five nonpayroll disbursements tested aggregating \$195,089, of a total population of \$543,925, the following were noted:

1. For two (or 8%), less than three quotations were obtained.

<u>Business Unit</u>	<u>TA/Contract No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
CHA45570	570986-OA	62300	02/27/14	234866	\$ 6,723
A35570	556242-OA	62680	10/25/13	234001	<u>3,250</u>
					<u>\$ 9,973</u>

No questioned costs are presented as sole source procurement was utilized and selection was based on program software compatibility that was currently available. Although it was determined to be the least costly option, the condition is reportable as there was no attempt to obtain quotations.

2. For one (or 4%), competitive sealed proposals were used for contract no. 570807-OC without justification from the expenditure authority indicating why competitive sealed bidding was not used. No questioned costs result as full and open competition was obtained.

Cause: The cause of the above condition is the lack of compliance with established policies and procedures regarding compliance with procurement regulations.

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

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-018, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants,
and Children
Grant Number: 7NM700NM7
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

Recommendation: We recommend that CHCC take reasonable steps to comply with applicable procurement regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Carmen Cabrera, WIC Program Administrator and Imelda Benavente, WIC Program Financial Manager

Corrective Action:

Condition 1: For the finding related to document nos. 234866 and 234001, the WIC Program will ensure in future procurement of printed FI vouchers that quotations are solicited from other printing vendors to support that the vendor selected is the least costly option based on the ability to produce printed FIs compatible with data system requirements that has been tested through the system.

Condition 2: The WIC Program processed a competitive sealed proposal for the procurement of professional services for a lactation consultant rather than a competitive sealed bid based on the guidance provided by the Division of Procurement & Supply. The request for proposal was signed by the Director of Procurement & Supply prior to announcement. For future solicitations, the WIC Program will ensure that a justification from the expenditure authority is approved by the Director of Procurement & Supply for competitive sealed proposals.

Proposed Completion Date: Ongoing.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-019
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.074 Hospital Preparedness Program (HPP) and Public Health
 Emergency Preparedness (PHEP) Aligned Cooperative Agreements
 Grant Numbers: 5U90TP000540-02 and 5U90TP000540-02 Revised
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$4,743

Criteria: In accordance with OMB Circular A-87, costs must be adequately documented to be allowable under Federal awards.

Condition: Tests of major program expenditures noted the following:

1. Of fifteen payroll expenditures aggregating \$24,304, of a population of \$165,906, the following were noted:

a. For one (or 7%), the employee's timecard was not provided. We were not provided with documents supporting that the employee was working for the Program for the pay period selected.

<u>Employee No.</u>	<u>Payroll Period</u>	<u>Amount Paid</u>
448050	12/28/13	\$1,346

b. For one (or 7%), the employee was paid 4 hours in excess of the approved annual leave hours:

<u>Employee No.</u>	<u>Payroll Period</u>	<u>Per Approved Leave Form</u>	<u>Per Payroll Register</u>	<u>Questioned Costs</u>
251188	05/17/14	10 hours annual leave	14 hours annual leave	4 hours x \$13.75/hour = \$55

2. Of thirty-four nonpayroll expenditures, aggregating \$285,478, of a total population of \$553,321, two (or 6%) invoices and/or obligating documents were not provided.

<u>Business Unit</u>	<u>Object Account</u>	<u>Document No.</u>	<u>Document Type</u>	<u>General Ledger Date</u>	<u>P.O. Reference</u>	<u>Amount</u>
H3074B	62500	246460	BE	04/29/14	307590-OT	\$ 3,044
H3074A	62500	1151924	PV	10/02/13	304078-OT	298
Total						\$ <u>3,342</u>

Cause: The cause of the above condition is the lack of control over timely review and approval of personnel actions forms, review and approval of employee timecards and leave forms and the lack of systematic filing of underlying supporting documents.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$4,743 exist as projected questioned costs exceed the threshold of \$10,000.

Recommendation: We recommend that CHCC implement procedures to comply with allowable costs/cost principles requirements.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-019, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.074 Hospital Preparedness Program (HPP) and Public Health
Emergency Preparedness (PHEP) Aligned Cooperative Agreements
Grant Numbers: 5U90TP000540-02 and 5U90TP000540-02 Revised
Area: Allowable Costs/Cost Principles
Questioned Costs: \$4,743

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Warren Villagomez, Emergency Preparedness & Response Program Director and Corazon P. Ada, Acting Chief Financial Officer

Corrective Action: The Program accepts the findings, except for Condition 1. The supporting documents are available to dispute the findings. Employees have earned compensatory time for which payroll initiates adjustments that will definitely contradict the leave form. Such documents are available at the payroll unit.

Proposed Completion Date: Ongoing.

Auditor Response: For Condition 1, supporting documents were not available during fieldwork.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-020
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.074 Hospital Preparedness Program (HPP) and Public Health
 Emergency Preparedness (PHEP) Aligned Cooperative Agreements
 Grant Numbers: 5U90TP000540-02 and 5U90TP000540-02 Revised
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$49,913

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Tests of major program expenditures noted the following:

1. Of thirty-four nonpayroll expenditures tested, aggregating \$285,478, of a population of \$553,321, nine (or 26%) were liquidated after 90 days from the budget end date. Grant extension documentation was not provided.

<u>Business Unit</u>	<u>Document No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Cleared Date</u>	<u>Questioned Costs</u>
H3074A	1198934	09/19/14	Wire transfer	10/27/14	\$ 37,000
H3074A	1198208	09/15/14	1704	10/28/14	500
H3074A	1198845	09/19/14	1808	11/06/14	2,500
H3074B	1151994	10/03/13	Not paid yet	Not paid yet	2,705
H3074A	236377	09/22/14	1934	12/02/14	23,830
H3074A	236378	09/22/14	1811	10/30/14	17,685
H3074B	236372	09/19/14	1806	10/29/14	23,074
H3074A	1194383	08/14/14	1673	10/28/14	1,200
H3074A	1151924	10/02/13	Not paid yet	Not paid yet	298
					108,792
Less amounts already questioned at Finding No. 2014-21, Conditions 1 and 2					(62,779)
Total					\$ <u>46,013</u>

2. Of two subsequent nonpayroll expenditures tested, aggregating \$5,908, of a total population of \$6,228, one (or 50%) (document no. 237143) amounting to \$3,900 for 578474-OA was liquidated on 10/31/14, which is 31 days after the allowable liquidation period.

Cause: The cause of the above condition is the lack of established policies and procedures over the recording of expenditures incurred beyond the period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$49,913 exist for Conditions 1 and 2.

Recommendation: We recommend that CHCC comply with period of availability requirements.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-020, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.074 Hospital Preparedness Program (HPP) and Public Health
Emergency Preparedness (PHEP) Aligned Cooperative Agreements
Grant Numbers: 5U90TP000540-02 and 5U90TP000540-02 Revised
Area: Period of Availability of Federal Funds
Questioned Costs: \$49,913

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Warren Villagomez, Emergency Preparedness & Response Program Director and Corazon P. Ada, Acting Chief Financial Officer

Corrective Action:

CHCC accepts the findings, except as follows:

Conditions 1 and 2:

The processing of the PV was made during the 90-day liquidation period; however, the actual payment was made after due to the pending receipt of drawdown funds from the CNMI Department of Finance (DOF). CHCC processes and initiates the drawdown document, but the actual drawdown to PMS is still administered by DOF. Thus, the actual processing of payments can only occur upon the actual receipt of drawdown funds. CHCC accepts the recommendation.

Proposed Completion Date: Ongoing.

Auditor Response: Payment was made after the liquidation period.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-021
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.074 Hospital Preparedness Program (HPP) and Public Health
 Emergency Preparedness (PHEP) Aligned Cooperative Agreements
 Grant Numbers: 5U90TP000540-02 and 5U90TP000540-02 Revised
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$113,266

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.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented and submitted to the MSO Director for approval.
- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.
- Any lease or purchase of machinery and equipment in excess of \$2,500 shall be procured through competitive sealed bidding or other applicable provisions of the regulations.
- For any sole source procurement, a written justification for sole source procurement shall be prepared by the official with expenditure authority and shall contain the specific unique capabilities required; the specific unique capabilities of the contractor; the efforts made to obtain competition; and the specific considerations given to alternative sources and specific reasons why alternative sources were not selected.

Condition: Of thirty-four nonpayroll expenditures tested, totaling \$285,478, the following were noted:

1. For eleven (or 32%), less than three quotations were obtained:

Business Unit	TA/ Contract No.	Object	General Ledqer Date	Document No.	Questioned Costs
H3074A	578581-OP	62250	07/29/14	1192619	\$ 3,556
H3074B	576375-OP	62250	05/20/14	1170329	3,459
H3074B	578580-OP	62250	07/29/14	1192617	2,636
H3074A	304373-OT	62500	10/07/13	1152351	3,874
H3074B	304243-OT	62500	10/03/13	1151994	2,705
H3074B	305295-OT	62500	11/20/13	1155654	3,498
H3074B	307590-OT	62500	04/29/14	246460	840
H3074B	577337-OP	64570	08/14/14	236102	4,335
H3074B	570198-OP	62250	01/06/14	1158761	3,128
H3074B	576375-OP	62250	05/20/14	1170332	4,118
H3074B	578580-OP	62250	07/29/14	1192614	3,883
					36,032

Less amount already questioned at Finding No. 2014-019, Condition 2 for document no. 246460, portion of the \$3,044 amount

(840)

\$ 35,192

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-021, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.074 Hospital Preparedness Program (HPP) and Public Health
 Emergency Preparedness (PHEP) Aligned Cooperative Agreements
 Grant Numbers: 5U90TP000540-02 and 5U90TP000540-02 Revised
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$113,266

Condition, Continued:

2. Three (or 12%) were procured through sole source but did not list the unique capabilities of the vendor selected.

<u>Business Unit</u>	<u>TA/ Contract No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
H3074A	562433-OC C/O #1	62060	08/20/14	248784	\$ 18,000
H3074A	562433-OC	62060	09/19/14	1198934	37,000
H3074B	576882-OP	64570	09/19/14	236372	<u>23,074</u>
					<u>\$ 78,074</u>

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding compliance with procurement regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$113,266 exist.

Recommendation: We recommend that CHCC take reasonable steps to comply with applicable procurement regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Warren Villagomez, Emergency Preparedness & Response Program Director and Corazon P. Ada, Acting Chief Financial Officer

Corrective Action: The HPP and PHEP Programs fully dispute the findings of noncompliance of procurement regulations.

Condition 1 has a series of POs that were procured based on capabilities and quality of services that vendors can provide. For instance, one vendor was selected based on performance and ability to provide secure and redundant communication that is required by the Program that other carriers cannot provide. Other vendors identified were procured through sole source that were fully justified. Supporting documents are available.

Proposed Completion Date: CHCC will implement its own Procurement Regulations on or before September 30, 2015.

Auditor Response: CNMI Procurement Regulations state that at least three price quotations must be obtained for small purchases of \$2,500 and under \$10,000. Further, selection should be based on competitive price and quality. There was no evidence on file to document consideration given to alternative sources.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-022
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.074 Hospital Preparedness Program (HPP) and Public Health
 Emergency Preparedness (PHEP) Aligned Cooperative Agreements
 Grant Numbers: 5U90TP000540-02 and 5U90TP000540-02 Revised
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance with OMB Circular A-133 Compliance Supplement, the program is required to submit an SF-425, Federal Financial Report for cash status.

Condition: Based on total expenditures reported to the grantor for the reporting period ended June 30, 2014, we noted the following variances:

Report Details	Business Unit No. H3074A			Business Unit No. H3074B		
	Per SF425	Per GL	Variance	Per SF425	Per GL	Variance
Federal Cash:						
10a. Cash Receipts	\$ 348,015	\$ 96,301	\$ 251,714	\$ 457,857	\$ 334,274	\$ 123,583
10b. Cash Disbursements	\$ 350,022	\$ 121,134	\$ 228,888	\$ 457,074	\$ 356,108	\$ 100,966
10c. Cash on Hand	\$ (2,007)	\$ (24,833)	\$ 22,826	\$ 783	\$ (21,834)	\$ 22,617
Federal Expenditures and Unobligated Balance:						
10e. Federal Share of Expenditures	\$ 350,022	\$ 121,134	\$ 228,888	\$ 457,074	\$ 356,108	\$ 100,966
10f. Federal Share of Unliquidated Obligations	\$ 95,175	\$ 324,063	\$ (228,888)	\$ 44,488	\$ 145,454	\$ (100,966)
11f. Federal Share Indirect Expense	\$ 10,651	\$ 12,529	\$ (1,878)	\$ 10,651	\$ -	\$ 10,651

Cause: The cause of the above condition is the lack of controls over compliance with reporting requirements.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. The funds drawn down, however, correspond with expenditures recorded in the general ledger; therefore, no questioned costs result from this condition.

Recommendation: We recommend that steps be taken to determine that information reported to the grantor is based on actual financial records.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Warren Villagomez, Emergency Preparedness & Response Program Director and Corazon P. Ada, Acting Chief Financial Officer

Corrective Action: The Program accepts the finding; however, any variances on SF-425 are always rectified between the grantee and the grantor. Otherwise, restrictions or suspension of funding will be imposed if not rectified.

Proposed Completion Date: N/A

Auditor Response: Expenditures recorded in the general ledger should be the basis for expenditures reported on the SF-425.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-023
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
 Grant Numbers: 5U52PS907906-21, 1U52PS004100-01 and 5U52PS004100-02
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$22,834

Criteria: In accordance with applicable allowable costs/cost principles requirements, costs must be supported by underlying accounting records. Additionally, in accordance with the Federal Insurance Contributions Act (FICA) tax, 6.2 percent of gross compensation is imposed on employers for fiscal year 2014.

Condition: Tests of major program expenditures noted the following:

1. Tests of FICA contributions noted a variance between amounts recorded against our audit expectation.

FICA rate	6.2%
Expected FICA contributions	\$ 9,592
Per general ledger	<u>14,639</u>
Excess of FICA cost charged over expected amount	\$ <u>5,047</u>

2. Of twenty-six nonpayroll expenditures tested, aggregating \$161,555, of a population of \$323,467, three (or 12%) journal vouchers were not provided:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Document Type</u>	<u>Amount</u>
H3116B	12/27/13	243530	JE	\$ 2,036
H3116C	12/27/13	243532	JE	1,860
H3116E	12/27/13	243531	JE	<u>13,891</u>
			Total	\$ <u>17,787</u>

Cause: The cause of the above condition is the lack of monitoring FICA contributions and the lack of systematic filing of underlying documents.

Effect: The effect of the above condition is the risk of invalid/unauthorized expenses and questioned costs of \$22,834.

Recommendation: We recommend that FICA contributions be reviewed for veracity and that underlying supporting documents are properly filed and maintained.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-023, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
Grant Numbers: 5U52PS907906-21, 1U52PS004100-01 and 5U52PS004100-02
Area: Allowable Costs/Cost Principles
Questioned Costs: \$22,834

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Dr. Daniel Lamar, Public Health Medical Director and Marcy Rabauliman, Tuberculosis Program Coordinator

Corrective Action:

CHCC accepts the findings, except as follows:

Condition 2:

Supporting journal vouchers are available.

Proposed Completion Date: August 14, 2015

Auditor Response: Supporting journal vouchers were not available during fieldwork.

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COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-024
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
 Grant Numbers: 5U52PS907906-21 and 1U52PS004100-01
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$22,952

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Tests of grant awards and nonpayroll expenditures noted the following:

1. Of three grant awards tested, aggregating \$702,876, of a total population of \$2,333,592, two (grant nos. 5U52PS907906-21 and 1U52PS004100-01) (or 67%) included amounts liquidated after 90 days from the grant expiration date of 12/31/13. Grant extension documentation was not provided.

<u>Business Unit</u>	<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Questioned Costs</u>
H2116A	1161584	02/06/14	558	04/24/14	\$ 170
H2116A	1161582	02/06/14	553	04/24/14	324
H2116A	1162769	02/20/14	553	04/24/14	137
H2116A	234791	02/14/14	558	04/24/14	1,628
H2116A	234791	02/14/14	558	04/24/14	365
H2116A	234896	03/03/14	558	04/24/14	4,298
H2116A	234896	03/03/14	558	04/24/14	85
H2116A	234896	03/03/14	558	04/24/14	120
H3116B	1165039	03/19/14	575	04/24/14	66
H3116B	1165788	03/28/14	534	04/21/14	420
H3116B	1165804	03/28/14	534	04/21/14	424
H3116B	1165805	03/28/14	534	04/21/14	108
H3116B	1165807	03/28/14	534	04/21/14	87
H3116B	1165809	03/28/14	534	04/21/14	41
H3116B	1165810	03/28/14	534	04/21/14	251
H3116B	1165811	03/28/14	534	04/21/14	42
H3116B	1161887	02/11/14	545	04/24/14	509
H3116B	1161889	02/11/14	609	04/24/14	170
H3116B	1161890	02/11/14	609	04/24/14	40
H3116B	1163463	03/03/14	609	04/24/14	290
H3116B	1161468	02/05/14	619	04/25/14	744
H3116B	1161468	02/05/14	619	04/25/14	145
H3116B	1171065	05/28/14	915	06/02/14	1,187
H3116B	1171065	05/28/14	915	06/02/14	30
H3116B	1163465	03/03/14	546	04/24/14	193
H3116B	1164138	03/07/14	682	05/05/14	237
H3116B	1164141	03/07/14	549	04/24/14	57
H3116B	1164142	03/07/14	682	05/05/14	179
H3116C	235041	03/19/14	482	04/03/14	271
H3116C	1165503	03/26/14	558	04/24/14	1,000
H3116C	1165730	03/27/14	498	04/10/14	276
H3116C	1165734	03/27/14	498	04/10/14	287
H3116C	1164652	03/17/14	691	05/05/14	561
H3116C	1164653	03/17/14	691	05/05/14	656
H3116C	1164654	03/17/14	691	05/05/14	283
H3116E	1164647	03/17/14	553	04/24/14	77
H3116E	1164649	03/17/14	553	04/24/14	248
H3116E	1164650	03/17/14	691	05/05/14	441

\$ 16,447

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-024, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
 Grant Numbers: 5U52PS907906-21 and 1U52PS004100-01
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$22,952

Condition, Continued

2. Of twenty-six nonpayroll expenditures tested, aggregating \$161,555, of a total population of \$323,467, five (or 19%) were liquidated after 90 days from the grant expiration date of 12/31/13. Grant extension documentation was not provided.

<u>Business Unit</u>	<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>
H3116B	1157781	12/19/13	915	06/02/14	\$ 1,188
H3116B	1164138	03/07/14	682	05/05/14	237
H3116F	1164655	03/17/14	691	05/05/14	782
H2116A	234791	02/14/14	558	04/24/14	1,628
H2116A	234896	03/03/14	558	04/24/14	4,298
					8,133
Less amount already questioned at Condition 1 above for PV no. 234791					(1,628)
Total					\$ <u>6,505</u>

Cause: The cause of the above condition is the lack of established policies and procedures over recording expenditures incurred beyond the period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$22,952 exist.

Recommendation: We recommend that CHCC comply with period of availability requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Dr. Daniel Lamar, Public Health Medical Director and Marcy Rabauliman, Tuberculosis Program Coordinator

Corrective Action: Great care is taken to record expenditures in the proper fiscal period to ensure that expenditures are recognized when they occur. Expenditures are recorded and included in the federal financial reports within the proper periods.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-025
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
Grant Numbers: 5U52PS907906-21 and 1U52PS004100-01
Area: Procurement and Suspension and Debarment
Questioned Costs: \$4,845

Criteria: In accordance with applicable local procurement regulations, bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the Procurement and Supply (P&S) Director for approval.

Condition: Of twenty-six expenditures tested, totaling \$161,555, of a population of \$323,467, price quotations for one (or 4%) were not obtained which qualify under small purchase procedures.

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Contract Number</u>	<u>Questioned Costs</u>
H2116A	12/17/13	1157471	568704-OP	\$4,845

Cause: The cause of the above condition is a failure to comply with applicable procurement regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations, and questioned costs of \$4,845 exist since projected questioned costs exceed \$10,000.

Recommendation: We recommend that CHCC take reasonable steps to comply with applicable procurement regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Dr. Daniel Lamar, Public Health Medical Director and Marcy Rabauliman, Tuberculosis Program Coordinator

Corrective Action: The Program accepts the finding. CHCC Procurement Regulations will eventually be promulgated.

Proposed Completion Date: On or before September 30, 2015.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-026
Federal Agency: U.S. Department of Health and Human Services
CFDA Programs: 93.224 Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
Grant Numbers: 6 H80CS24104-02-03
Area: Allowable Costs/Cost Principles
Questioned Costs: \$24,189

Criteria: In accordance with applicable allowable costs/cost principles requirements, indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Additionally, the results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. The agreed upon rates shall be made available to all Federal agencies for their use.

Condition: Tests of indirect costs noted no written agreement or prior year agreement or other documentation to substantiate the rate that was used.

<u>Business Unit</u>	<u>Object No.</u>	<u>Amount</u>
H3224A	62790	\$ 24,189

Cause: The cause of the above condition is the untimely filing of the indirect cost rate agreement.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$24,189 exist.

Recommendation: We recommend that CHCC implement procedures to comply with allowable costs/cost principles requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Vince Castro, Executive Director, Kagman Healthcenter

Corrective Action: At the time of the award, Kagman Community Health Center used the prevailing CNMI indirect cost rate approved by the grantor. Furthermore, the CNMI Department of Finance prepares the pooling of such costs for which our grantor approves and recognizes during our close-out reporting.

Proposed Completion Date: N/A

Auditor Response: The agreement or other documentation to support the rate used was not provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-027
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Programs: 93.224 Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
 Grant Numbers: 6 H80CS24104-02-03 and 6 H80CS24104-03-03
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$23,592

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:

- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the MSO Director for approval.

Condition: Of twenty-five nonpayroll expenditures tested, aggregating \$87,590, of a total population of \$229,551, the following were noted:

- For four (or 16%), less than three quotations were obtained:

<u>Business Unit</u>	<u>TA/ Contract No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
H3224A	570529-OP	62060	01/17/14	1159806	\$ 8,000
H3224A	572763-OP	63120	04/21/14	235245	5,304
H3224A	568106-OP	64520	11/26/13	1156093	4,220
H3224A	572762-OP	64540	02/25/14	234863	<u>5,725</u>
					\$ <u>23,249</u>

- For one (4%), of the three quotations received, the lowest quotation was not selected for 572006-OP, document no. 1161187 dated 02/14/14 for \$1,386. The difference between the lowest and highest quoted amount is \$343.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding compliance with procurement regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$23,592 exist.

Recommendation: We recommend that CHCC take reasonable steps to comply with applicable procurement regulations.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-027, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Programs: 93.224 Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
Grant Numbers: 6 H80CS24104-02-03 and 6 H80CS24104-03-03
Area: Procurement and Suspension and Debarment
Questioned Costs: \$23,592

Auditee Response and Corrective Action Plan:

Name of Contact Person: Vince Castro, Executive Director, Kagman Healthcenter

Corrective Action:

CHCC disagrees with the findings as follows:

Condition 1:

Supporting documents (three quotations) are available for review.

Condition 2:

The lowest quotation was not selected as the deductible amounts were more on option 1.

Proposed Completion Date: August 14, 2015.

Auditor Response: For Condition 1, supporting documents (three quotations) were not available during fieldwork.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-028
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Programs: 93.224 Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
 Grant Numbers: 6 H80CS24104-02-03 and 6H80CS24104-03-03
 Area: Program Income
 Questioned Costs: \$51,068

Criteria: In accordance with applicable program income requirements, the program is required to record all program income received.

Condition: Of nine items aggregating 309,281, of a total population of 314,848, the following deposits could not be traced to the general ledger:

<u>Transaction Date</u>	<u>Account</u>	<u>Object</u>	<u>Description</u>	<u>Receipt No.</u>	<u>Questioned Costs</u>
01/27/14	1872A	44575	R/A payments for several claims	2841324	\$ 22,486
02/07/14	1872A	44530	Payment	2850607	28,572
07/19/14	1872A	44530	O/V (CPT 99202) Aetna Insurance	2912642	10
Total					\$ <u>51,068</u>

Cause: The cause of the above condition is the lack of controls over compliance with program income requirements.

Effect: The effect of the above condition is noncompliance with applicable program income requirements and questioned costs of \$51,068 exist.

Recommendation: We recommend that the Program take reasonable steps to ensure controls are working effectively to comply with applicable regulations

Auditee Response and Corrective Action Plan:

Name of Contact Person: Vince Castro, Executive Director, Kagman Healthcenter

Corrective Action: We agree with the finding and will perform due diligence to ensure proper controls are established to comply with program requirements.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-029
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Programs: 93.224 Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
 Grant Numbers: 6 H80CS24104-02-03
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance with OMB Circular A-133 Compliance Supplement, the program is required to submit an SF-425, Federal Financial Report for cash status.

Condition: Based on total expenditures reported to the grantor for the reporting period ended April 30, 2014, we noted the following variances:

Report Details	Business Unit No. H3224A		
	Per SF425	Per GL	Variance
Federal Cash:			
10a. Cash Receipts	\$ 1,144,837	\$ 491,019	\$ 653,818
10b. Cash Disbursements	\$ 1,144,837	\$ 648,373	\$ 496,464
10c. Cash on Hand	\$ -	\$ (157,354)	\$ 157,354
Federal Expenditures and Unobligated Balance:			
10d. Total Federal Funds Authorized	\$ 1,159,435	\$ 756,750	\$ 402,685
10e. Federal Share of Expenditures	\$ 1,144,837	\$ 648,373	\$ 496,464
10g. Total Federal Share	\$ 1,144,837	\$ 648,373	\$ 496,464
10h. Unobligated balance of Federal Funds	\$ 14,598	\$ 108,377	\$ (93,779)
10l. Total Federal Program Income Earned	\$ 176,213	\$ 124,292	\$ 51,921
10n. Program income expended in accordance with the addition alternative	\$ 176,213	\$ 124,292	\$ 51,921

In addition, indirect costs of \$24,189 was also reported on SF-425, however, we were not able to verify the amount charged as the indirect cost rate agreement was not provided.

Cause: The cause of the above condition is the lack of controls over compliance with reporting requirement and untimely filing of the indirect rate cost agreement.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. No questioned costs result from this condition as the funds drawn down correspond with expenditures recorded in the general ledger and the amount related to indirect costs is already questioned at Finding No. 2014-026.

Recommendation: We recommend that steps be taken to determine that information reported to the grantor is based on actual financial records.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Vince Castro, Executive Director, Kagman Healthcenter

Corrective Action: The basis of the indirect cost rate approved between the grantor and the grantee is available.

Proposed Completion Date: N/A

Auditor Response: The basis of the indirect cost rate approved between the grantor and the grantee was not available during fieldwork.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-030
Federal Agency: U.S. Department of Health and Human Services
CFDA Programs: 93.224 Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
Grant Numbers: 6 H80CS24104-02-03 and 6 H80CS24104-03-03
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: In accordance with applicable special tests and provisions requirements, unless a requirement for a governing board is waived by HRSA or the center is operated by an Indian tribe or tribal or Indian organization under the Indian Self-Determination Act or an urban Indian organization under the Indian Health Care Improvement Act, the health center must have a governing board that (1) is composed of individuals, a majority of whom are being served by the center and who, as a group, represent the individuals being served by the center; (2) meets at least once a month; (3) selects the services to be provided by the center; (4) schedules the hours during which services will be provided by the center; (5) approves the center's annual budget; (6) approves the selection of a director for the center; and (7) except in the case of a public center, establishes general policies for the center (42 USC 254b(k)(3)(H)).

Condition: The Program failed to comply with the monthly meeting requirement as meetings for December 2013 and January 2014 were cancelled.

Cause: The cause of the above condition is failure to adhere to special tests and provisions.

Effect: The effect of the above condition is noncompliance with special tests and provisions. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Recommendation: We recommend CHCC implement procedures to comply with special tests and provisions requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Vince Castro, Executive Director, Kagman Healthcenter

Corrective Action: The Program in-charge did not provide an explanation to the finding.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-031
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.243 Substance Abuse and Mental Health Services_Projects of
 Regional and National Significance
 Grant Numbers: 5U79SP015621-05 and IU79SP018658-01
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$6,987

Criteria: Personnel expense should be supported by an authorized notification of personnel action, signed timecards, approved leave/overtime forms and approved timesheets with relevant supporting documents filed and maintained. Additionally, in accordance with the Federal Insurance Contributions Act (FICA) tax, 6.2 percent of gross compensation is imposed on employer for fiscal year 2014.

Further, in accordance with applicable allowable costs/cost principles requirements, indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Additionally, the results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. The agreed upon rates shall be made available to all Federal agencies for their use.

Condition: Tests of major program expenditures noted the following:

1. Tests of FICA contributions noted a variance between amounts recorded against audit expectation.

FICA rate	6.2%
Expected FICA contributions	\$ 11,082
Per general ledger	<u>16,038</u>
Excess of FICA cost charged over expected amount	\$ <u>4,956</u>

2. Tests of indirect costs noted that an applied for indirect cost rate had no written agreement or other documentation to substantiate the rate that was used.

<u>Business Unit</u>	<u>Object No.</u>	<u>Amount</u>
H12431	62790	\$ 2,031

Cause: The cause of the above condition is the lack of review and monitoring of FICA contributions and systematic filing of the indirect cost rate agreement.

Effect: The effect of the above condition is the risk of invalid/unauthorized expenses, noncompliance with allowable costs/cost principles requirements and questioned costs of \$6,987 exist as the projected questioned costs exceed the threshold of \$10,000.

Recommendation: We recommend that FICA contributions be reviewed for veracity and the indirect cost rate agreement be properly filed and maintained.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-031, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.243 Substance Abuse and Mental Health Services_Projects of
Regional and National Significance
Grant Numbers: 5U79SP015621-05 and IU79SP018658-01
Area: Allowable Costs/Cost Principles
Questioned Costs: \$6,987

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jesse Aguon, Data Manager and Tiara Evangelista,
Prevention Services Manager

Corrective Action: The Program accepts the findings and will coordinate with HRO and Payroll as to the process and calculation of FICA. However, we wish to dispute Condition 2 as the basis for indirect cost was from the CNMI Government negotiated rate. The Program, prior to transition of all federal accounts to CHCC, relied on the CNMI Government's negotiated rates.

Proposed Completion Date: N/A

Auditor Response:

Condition 2:

The agreement or other documentation to support the rate used was not provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-032
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.243 Substance Abuse and Mental Health Services_Projects of Regional and National Significance
 Grant Numbers: 1U79SP018658-01 and 5HR1SM059996-03
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$17,998

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Tests of major program expenditures noted the following:

1. Of three grant awards tested, aggregating \$873,118, of a total population of \$3,084,108, two (grant nos.1U79SP018658-01 and 5HR1SM059996-03) (or 67%) included amounts liquidated after 90 days from the grant expiration date of 08/31/13 and 09/29/13, respectively. Grant extension documentation was not provided.

<u>Business Unit</u>	<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>
H12431	1155827	11/25/13	3869	12/23/13	\$ 225
H12431	1155828	11/25/13	16	01/17/14	130
H12431	1151965	10/02/13	3760	12/19/13	2,499
H12431	1154339	10/30/13	3918	12/24/13	71
H12431	1153861	10/22/13	3746	12/19/13	2,400
H12431	233951	10/17/13	37	01/17/14	1,373
H3243A	1157764	12/19/13	867	05/23/14	<u>5,650</u>
					\$ <u>12,348</u>

2. Of twenty-nine nonpayroll expenditures tested, aggregating \$409,637, of a total population of \$578,603, one (or 3%) was liquidated after 90 days from the grant expiration date of 09/29/13. Grant extension documentation was not provided.

<u>Business Unit</u>	<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>
H3243A	1157764	12/19/13	867	05/23/14	\$ 5,650

Cause: The cause of the above condition is the lack of established policies and procedures over the recording of expenditures incurred beyond the period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$17,998 exist.

Recommendation: We recommend that CHCC comply with period of availability requirements.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-032, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.243 Substance Abuse and Mental Health Services_Projects of
Regional and National Significance
Grant Numbers: 1U79SP018658-01 and 5HR1SM059996-03
Area: Period of Availability of Federal Funds
Questioned Costs: \$17,998

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jesse Aguon, Data Manager and Tiara Evangelista,
Prevention Services Manager

Corrective Action: Great care is taken to record expenditures in the proper fiscal period to ensure that expenditures are recognized when they occur. Expenditures are recorded and included in the federal financial reports within the proper periods.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-033
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.243 Substance Abuse and Mental Health Services_Projects of
Regional and National Significance
Grant Numbers: 5U79SP015621-05
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with 2 CFR Chapter 1, Part 170, *Reporting Sub-Award and Executive Compensation Information*, prime awardees awarded a federal grant are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than \$25,000. The reporting requirements are as follows:

- This requirement is for both mandatory and discretionary grants awarded on or after October 1, 2010.
- All sub-award information must be reported by the prime awardee.
- For those new Federal grants as of October 1, 2010, if the initial award is equal to or over \$25,000, reporting of sub-award and executive compensation data is required.
- If the initial award is below \$25,000 but subsequent grant modifications result in a total award equal to or over \$25,000, the award will be subject to the reporting requirements, as of the date the award exceeds \$25,000.
- If the initial award equals or exceeds \$25,000 but funding is subsequently de-obligated such that the total award amount falls below \$25,000, the award continues to be subject to the reporting requirements of the Transparency Act and this Guidance.

Condition: CHCC did not perform the required subaward reporting under the Transparency Act for the following subrecipients:

<u>Subrecipient</u>	<u>Award Amount</u>
DPS: DARE	\$ 75,000
Marianas Interscholastic Sports Organization	\$ 40,000
Natibu Sports Association	\$ 50,000
Talaabwogh Star Association	\$ 60,000
Bridge Project	\$ 54,000
Typhoon Sports Association	\$ 36,000

Cause: The cause of the above condition is the lack of awareness of the required sub-award reporting under the Transparency Act.

Effect: The effect of the above condition is noncompliance with the subaward reporting requirements under the Transparency Act. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-033, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.243 Substance Abuse and Mental Health Services_Projects of
Regional and National Significance
Grant Numbers: 5U79SP015621-05
Area: Reporting
Questioned Costs: \$-0-

Recommendation: We recommend that CHCC comply with the subaward reporting requirements under the Transparency Act.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jesse Aguon, Data Manager and Tiara Evangelista, Prevention Services Manager

Corrective Action: The Program accepts the findings and acknowledges the recommendations.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-034
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.268 Immunization Cooperative Agreements
 Grant Numbers: 1H23IP000736-01 Revised and 5H2IP000736-02 Revised
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$10,500

Criteria: In accordance with OMB Circular A-87, costs must be adequately documented to be allowable under Federal awards.

Condition: Of thirty-four nonpayroll expenditures, aggregating \$203,073, of a total population of \$436,078, the following were noted:

1. For two (or 6%), invoices or another cost basis was not provided.

<u>Business Unit</u>	<u>Object Account</u>	<u>Document No.</u>	<u>Document Type</u>	<u>General Ledger Date</u>	<u>P.O. Reference</u>	<u>Amount</u>
CHH42681	62710	246678	JE	05/16/14	N/A	\$ 8,000
H32681	63070	235100	OV	03/27/14	570676-OA	<u>1,800</u>
						9,800
						<u>(1,800)</u>
						Less amount already questioned at Finding No. 2014-036, Condition 2 for document no. 235100
						Total
						\$ <u>8,000</u>

2. For one (or 3%), other vehicles in addition to the Program charged fuel expenses under 570598-OP. We could not quantify the amount of fuel charged to the purchase order that related to non-Program vehicles. As a result, questioned costs of \$2,500 exist due to our inability to verify the amount that should have been charged to the Program.

Cause: The cause of the above condition is the lack of systematic filing of underlying supporting documents.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$10,500 exist.

Recommendation: We recommend that CHCC implement procedures to comply with allowable costs/cost principles requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jeremy Sasamoto, Vaccines for Children Immunization Program Manager

Corrective Action:

The Program accepts the findings, except for Condition 1. A copy of the billing statement as supporting document is available.

Proposed Completion Date: N/A

Auditor Response: A copy of the billing statement as supporting document was not available during fieldwork.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-035
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.268 Immunization Cooperative Agreements
 Grant Numbers: 1H23IP000736-01 Revised
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$157,120

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Of thirty-four nonpayroll expenditures tested, aggregating \$203,073, of a total population of \$436,078, twenty (or 59%) were liquidated after 90 days from the budget end date. Grant extension documentation was not provided.

<u>Business Unit</u>	<u>Document No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Cleared Date</u>	<u>Days Lapsed</u>	<u>Amount</u>
H32681	1164501	03/13/14	576	05/15/14	45	\$ 49,250
H32681	1163888	03/05/14	617	05/14/14	44	7,950
H32681	1164540	03/13/14	484	04/04/14	4	1,250
H32681	1165715	03/27/14	673	05/13/14	43	9,000
H32681	1165716	03/27/14	673	05/13/14	43	9,500
H32681	1165717	03/27/14	673	05/13/14	43	9,500
H32681	1165718	03/27/14	673	05/13/14	43	9,500
H32681	1153594	10/18/13	3938	09/30/14	183	199
H32681	1152983	10/15/13	4723	06/12/14	73	131
H32681	234688	02/04/14	418	04/01/14	1	2,182
H32681	234689	02/04/14	418	04/01/14	1	4,034
H32681	1165865	03/28/14	553	04/29/14	29	1,949
H32681	234573	01/17/14	434	04/01/14	1	7,677
H32681	234613	01/24/14	558	04/29/14	29	6,240
H32681	234686	02/03/14	558	04/29/14	29	8,140
H32681	235035	03/18/14	415	04/15/14	15	1,564
H32681	235081	03/25/14	558	04/26/14	26	4,096
H32681	235082	03/25/14	557	04/25/14	25	12,100
H32681	234810	02/18/14	548	05/12/14	42	13,512
H32681	234811	02/18/14	548	05/12/14	42	13,512
						171,286
Less amounts already questioned at Finding No. 2014-036, Conditions 1 and 3 for document nos. 1163888, 234688 and 234689						(14,166)
						<u>\$ 157,120</u>

Cause: The cause of the above condition is the lack of established policies and procedures over the recording of expenditures incurred beyond the period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$157,120 exist.

Recommendation: We recommend that the CHCC comply with period of availability requirements.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-035, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Grant Numbers: 1H23IP000736-01 Revised
Area: Period of Availability of Federal Funds
Questioned Costs: \$157,120

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jeremy Sasamoto, Vaccines for Children Immunization Program Manager

Corrective Action: Great care is taken to record expenditures in the proper fiscal period to ensure that expenditures are recognized when they occur. Expenditures are recorded and included in the federal financial reports within the proper periods.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-036
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.268 Immunization Cooperative Agreements
 Grant Numbers: 1H23IP000736-01 Revised and 5H2IP000736-02 Revised
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$15,966

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.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the MSO Director for approval.
- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.
- Any lease or purchase of machinery and equipment in excess of \$2,500 shall be procured through competitive sealed bidding or other applicable provisions of the regulations.
- For any sole source procurement, a written justification for sole source procurement shall be prepared by the official with expenditure authority and shall contain the specific unique capabilities required; the specific unique capabilities of the contractor; the efforts made to obtain competition; and the specific considerations given to alternative sources and specific reasons why alternative sources were not selected.

Condition: Of thirty-four expenditures tested, aggregating \$203,073 of a total population of \$436,078, we noted the following:

1. For one (or 3%), less than three quotations were obtained:

<u>Business Unit</u>	<u>TA/Contract No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
H32681	570662-OP	62080	03/05/14	1163888	\$ 7,950

2. For one (or 3%), procurement occurred through sole source but did not evidence an attempt to consider other vendors.

<u>Business Unit</u>	<u>TA/Contract No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
H32681	570676-OA	63070	03/27/14	235100	\$ 1,800

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-036, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.268 Immunization Cooperative Agreements
 Grant Numbers: 1H23IP000736-01 Revised and 5H2IP000736-02 Revised
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$15,966

Condition, Continued:

3. For two (or 6%), procurement through small purchases was not uniform. As a result, full and open competition was not evident. Further, it appears that the expenditure was artificially divided to constitute a small purchase.

<u>Business Unit</u>	<u>TA/Contract No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
H32681	570668-OP	63050	02/04/14	234688	\$ 2,182
H32681	570669-OP	63050	02/04/14	234689	<u>4,034</u>
					\$ <u>6,216</u>

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding compliance with procurement regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$15,966 exist.

Recommendation: We recommend that CHCC take reasonable steps to comply with applicable procurement regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jeremy Sasamoto, Vaccines for Children Immunization Program Manager

Corrective Action: The Program accepts the findings and is currently complying with procurement regulations. We are not totally ignoring nor ignorant to the procurement process but several factors contribute to sole source procurement which are processed with justification and/or supported by three quotations. One PO through a vendor was identified as sole source as the vendor was the only authorized provider in the Pacific. This vendor is the island's only source for radio device and redundant communication, vertically and horizontally. Additionally, CNMI Procurement Rules and Regulations have set conditions for sole source procurement and are adhered to by CHCC.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-037
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Grant Numbers: 1H23IP000736-01 Revised and 5H2IP000736-02 Revised
Area: Program Income
Questioned Costs: \$-0-

Criteria: In accordance with applicable program income requirements, grantees providing direct immunization services may generate program income from fees or donations. Any program income generated under this cooperative agreement will be used in accordance with the additional cost alternative (used for costs that are in addition to the allowable costs of the project for any purposes that further the objectives of the legislation under which the cooperative agreement was made). The disposition of program income must have written prior approval from the Grants Management Officer.

Condition: The program charges administration fees for direct immunization services but does not utilize the generated program income.

Cause: The cause of the above condition is the lack of adherence with program income requirements.

Effect: The effect is noncompliance with program income requirements. No questioned cost is presented due to our inability to assess the overall program income received by CHCC.

Recommendation: We recommend that CHCC implement procedures to comply with program income requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jeremy Sasamoto, Vaccines for Children Immunization Program Manager

Corrective Action: Implementation of program income policies and procedures are officially in place.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-038
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Grant Numbers: 1H23IP000736-01 Revised
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with OMB Circular A-133 Compliance Supplement, the program is required to submit an SF-425, Federal Financial Report for cash status.

Condition: Based on total expenditures reported to the grantor for the reporting period ended December 31, 2013, we noted the following variances::

<u>Report Details</u>	<u>Business Unit Nos. H32681 - H32686</u>		
	<u>Per SF425</u>	<u>Per GL</u>	<u>Variance</u>
Federal Cash:			
10a. Cash Receipts	\$ 816,052	\$ 476,474	\$ 339,578
10b. Cash Disbursements	\$ 816,052	\$ 512,588	\$ 303,464
10c. Cash on Hand	\$ -	\$ (36,114)	\$ 36,114
Federal Expenditures and Unobligated Balance:			
10e. Federal Share of Expenditures	\$ 816,052	\$ 476,474	\$ 339,578
10g. Total Federal Share	\$ 816,052	\$ 476,474	\$ 339,578
10h. Unobligated balance of Federal Funds	\$ 154,180	\$ 493,758	\$ (339,578)

Cause: The cause of the above condition is the lack of controls over compliance with reporting requirements.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. The funds drawn down, however, correspond with expenditures recorded in the general ledger; therefore, no questioned costs result from this condition.

Recommendation: We recommend that steps be taken to determine that information reported to the grantor is based on actual financial records.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jeremy Sasamoto, Vaccines for Children Immunization Program Manager

Corrective Action: The Program accepts the finding; however, any variances on the SF-425 are always rectified between the grantee and the grantor. Otherwise, restrictions or suspension of funding will be imposed if not rectified.

Proposed Completion Date: N/A

Auditor Response: Expenditures recorded in the general ledger should be the basis for expenditures reported on the SF-425.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-039
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 Centers for Disease Control and Prevention_Investigations and Technical Assistance
 Grant Numbers: 5U58DP001953-05, 5U58DP003974-02, 5U50CK000270-03, 5UR3DD000792-04, 5UR3DD000792-03 and U558DP003974-03
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$10,366

Criteria: In accordance with applicable allowable costs requirements, costs must be supported by underlying accounting records. Additionally, in accordance with the Federal Insurance Contributions Act (FICA) tax, 6.2 percent of gross compensation is imposed on the employer for fiscal year 2014.

Condition: Tests of major program expenditures noted the following:

1. Tests of FICA contributions noted a variance between amounts recorded against our audit expectation.

FICA rate	6.2%
Expected FICA contributions	\$ 8,477
Per general ledger	<u>16,031</u>
Excess of FICA cost charged over expected amount	\$ <u><u>7,554</u></u>

2. Tests of indirect costs noted a variance between amounts recorded against our audit expectation for business unit H3283M.

Indirect rate	10%
Expected indirect cost	\$ 14,018
Per general ledger	<u>14,241</u>
Excess of indirect cost charged over expectation	\$ <u><u>223</u></u>

3. Of twenty-nine nonpayroll expenditures tested, aggregating \$158,160, of a total population of \$280,535, two (or 7%) travel expenses were incurred which appeared to have no direct benefit to the Program and are not within the grantor approved budget.

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>P.O. or Contract No.</u>	<u>Amount</u>
H32831	04/29/14	1168668	307544-OT	\$ 2,239
H3283N	10/31/13	1154400	304527/8 - OT	<u>350</u>
				\$ <u><u>2,589</u></u>

Cause: The cause of the above condition is the lack of monitoring of FICA contributions and indirect costs and the lack of adherence to applicable allowable costs/cost principles requirement.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-039, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 Centers for Disease Control and Prevention_Investigations
and Technical Assistance
Grant Numbers: 5U58DP001953-05, 5U58DP003974-02, 5U50CK000270-03,
5UR3DD000792-04, 5UR3DD000792-03 and U558DP003974-03
Area: Allowable Costs/Cost Principles
Questioned Costs: \$10,366

Effect: The effect of the above condition is the risk of invalid/unauthorized expenses and noncompliance with allowable costs/cost principles requirements and questioned costs of \$10,366.

Recommendation: We recommend that FICA contributions and indirect costs be reviewed for veracity and that expenses incurred have a direct benefit for the Program prior to incurring the expense.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Becky Robles, Non-Communicable Disease Administrator and TaAnn Kabua, Maternal & Child Health Bureau Administrator

Corrective Action: The Program accepts the findings. CHCC does its due diligence to comply with FICA contributions and indirect cost requirements which was approved and negotiated between the grantor and grantee. The negotiated indirect cost rate at the time the award was granted was through the CNMI government. No indirect cost pool will be assessed if not approved by the granting agency.

Proposed Completion Date: N/A

Auditor Response:

Condition 2:

The agreement or other documentation to support the rate used was not provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-040
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 Centers for Disease Control and Prevention_Investigations and Technical Assistance
 Grant Numbers: 5U58DP001953-05, 5U58DP003974-02 and 5UR3DD000792-03
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$44,339

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Tests of grant awards and nonpayroll expenses noted the following:

1. Of six grant awards tested, aggregating \$589,819, of a total population of \$2,119,354, three (grant nos. 5U58DP001953-05, 5U58DP003974-02 and 5UR3DD000792-03) (or 50%) included amounts liquidated after 90 days from the grant expiration dates of 03/30/13, 06/29/13 and 06/30/13, respectively. Grant extension documentation was not provided.

<u>Business Unit</u>	<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Questioned Costs</u>
H3283J	1187165	06/26/14	1217	07/25/14	\$ 107
H3283K	1186789	06/25/14	1244	07/25/14	110
H3283K	1186789	06/25/14	1244	07/25/14	640
H3283K	1186789	06/25/14	1244	07/25/14	1,260
H3283M	1198854	09/19/14	1686	10/15/14	140
H3283M	1198854	09/19/14	1686	10/15/14	110
H3283M	1198854	09/19/14	1686	10/15/14	226
H3283M	1198854	09/19/14	1686	10/15/14	195
H3283M	1198854	09/19/14	1686	10/15/14	153
H3283M	1198854	09/19/14	1686	10/15/14	10
H3283M	1197275	09/09/14	1836	10/24/14	283
H3283M	1198745	09/19/14	1669	10/15/14	82
H3283M	1198746	09/19/14	1669	10/15/14	135
H3283N	1197910	09/15/14	1610	10/08/14	750
H3283N	1197912	09/15/14	1610	10/08/14	750
H3283N	1198981	09/22/14	1663	10/15/14	600
H3283N	1198983	09/22/14	1663	10/15/14	820
H3283N	1197900	09/15/14	1659	10/15/14	503
H3283N	1198872	09/19/14	1670	10/15/14	120
H3283N	1198873	09/19/14	1670	10/15/14	67
H3283N	236323	09/11/14	1826	10/24/14	2,000
H3283N	236323	09/11/14	1826	10/24/14	50
H3283N	236330	09/12/14	1690	10/15/14	336
H3283N	236364	09/15/14	1660	10/15/14	2,750
H3283N	236364	09/15/14	1660	10/15/14	35
H32831	1197413	09/11/14	1725	10/21/14	<u>27,500</u>
					\$ <u>39,732</u>

2. Of twenty-nine nonpayroll expenditures tested, aggregating \$158,160, of a total population of \$280,535, three (or 10%) were liquidated after 90 days from the grant expiration date. Grant extension documentation was not provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-040, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 Centers for Disease Control and Prevention_Investigations and Technical Assistance
 Grant Numbers: 5U58DP001953-05, 5U58DP003974-02 and 5UR3DD000792-03
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$44,339

Condition, Continued:

<u>Business Unit</u>	<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Questioned Costs</u>
H32831	1197413	09/11/14	1725	10/21/14	\$ 27,500
H3283K	1166683	04/08/14	1226	07/25/14	4,500
H3283J	1187165	06/26/14	1217	07/25/14	<u>107</u>
					32,107
Less amount already questioned at Condition 1 above for PV no. 1197413					<u>(27,500)</u>
					\$ <u>4,607</u>

Cause: The cause of the above condition is the lack of established policies and procedures over the recording of expenditures incurred beyond the period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$44,339 exist.

Recommendation: We recommend that CHCC comply with period of availability requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Becky Robles, Non-Communicable Disease Administrator and TaAnn Kabua, Maternal & Child Health Bureau Administrator

Corrective Action: Great care is taken to record expenditures in the proper fiscal period to ensure that expenditures are recognized when they occur. Expenditures are recorded and included in the federal financial reports within the proper periods.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-041
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 Centers for Disease Control and Prevention_Investigations and Technical Assistance
 Grant Numbers: 5UR3DD000792-03 and 5U50CK000270-03
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$23,320

Criteria: In accordance with applicable local 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:

- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the MSO Director for approval.

Condition: Of twenty-nine expenditures tested, totaling \$158,160, of a population of \$280,535, we noted the following:

- One (or 3%) used sole sourced and efforts did not occur to obtain competition. Although there was a justification memo that there is only one source for the required service, it was not approved by the Director of Procurement & Supply.

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Contract Number</u>	<u>Amount</u>	<u>Questioned Costs</u>
H32831	07/11/14	1189686	552846-OC	\$ 10,000	\$ 10,000

- For one (or 3%), less than three quotations were obtained.

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Contract Number</u>	<u>Amount</u>	<u>Questioned Costs</u>
CH42830	05/13/14	1169764	575697-OP	\$ 9,900	\$ 13,320

Cause: The cause of the above condition is a failure to comply with applicable procurement regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations, and questioned costs of \$23,320 exist.

Recommendation: We recommend that CHCC take reasonable steps to comply with applicable procurement regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Becky Robles, Non-Communicable Disease Administrator and TaAnn Kabua, Maternal & Child Health Bureau Administrator

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-041, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 Centers for Disease Control and Prevention_Investigations
and Technical Assistance
Grant Numbers: 5UR3DD000792-03 and 5U50CK000270-03
Area: Procurement and Suspension and Debarment
Questioned Costs: \$23,320

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The Program accepts the finding and does comply with CNMI Procurement Regulations as applicable, except as follows:

We totally dispute Condition 1 regarding contract no. 552846-OC wherein the sole source service was not approved by the Director of Procurement and Supply. CHCC would not authorize any disbursement without approval of the contract. Services have been provided to the Program by this contractor who has been operating in the CNMI for more than five years. The auditor insists that it must be bid out despite proof of justification that contracts have been continuously processed and approved by the Director of Procurement and Supply.

The Procurement Regulations provides guidelines and sets several conditions and benchmarks or thresholds.

Proposed Completion Date: N/A

Auditor Response: The condition cited relates to the procurement of the service and not the completeness of the contract.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-042
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.505 Affordable Care Act (ACA) Maternal, Infant, and Early
 Childhood Home Visiting Program
 Grant Numbers: X02MC23094 and X02MC26337
 Area: Allowable Costs/Costs Principles
 Questioned Costs: \$7,548

Criteria: In accordance with applicable allowable costs requirements, costs must be supported by underlying accounting records. Additionally, in accordance with the Federal Insurance Contributions Act (FICA) tax, 6.2 percent of gross compensation is imposed on the employer for fiscal year 2014.

Condition: Tests of major program expenditures noted the following:

1. Tests of FICA contributions noted a variance between amounts recorded against our audit expectation.

FICA rate	6.2%
Expected FICA contributions	\$ 9,592
Per general ledger	<u>14,514</u>
Excess of FICA cost charged over expected amount	\$ <u>4,922</u>

2. Of twenty-five nonpayroll expenditures tested, aggregating \$87,236, of a total population of \$201,171, one travel expense appears to have no direct benefit to the Program and is not within the grantor approved budget.

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
H15050	04/21/14	1167830	\$ 2,626

Cause: The cause of the above condition is the lack of monitoring of FICA contributions and lack of adherence to applicable allowable costs/cost principles requirements.

Effect: The effect of the above condition is the risk of invalid/unauthorized expenses and noncompliance with allowable costs/cost principles requirements and questioned costs of \$7,548 exist for Conditions 1 and 2 as the projected questioned costs exceed the threshold of \$10,000.

Recommendation: We recommend that FICA contributions be reviewed for veracity and for CHCC to determine whether the expense will have a direct benefit for the Program prior to incurring the expense.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-042, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.505 Affordable Care Act (ACA) Maternal, Infant, and Early
Childhood Home Visiting Program
Grant Numbers: X02MC23094 and X02MC26337
Area: Allowable Costs/Costs Principles
Questioned Costs: \$7,548

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Yuline Cruz, Home Visiting Project Coordinator and TaAnn Kabua, Maternal & Child Health Bureau Administrator

Corrective Action:

The Program accepts the findings, except for Condition 2. The expenditure relates to a course fee incorporated into the travel authorization for a traveler's participation in an off-island training. A copy of the travel authorization is available.

Proposed Completion Date: N/A

Auditor Response: A copy of the travel authorization was not available during fieldwork.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-043
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Programs: 93.074 Hospital Preparedness Program (HPP) and Public Health
 Emergency Preparedness (PHEP) Aligned Cooperative Agreements
 93.116 Project Grants and Cooperative Agreements for Tuberculosis
 Control Programs
 93.224 Consolidated Health Centers (Community Health Centers,
 Migrant Health Centers, Health Care for the Homeless, and Public
 Housing Primary Care)
 93.243 Substance Abuse and Mental Health Services_Projects of
 Regional and National Significance
 93.268 Immunization Cooperative Agreements
 93.283 Centers for Disease Control and Prevention_Investigations
 and Technical Assistance
 93.505 Affordable Care Act (ACA) Maternal, Infant, and Early
 Childhood Home Visiting Program
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$-0-

Criteria: In accordance with applicable allowable costs/cost principles requirements, employee certifications are required from employees working for one federal program. Further, in accordance with OMB Circular A-87, costs, to be allowable under federal awards, should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

Condition: Required certifications are not obtained for employees working full-time on specific federal programs. Although employees are signing timecards or timesheets evidencing hours worked on a federal program, the sign-off does not indicate if the employee performed activities solely for one federal program. This condition applies to all major programs tested, except for CFDA #10.557.

<u>CFDA No.</u>	<u>Estimated No. of Employees</u>	<u>Total Program Payroll Costs</u>
93.074	7	\$ 165,906
93.116	6	\$ 353,879
93.224	11	\$ 562,451
93.243	9	\$ 268,011
93.268	15	\$ 374,134
93.283	10	\$ 263,923
93.505	11	\$ 238,148

Cause: The cause of the above condition is the lack of awareness regarding required employee certifications.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements. No questioned cost is presented due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that CHCC require certifications from applicable employees on a semi-annual basis.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-043, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Programs: 93.074 Hospital Preparedness Program (HPP) and Public Health
Emergency Preparedness (PHEP) Aligned Cooperative Agreements
93.116 Project Grants and Cooperative Agreements for Tuberculosis
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93.268 Immunization Cooperative Agreements
93.283 Centers for Disease Control and Prevention_Investigations
and Technical Assistance
93.505 Affordable Care Act (ACA) Maternal, Infant, and Early
Childhood Home Visiting Program
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Corazon P. Ada, Acting Chief Financial Officer and Clarinda Ngirausui, Human Resource Manager

Corrective Action: CHCC accepts the finding. CHCC has already procured biometric time clocks and are currently being configured to interface with the JDE Edwards system.

Proposed Completion Date: September 30, 2015.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-044
Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services
CFDA Programs: 10.557 Special Supplemental Nutrition Program for Women, Infants,
and Children
93.074 Hospital Preparedness Program (HPP) and Public Health
Emergency Preparedness (PHEP) Aligned Cooperative Agreements
93.116 Project Grants and Cooperative Agreements for Tuberculosis
Control Programs
93.224 Consolidated Health Centers (Community Health Centers,
Migrant Health Centers, Health Care for the Homeless, and Public
Housing Primary Care)
93.243 Substance Abuse and Mental Health Services_Projects of
Regional and National Significance
93.268 Immunization Cooperative Agreements
93.283 Centers for Disease Control and Prevention_Investigations
and Technical Assistance
93.505 Affordable Care Act (ACA) Maternal, Infant, and Early
Childhood Home Visiting Program
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- A control system must be developed to confirm adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- Adequate maintenance procedures must be developed to keep the property in good condition.
- If the grantee or sub-grantee is authorized or required to sell the property, proper sales procedures must be established to get the highest possible return.

Condition: Tests of equipment and real property management noted the following:

1. MSO did not perform a fixed asset physical inventory for the last two years.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-044, Continued
Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services
CFDA Programs: 10.557 Special Supplemental Nutrition Program for Women, Infants,
and Children
93.074 Hospital Preparedness Program (HPP) and Public Health
Emergency Preparedness (PHEP) Aligned Cooperative Agreements
93.116 Project Grants and Cooperative Agreements for Tuberculosis
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93.268 Immunization Cooperative Agreements
93.283 Centers for Disease Control and Prevention_Investigations
and Technical Assistance
93.505 Affordable Care Act (ACA) Maternal, Infant, and Early
Childhood Home Visiting Program
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Condition, Continued:

2. Property records maintained by MSO have missing information or did not include required information such as those noted in the above criteria.
3. Fixed asset listings for CFDA #s 93.116, 93.243 and 93.505 are not updated.
4. The fixed asset listings for CFDA # 93.283 and for subrecipients funded through CFDA #93.243 were not provided.
5. A reconciliation was not performed between the Program and MSO for CFDA #s 93.116, 93.243 and 93.505.

Cause: The cause of the above condition is the lack of controls to comply with equipment management requirements.

Effect: The effect of the above condition is noncompliance with equipment and real property management requirements. No questioned cost is presented as we are unable to quantify the extent of the noncompliance.

Recommendation: We recommend that CHCC conduct a physical inventory of all capital assets at least once every two years and reconcile the results to property records.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-044, Continued
Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services
CFDA Programs: 10.557 Special Supplemental Nutrition Program for Women, Infants,
and Children
93.074 Hospital Preparedness Program (HPP) and Public Health
Emergency Preparedness (PHEP) Aligned Cooperative Agreements
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and Technical Assistance
93.505 Affordable Care Act (ACA) Maternal, Infant, and Early
Childhood Home Visiting Program
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Persons:

USDOA 10.557:

Material Supply Office Director

USHHS 93.074, 93.116, 93.224, 93.243, 93.268, 93.283 and 93.505:

Corazon P. Ada, Acting Chief Financial Officer and Juan Diego Urumelog, Procurement Officer/Material Supply Office Manager

Corrective Actions:

USDOA 10.557:

Conditions cited for WIC Program equipment and real property management requires corrective action by Material Supply Office.

USHHS 93.074, 93.116, 93.224, 93.243, 93.268, 93.283 and 93.505:

CHCC accepts the findings. CHCC has identified personnel to be in charge of capital assets management and inventory. Further, since the programs are required to submit a listing of capital assets as part of its close-out procedures, the capital assets personnel will keep track of inventories and provide the information to every program.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-044, Continued
Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services
CFDA Programs: 10.557 Special Supplemental Nutrition Program for Women, Infants,
and Children
93.074 Hospital Preparedness Program (HPP) and Public Health
Emergency Preparedness (PHEP) Aligned Cooperative Agreements
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93.283 Centers for Disease Control and Prevention_Investigations
and Technical Assistance
93.505 Affordable Care Act (ACA) Maternal, Infant, and Early
Childhood Home Visiting Program
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Dates:

USDOA 10.557:

Not applicable.

USHHS 93.074, 93.116, 93.224, 93.243, 93.268, 93.283 and 93.505:

September 30, 2015.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-045
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Programs: 93.236 Grants to States to Support Oral Health Workforce Activities
 Questioned Costs: \$22,158
 CFDA Programs: 93.251 Universal Newborn Hearing Screening
 Questioned Costs: \$19,917
 Area: Allowable Costs/Cost Principles

Criteria: In accordance with applicable allowable costs requirements, costs must be supported by underlying accounting records.

Condition: Supporting documentation for indirect costs charged to two programs were not available.

<u>Business Unit</u>	<u>Document No.</u>	<u>General Ledger Date</u>	<u>Indirect Cost Rate</u>	<u>Amount</u>
H3236M	JE 247166	06/04/14	11.34%	\$ 22,158
H3251B	JE 249308	09/10/14	16.45%	<u>19,917</u>
				\$ <u>42,075</u>

In addition, the indirect cost rate utilized for the two programs was based on the CNMI's approved indirect cost rates for fiscal year 2010 and 2011 of 16.45% and 11.34%, respectively. The rates were included in the grant application that was approved by the grantor.

Cause: The cause of the above condition is the lack of controls to properly maintain files and questioned costs of \$22,158 exist for CFDA # 93.236 and \$19,917 for CFDA # 93.251.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirement.

Recommendation: We recommend that CHCC implement procedures to maintain and file all relevant supporting documents. We also recommend CHCC consider obtaining its own indirect cost rate for its federal programs.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Agnes Ripple, Dental Health Project Coordinator and TaAnn Kabua, Maternal & Child Health Bureau Administrator

Corrective Action: CHCC accepts the finding. CHCC's main objective is to finalize negotiations for indirect cost rates.

Proposed Completion Date: September 30, 2015.



Commonwealth Healthcare Corporation

Commonwealth of the Northern Mariana Islands

1 Lower Navy Hill Road Navy Hill, Saipan, MP 96950



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No prior federal findings reported.