

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, 2015

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, 2015, 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 March 30, 2017. Our report disclaims an opinion on such financial statements because of our inability to determine the effects of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* on CHCC's financial statements and the propriety of capital assets, accumulated depreciation, depreciation expense, receivables, advances, inventories, due to/from CNMI, accounts payable, due to related parties, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense).

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 through 2015-014 and 2015-048 that we consider to be material weaknesses.

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 2015-001, 2015-004, 2015-010, 2015-012 through 2015-014 and 2015-048. 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an 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

March 30, 2017

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 Compliance Supplement* that could have a direct and material effect on each of CHCC's major federal programs for the year ended September 30, 2015. CHCC's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

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 CFDA Programs 10.557, 81.041, 93.069, 93.104, 93.116, 93.224, 93.243, 93.268, 93.283 and 93.505

As described in items 2015-015 through 2015-026, 2015-028 through 2015-034, 2015-036 through 2015-039, 2015-041 through 2015-044, and 2015-048 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
2015-048	10.557	Equipment and Real Property Management
		81.041 State Energy Program
2015-015	81.041	Period of Availability of Federal Funds
2015-016	81.041	Procurement and Suspension and Debarment
2015-017	81.041	Reporting
2015-018	81.041	Special Tests and Provisions
2015-048	81.041	Equipment and Real Property Management
		93.069 HPP and PHEP Aligned Cooperative Agreements
2015-019	93.069	Allowable Costs/Cost Principles
2015-020	93.069	Period of Availability of Federal Funds and Period of Performance
2015-021	93.069	Procurement and Suspension and Debarment
2015-022	93.069	Reporting
2015-048	93.069	Equipment and Real Property Management
		93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)
2015-023	93.104	Allowable Costs/Cost Principles
2015-024	93.104	Procurement and Suspension and Debarment
2015-025	93.104	Reporting
		93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
2015-026	93.116	Allowable Costs/Cost Principles
2015-028	93.116	Procurement and Suspension and Debarment
2015-029	93.116	Reporting
2015-048	93.116	Equipment and Real Property Management
		93.224 Consolidated Health Centers
2015-030	93.224	Allowable Costs/Cost Principles
2015-031	93.224	Period of Availability of Federal Funds and Period of Performance
2015-032	93.224	Program Income
2015-033	93.224	Reporting
2015-048	93.224	Equipment and Real Property Management
		93.243 SAMHS Projects of Regional and National Significance
2015-034	93.243	Period of Availability of Federal Funds
2015-036	93.243	Reporting
		93.268 Immunization Cooperative Agreements
2015-037	93.268	Allowable Costs/Cost Principles
2015-038	93.268	Period of Availability of Federal Funds
2015-039	93.268	Procurement and Suspension and Debarment
2015-041	93.268	Reporting
2015-048	93.268	Equipment and Real Property Management
		93.283 CDC and Prevention Investigations and Technical Assistance
2015-042	93.283	Procurement and Suspension and Debarment
2015-043	93.283	Subrecipient Monitoring
		93.505 ACA Maternal, Infant, and Early Childhood Home Visiting Program
2015-044	93.505	Eligibility

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

Qualified Opinion on CFDA Programs 10.557, 81.041, 93.069, 93.104, 93.116, 93.224, 93.243, 93.268, 93.283 and 93.505

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, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, 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 other major federal programs identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2015.

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 2015-027, 2015-035, 2015-040 and 2015-045 through 2015-047. 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 2015-015 through 2015-026, 2015-028 through 2015-034, 2015-036 through 2015-039, 2015-041 through 2015-044 and 2015-048 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 2015-027, 2015-035, 2015-040 and 2015-045 through 2015-047 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, 2015, and the related notes to the financial statements, which collectively comprise CHCC's basic financial statements. Our report dated March 30, 2017, 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 effects of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* on CHCC's financial statements and the propriety of capital assets, accumulated depreciation, depreciation expense, receivables, advances, inventories, due to/from CNMI, accounts payable, due to related parties, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense). 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter disclosed in the auditor's report, it is inappropriate to, and the auditor does not, express an opinion on the Schedule of Expenditures of Federal Awards.

Deloitte & Touche LLC

March 30, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

CFDA #	Federal Agency/Program	Expenditures
	Direct Programs:	
	U.S. DEPARTMENT OF AGRICULTURE	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 3,828,522
	TOTAL U.S. DEPARTMENT OF AGRICULTURE	<u>3,828,522</u>
	U.S. DEPARTMENT OF THE INTERIOR	
15.875	Economic, Social, and Political Development of the Territories	15,838
	TOTAL U.S. DEPARTMENT OF THE INTERIOR	<u>15,838</u>
	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	
93.069	Public Health Emergency Preparedness	442,440
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	465,018
93.110	Maternal and Child Health Federal Consolidated Programs	190,734
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	512,118
93.150	Projects for Assistance in Transition from Homelessness (PATH)	44,180
93.217	Family Planning Services	151,043
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	686,816
93.236	Grants to States to Support Oral Health Workforce Activities	354,262
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	924,904
93.251	Universal Newborn Hearing Screening	185,187
93.268	Immunization Cooperative Agreements	728,768
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	367,136
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	104,292
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	4,982
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	596,298
93.507	PPHF National Public Health Improvement Initiative	195,650
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	23,403
93.624	ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	169,379
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	2,002
93.889	Hospital Preparedness Program	314,800
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	56,185
93.917	HIV Care Formula Grants	104,323
93.945	Assistance Programs for Chronic Disease Prevention and Control	208,784
93.958	Block Grants for Community Mental Health Services	69,308
93.959	Block Grants for Prevention and Treatment of Substance Abuse	287,367
93.991	Preventive Health and Health Services Block Grant	33,098
93.994	Maternal and Child Health Services Block Grant to the States	444,436
	TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	<u>7,666,913</u>
	U.S. DEPARTMENT OF HOMELAND SECURITY	
97.032	Crisis Counseling	53,613
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY	<u>53,613</u>
	Passed Through from the CNMI Government:	
	U.S. DEPARTMENT OF ENERGY	
81.041	State Energy Program	107,426
81.041	ARRA - State Energy Program	320,449
	TOTAL U.S. DEPARTMENT OF ENERGY	<u>427,875</u>
	Unidentified/Unallowed	<u>(14,152)</u>
	TOTAL FEDERAL AWARDS	<u>\$ 11,978,609</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, 2015

(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

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, 2015

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? | None reported |
| 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: | |
| | CFDA Program 10.557 | Unmodified |
| | CFDA Program 93.994 | Unmodified |
| | All other 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: | |
| | <u>CFDA Numbers</u> <u>Name of Federal Program</u> | |
| | 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children | |
| | 81.041 State Energy Program | |
| | 93.069 Public Health Emergency Preparedness | |
| | 93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) | |
| | 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 | |
| | 93.994 Maternal and Child Health Services Block Grant to the States | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$359,783 |
| 11. | Auditee qualified as a low-risk auditee? | No |

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

Reference Number	Findings
2015-001	General Ledger System/Financial Reporting
2015-002	Journal Entries
2015-003	Revenue/Receipts
2015-004	Purchases/Disbursements
2015-005	Payroll/Employee Benefits
2015-006	Cash
2015-007-008	Accounts Receivables
2015-009	Inventory
2015-010	Capital Assets
2015-011	Liabilities
2015-012	Due to Related Parties
2015-013	Withholding Taxes Payable
2015-014	Social Security and Medicare Payments
2015-048	Equipment and Real Property Management

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference Number	CFDA Number	Findings	Questioned Costs
2015-048	10.557	Equipment and Real Property Management	\$ -
2015-048	81.041	Equipment and Real Property Management	\$ -
2015-015	81.041	Period of Availability of Federal Funds	\$ 2,953
2015-016	81.041	Procurement and Suspension and Debarment	\$ 410,579
2015-017	81.041	Reporting	\$ -
2015-018	81.041	Special Tests and Provisions	\$ -
2015-019	93.069	Allowable Costs/Cost Principles	\$ 33,994
2015-048	93.069	Equipment and Real Property Management	\$ -
2015-020	93.069	Period of Availability of Federal Funds	\$ -
2015-020	93.069	Period of Performance	\$ -
2015-021	93.069	Procurement and Suspension and Debarment	\$ 73,284
2015-022	93.069	Reporting	\$ -
2015-023	93.104	Allowable Costs/Cost Principles	\$ 48,474
2015-024	93.104	Procurement and Suspension and Debarment	\$ 108,768
2015-025	93.104	Reporting	\$ -
2015-026	93.116	Allowable Costs/Cost Principles	\$ 6,416
2015-027	93.116	Cash Management	\$ 22,889
2015-048	93.116	Equipment and Real Property Management	\$ -
2015-028	93.116	Procurement and Suspension and Debarment	\$ 1,150
2015-029	93.116	Reporting	\$ -
2015-030	93.224	Allowable Costs/Cost Principles	\$ 170,973
2015-048	93.224	Equipment and Real Property Management	\$ -
2015-031	93.224	Period of Availability of Federal Funds	\$ 2,143
2015-031	93.224	Period of Performance	\$ 4,254
2015-032	93.224	Program Income	\$ 46,158
2015-033	93.224	Reporting	\$ -
2015-034	93.243	Period of Availability of Federal Funds	\$ 68,762
2015-035	93.243	Procurement and Suspension and Debarment	\$ 80,976
2015-036	93.243	Reporting	\$ -
2015-037	93.268	Allowable Costs/Cost Principles	\$ 8,000
2015-048	93.268	Equipment and Real Property Management	\$ -
2015-038	93.268	Period of Availability of Federal Funds	\$ 24,916
2015-039	93.268	Procurement and Suspension and Debarment	\$ 7,186
2015-040	93.268	Program Income	\$ 19,977
2015-041	93.268	Reporting	\$ -
2015-042	93.283	Procurement and Suspension and Debarment	\$ 3,450
2015-043	93.283	Subrecipient Monitoring	\$ 25,000
2015-044	93.505	Eligibility	\$ -
2015-045	93.505	Period of Availability of Federal Funds	\$ 29,793
2015-046	93.994	Matching, Level of Effort, Earmarking	\$ 15,217
2015-047	93.994	Procurement and Suspension and Debarment	\$ 844

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

General Ledger System/Financial Reporting

Finding No. 2015-001

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, most are unsupported and/or are not evidenced as 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, 2015, the beginning net position of \$35,786,362 does not agree to the audited ending net position of \$35,972,699 at September 30, 2014. This condition was corrected through a proposed audit adjustment.

In addition, the Schedule of Expenditures of Federal Awards (SEFA) includes \$14,152 of unidentified and unallocated expenditures. An explanation of the unidentified and unallocated expenditure is not available. Also, the value of federally funded vaccines that should be treated by CHCC as expenditures for reporting in the SEFA is unreported. Further, typos and discrepancies in the assignment of business units and related expenditures to the respective Catalog of Federal Domestic Assistance (CFDA) numbers were noted on the SEFA.

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

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

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-001, Continued

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 Finding Nos. 2012-01, 2013-01 and 2014-001 in CHCC's audits for fiscal years 2012 through 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek Sasamoto, Chief Financial Officer (CFO)

Corrective Action: With the hiring of a new CFO and Comptroller, CHCC's Accounting Department is initiating the course of change within processes and procedures. Meetings have taken place to realign processes. For example, management review and approval will be conducted for all transactions to ensure the accuracy and timeliness of postings. Staff will be guided and trained and the accounting team will be developed to improve processes such as ensuring reconciliations are performed and management review and approval is evidenced. Journal vouchers will also be tracked and documented in order to maintain a sequential numbering sequence. Management review and approval will be required for all journal vouchers prior to posting. System reports will also be evaluated and adjusted in order to improve financial reporting and verify that transactions are posted properly and timely. This will also allow budget to actual reports to be produced and utilized. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Journal Entries

Finding No. 2015-002

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. In April 2015, CHCC established a manual log of journal entries used; however, the date and sequence did not correspond to postings in the general ledger.
2. A summary of journal entries extracted from general ledger details did not balance by \$833,003 as one (JE #257875) did not have a corresponding debit entry. 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 \$198,819 journal entry (&& 259632) was recorded (2023A.62810) at September 30, 2015. 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 sixteen journal vouchers tested, the following were noted:
 - a. Four were not available;
 - b. Two were not reviewed and approved;
 - c. Eight were printed from the system and were not supported by approved journal vouchers;
 - d. The supporting documents for six were incomplete and two did not have supporting documents; and
 - e. One journal voucher (JE # 262960) was posted on May 31, 2015 but was approved on March 19, 2016.

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

Effect: The effect of the above conditions 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 Finding Nos. 2013-02 and 2014-002 in CHCC's audits for fiscal years 2013 and 2014.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-002, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek Sasamoto, CFO

Corrective Action: CHCC will enforce proper procedures for the tracking, preparation, review, approval and posting of all journal vouchers. Staff meetings will also be held on the issue. CHCC will work with the CNMI Department of Finance (CNMI DOF) in terms of managing the accounts for CHCC that are still held within CNMI DOF. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Revenue/Receipts

Finding No. 2015-003

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 for the months of July, August and September 2015 were not posted;
- (4) A subsidy of \$30,077 received for nurses' salary was recorded as a credit to expense; and
- (5) Of sixty-three revenue items tested, totaling \$17,352,718, we noted the following:
 - a. One (CR # 256674) was recorded two days after funds were received;
 - b. Twelve were not supported by approved journal vouchers. In addition, the supporting documents for one debit item (PV # 1206710) totaling \$18,508 was not available;
 - c. For five, the approved journal vouchers were provided; however, the supporting documents were not available;
 - d. One approved journal entry (JE # 257340) was posted in the system but was subsequently reversed using the same journal entry reference. Supporting documents authorizing the reversal was not available. Further, one item totaling \$322,137 was recorded twice (JE #s 251053 and 251431);
 - e. Of fifteen billings tested, the service rates or unit costs per billings for seven did not agree with amounts on the charge master list. We have been advised that the difference is due to negotiated rates with insurance providers. The agreement and schedule of the negotiated rates were not available. Further, details of payment made by an insurance provider for three billings were not available;
 - f. Billing documents for seven were not available. Of the seven, one (JE # 251053) included a deposit of \$24,618. We were unable to determine the nature of the deposit due to lack of supporting documents;
 - g. The Memorandum of Agreement to support Medicaid Interim Payments of Federal Financial Participation for eight was not provided;

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-003, Continued

Condition, Continued:

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
10/17/14	250157	\$ 860,157
11/13/14	251011	\$ 860,157
12/26/14	252041	\$ 894,563
01/26/15	252691	\$ 894,563
04/08/15	255061	\$ 2,683,690
05/11/15	255180	\$ 894,563
08/26/15	257395	\$ 1,945,277
09/29/15	258369	\$ 1,945,277

- h. The agreement with a collection agency was not available; and
- i. One transaction, totaling \$2,683,690, was posted in the general ledger multiple times using four different journal entries (JE #s 255061, 255065, 255409 and 256950). One of the entries (JE # 255061) did not agree to the approved journal voucher.

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

Effect: The effect of the above conditions 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 Finding Nos. 2012-05, 2013-03 and 2014-003 in CHCC's audits for fiscal years 2012 through 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Tiffany Sablan, Director of Revenue Cycle and Derek Sasamoto, CFO

Corrective Action: CHCC hired a new CFO and a new Director of Revenue Cycle who will oversee the operations of the Business Office which include coding, billings and collections. Processes will be evaluated and adjusted where necessary in order to meet the recommendations of the audit for this finding. Development of procedures will also be a goal for FY 2017 and onward. The newly formed team will focus on improving and reinforcing processes in order to improve revenue recognition, handling of cash and posting of cash receipts to the JD Edwards system, as well as improving the filing system and ensuring that supporting documentation is readily available and attached to all transactions required. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Purchases/Disbursements

Finding No. 2015-004

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 \$792,297 of advances (account # 1075.12430) at September 30, 2015. Tests of advances noted the following:
 - a. Of total advances, \$362,953 relates to prior years.
 - b. Minimal prepayment transactions were reversed resulting in an understatement of expenses.
 - c. Of three advances tested, two (check #s 00234 and 1511) totaling \$18,281 were not reversed upon receipt of goods. One \$5,472 item (check # 2856) was recorded as an advance but was paid after the receipt of goods. Additionally, documents requiring prepayment were not available.
3. Of thirty-one disbursements tested totaling \$836,161, we noted the following:
 - a. One (OV # 238227) totaling \$2,989 was procured using one quotation. Three quotations are required for small purchases between \$2,500 and \$10,000. In addition, the price quotations provided for one (OV # 238585) was documented in an internal document and not supported by the actual vendor's quotation.
 - b. One contract (contract # 589312-OC) was procured through sole source. Consideration given to alternative sources and reasons why alternative sources were not selected were not included in the sole source justification as required by CNMI Procurement Rules & Regulations §70-30.3-225.
 - c. Two prior year expenses (PV #s 1203824 and 1200320 amounting to \$14,375 and \$4,697, respectively) were recorded as fiscal year 2015 expenses. In addition, the supporting invoice for one (PV #1212431 amounting to \$5,104) was dated March 31, 2014. The request for purchase and purchase order were approved on February 24, 2015 and February 27, 2015, respectively.
 - d. Supporting invoices and procurement documents evidencing full and open competition for fourteen were not available.

<u>Business Unit</u>	<u>Reference No.</u>	<u>Amount</u>
1815	PI 4480	\$ 1,224
1825	II 47121	\$ 17
1831	II 46342	\$ 6,050
1831	II 46724	\$ 5,478
1841	II 46605	\$ 86
1817	JE 250060	\$ 92,000
1817	JE 252334	\$ 50,000
1817	JE 257071	\$ 100,000

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-004, Continued

Condition, Continued:

<u>Business Unit</u>	<u>Reference No.</u>	<u>Amount</u>
1817	PV 1217137	\$ 50,000
1817	PV 1231499	\$ 50,000
1817	PV 1244271	\$ 100,000
1963A	PV 1232258	\$ 65,628
1831	PV 1214333	\$ 3,551
1831	PV 1244750	\$ 52,538

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

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

Recommendation: We recommend that CHCC establish controls over the processing, recording, monitoring and approval of purchases/disbursements and advances. We also recommend CHCC strengthen procedures to comply with procurement regulations and to establish and maintain 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 Finding Nos. 2012-03, 2013-04 and 2014-004 in CHCC's audits for fiscal years 2012 through 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Derek Sasamoto, and Jesus Babauta, Medical Supply Officer

Corrective Action: CHCC will establish travel advance sub-ledgers and monitor these advances. CHCC has established new processes for the proper accounting of prepayments so that a justification memorandum will be attached to all purchase requests for prepayments. Moreover, CHCC's procurement rules and regulations were adopted in September 2015. Thus, CHCC is now following the threshold of obtaining three quotations for purchases ranging from \$5,000 to \$25,000, as required by procurement regulations. For travel, CHCC obtains the lowest fare available from the most capable travel agent as some travel agents are unable to secure flight reservations beyond 2 or 3 days while travel authorization documents are routed for approval. Lastly, CHCC will ensure that sole source requests adhere to the requirements of these regulations and that supporting documentation is maintained and filed for accountability. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Payroll/Employee Benefits

Finding No. 2015-005

Criteria: Personnel expenses should be supported by an authorized notice of 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 is not documented.
- (2) One NOPA (employee no. 838369) did not indicate the employee acknowledgement of receiving or reading the personnel manual.
- (3) Annual leave of \$2,850,521 at September 30, 2015 was not recorded and no monitoring of accrued annual leave appears to be performed. In addition, the annual leave used schedule for the period October 2014 through December 2014 reflects the same hours used for several employees for the period October 2013 through December 2013.
- (4) The contract for one employee (employee #415487) excluded housing allowance; however, the employee received \$600 for the month of November 2014. In addition, the housing allowance for another employee (employee #677878) was increased in March 2014 from \$600 to \$800; however, the employee continued to receive \$600. The employee is no longer employed at CHCC.
- (5) The payment for insurance and health benefits for the payroll period ended 11/15/14 (federal) totaling \$12,316 was not available.
- (6) Of fifty-seven payroll items tested, totaling \$1,957,222, we noted the following:
 - a. Fifty-four NOPAs were not signed as approved by the Human Resources Officer at a reasonable time from the effective date.
 - b. Seven annual leave forms were approved after the leave dates. In addition, the approval for one leave form was not dated, therefore, we are unable to determine when the leave was approved.
 - c. Three timesheets were not signed by the preparer and/or were not evidenced as reviewed and approved by the department head and/or the Chief Executive Officer.

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>
CHH4283N	11/15/14	555483
1906A	08/22/15	712630
1861A	05/02/15	578377

In addition, three timesheets were prepared and reviewed by the same employee.

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>
1861A	05/30/15	212638
1807A	04/04/15	817891
1906A	07/11/15	103187

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-005, Continued

Condition, Continued:

- d. The approved overtime form for one (employee no. 768991, payroll period ended 1/10/15) was not available.
- e. The approved annual leave form for employee no. 517157 for the payroll period ended 07/11/15 was not available.
- f. For sixteen employees, overtime was incurred prior to the approving officer's approval.
- g. One employee (employee no. 678359, payroll period ended 09/05/15) reported seventeen hours of overtime; however, total overtime hours approved were ten.
- h. For three 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>
11/15/14	555483	75.00	68.75	6.25
09/19/15	102827	88.00	87.00	1.00
02/07/15	555483	80.00	72.00	8.00

Further, timecards for two employees (employee nos. 212704 and 578377, payroll periods ended 08/22/15 and 05/02/15, respectively) were not signed.

- i. For four employees, the rate paid did not agree to the approved rate per NOPA.

<u>Employee No.</u>	<u>Payroll Period Ended</u>
555483	11/15/14
295272	02/21/15
712631	09/19/15
677878	03/07/15

- j. Timecards for five employees were manually entered.

<u>Business Unit</u>	<u>Employee No</u>	<u>Payroll Period Ended</u>
1812A	100403	02/21/15
1844A	677997	07/11/15
1845A	161420	10/18/14
1862A	676668	01/24/15
CHH49450	555483	11/15/14

- k. The account or business unit charged for two employees did not agree to the approved NOPA.

<u>Employee No.</u>	<u>BU Per NOPA</u>	<u>BU Per Payroll Register</u>
555483	CHH49450	CHH4283N
102857	CHH4959A	CHH5959A

- l. Twenty-nine employee deduction forms were not available.
- m. Variances exist between gross pay per the payroll register and the general ledger:

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-005, Continued

Condition, Continued:

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Per Payroll Register</u>	<u>Per General Ledger</u>	<u>Variance</u>
1807A	02/21/15	\$ 249,766	\$ 254,958	\$ (5,192)
1867A	02/21/15	\$ 6,354	\$ 8,084	\$ (1,730)
1828A	09/19/15	\$ 17,949	\$ 18,633	\$ (684)
1832A	08/22/15	\$ 65,121	\$ 71,457	\$ (6,336)
1906A	09/19/15	\$ 30,088	\$ 39,353	\$ (9,265)
1821A	12/27/14	\$ 10,372	\$ 10,944	\$ (572)
1820A	09/19/15	\$ 13,520	\$ 14,051	\$ (531)
1807A	11/15/14	\$ 271,053	\$ 277,644	\$ (6,591)
CHH59450	02/07/15	\$ 4,716	\$ 5,158	\$ (442)
1861A	05/02/15	\$ 8,898	\$ 9,209	\$ (311)
1860A	08/08/15	\$ 10,701	\$ 9,377	\$ 1,324
CHH5959A	10/18/14	\$ 9,273	\$ 9,584	\$ (311)
CHH59450	08/08/15	\$ 5,073	\$ 5,006	\$ 67
1807A	04/04/15	\$ 247,558	\$ 252,750	\$ (5,192)
1906A	07/11/15	\$ 31,072	\$ 36,072	\$ (5,000)

- n. The timecards for twelve employees did not indicate a lunch break; however, the employees were paid based on an eight-hour day.
- o. The timesheet for one employee (employee no. 212704, payroll period ended 08/22/15) reported annual leave taken of 3.25 hours; however, the employee was paid one hour. The timecard for one employee (employee no. 161420, payroll period ended 10/18/14) was 0.5 hours less than total hours paid.
- p. The employee listing generated from the system includes employees from previous years who have since resigned, were terminated or are retired. We have been advised that clearance documents from these employees were not turned in to the Human Resource Department.
- q. Authorizations for four timecard exemptions were not available.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>
1807	814708	02/21/15
1807	518320	11/15/14
1807	597243	10/04/14
1807	817891	04/04/15

- r. One employee was paid 3.5 hours for administrative leave. The document supporting the administrative leave was not made available.
 - s. The payroll register for the payroll period ended 10/04/14 was not available.
- (7) Of three federal payroll items tested for CFDA no. 10.557, totaling \$43,651, differences in tax calculations were noted for the following:

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Tax Type</u>	<u>Per Payroll Register</u>	<u>Per Recalculation</u>	<u>Variance</u>
CHA55570	373011	07/11/15	Chapter 7	\$ -	\$ 32	\$ (32)
CHA55570	311028	04/04/15	Chapter 7	\$ 29	\$ 5	\$ 24

- (8) Of seven federal payroll items tested for CFDA no. 93.069, totaling \$29,087, we noted the following:

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-005, Continued

Condition, Continued:

- a. W-4 forms were not provided for the following:

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee Number</u>
CHH4074A	11/15/14	548844
CHH4074B	01/24/15	212693
CHH4074B	06/13/15	100829
CHH5074B	09/05/15	100829

- b. Differences in tax calculations were noted for the following:

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Tax Type</u>	<u>Per Payroll Register</u>	<u>Per Recalculation</u>	<u>Variance</u>
CHH4074A	548844	11/15/14	Chapter 7	\$ -	\$ 340	\$ (340)
CHH4074B	212693	01/24/15	Chapter 7	\$ -	\$ 131	\$ (131)
CHH4074B	448050	04/04/15	Chapter 7	\$ 7	\$ 102	\$ (95)
CHH4074B	100829	06/13/15	Chapter 7	\$ -	\$ 438	\$ (438)
CHH5074A	102761	08/08/15	Chapter 7	\$ 23	\$ 117	\$ (94)
CHH5074A	102761	09/30/15	Chapter 7	\$ 17	\$ 105	\$ (88)
CHH5074B	100829	09/05/15	Chapter 7	\$ -	\$ 683	\$ (683)

- (9) Of nine federal payroll items tested for CFDA no. 93.104, totaling \$74,673, differences in tax calculations were noted for the following:

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Tax Type</u>	<u>Per Payroll Register</u>	<u>Per Recalculation</u>	<u>Variance</u>
CHH41040	837008	11/15/14	Chapter 7	\$ 432	\$ 813	\$ (381)
CHH41040	442719	02/07/15	Chapter 7	\$ 1	\$ 53	\$ (52)
CHH41040	200059	04/04/15	Chapter 7	\$ 4	\$ 73	\$ (69)
CHH41040	200059	05/16/15	Chapter 7	\$ 4	\$ 73	\$ (69)
CHH41040	372919	06/13/15	Chapter 7	\$ -	\$ 63	\$ (63)
CHH41040	402393	07/25/15	Chapter 7	\$ 27	\$ 96	\$ (69)
CHH41040	103142	08/22/15	Chapter 7	\$ -	\$ 44	\$ (44)
CHH41040	200059	09/30/15	Chapter 7	\$ 4	\$ 73	\$ (69)
CHH41040	402393	09/30/15	Chapter 7	\$ 27	\$ 96	\$ (69)

- (10) Of ten federal payroll items tested for CFDA no. 93.116, totaling \$37,322, we noted the following:

- a. W-4 forms for five employees were not available.
- b. Nine Chapter 7 tax calculations (employee nos. 102652, 578284, 442876, 102701 and 442876, payroll periods ended 10/04/14, 12/27/14, 12/27/14, 03/07/15, 05/16/15, 08/08/15, 02/07/15, 08/22/15 and 07/25/15, respectively) did not exclude either 401k retirement contributions, dental or health insurance which are not subject to income tax withholding.

- (11) Of thirteen federal payroll items tested for CFDA no. 93.224, totaling \$551,104, we noted the following:

- a. W-4 forms were not provided for the following:

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee Number</u>
CHH4224A	04/04/15	558587
CHH5224A	05/02/15	558587

- b. Differences in tax calculations were noted for the following:

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-005, Continued

Condition, Continued:

Business Unit	Employee No.	Payroll Period Ended	Tax Type	Per Payroll Register	Per Recalculation	Variance
CHH4224A	795983	01/10/15	Chapter 7	\$ -	\$ 44	\$ (44)
CHH4224A	163335	02/21/15	Chapter 7	\$ 76	\$ 353	\$ (277)
CHH4224A	558587	04/04/15	Chapter 7	\$ -	\$ 441	\$ (441)
CHH4224A	795459	11/01/14	Chapter 7	\$ 1	\$ 101	\$ (100)
CHH5224A	558587	05/02/15	Chapter 7	\$ -	\$ 441	\$ (441)
CHH5224A	795983	06/13/15	Chapter 7	\$ -	\$ 28	\$ (28)
CHH5224A	476585	07/25/15	Chapter 7	\$ 9	\$ 67	\$ (58)
CHH5224A	559396	08/22/15	Chapter 7	\$ 5	\$ 63	\$ (58)

(12) Of five federal payroll items tested for CFDA no. 93.243, totaling \$41,931, we noted the following:

- a. W-4 forms for two employees (employee nos. 101507 and 103888) were not available.
- b. Four Chapter 7 tax calculations (employee nos. 101507, 103888, 172435 and 385978, payroll periods ended 01/24/15, 05/02/15, 07/11/15 and 09/30/15, respectively) did not exclude either 401k retirement contributions, dental or health insurance which are not subject to income tax withholding.

(13) Of ten federal payroll items tested for CFDA no. 93.268, totaling \$44,583, we noted the following:

- a. W-4 forms were not provided for the following:

Business Unit	Payroll Period Ended	Employee Number
CHH42681	10/04/14	554525
CHH42686	10/18/14	246303
CHH52681	09/19/15	402339

- b. Differences in tax calculations were noted for the following:

Business Unit	Employee No.	Payroll Period Ended	Tax Type	Per Payroll Register	Per Recalculation	Variance
CHH42681	554525	10/04/14	Chapter 7	\$ -	\$ 74	\$ (74)
CHH42681	713819	12/13/14	Chapter 7	\$ -	\$ 74	\$ (74)
CHH42686	246303	10/18/14	Chapter 7	\$ -	\$ 113	\$ (113)
CHH52681	713819	03/07/15	Chapter 7	\$ 39	\$ 74	\$ (35)
CHH52681	713819	07/25/15	Chapter 7	\$ 39	\$ 74	\$ (35)
CHH52681	402339	09/19/15	Chapter 7	\$ -	\$ 74	\$ (74)
CHH52682	311268	08/22/15	Chapter 7	\$ 65	\$ 248	\$ (183)
CHH52686	246303	05/30/15	Chapter 7	\$ -	\$ 2	\$ (2)
CHH52681	713819	05/02/15	Chapter 7	\$ 39	\$ 74	\$ (35)

(14) Of seven federal payroll items tested for CFDA no. 93.283, totaling \$17,341, we noted the following:

- a. W-4 forms were not available for three employees (employee nos. 296832, 311152 and 103451).
- b. Seven Chapter 7 tax calculations (employee nos. 102968, 815565, 815565, 296832, 311152, 103451 and 103451, payroll periods ended 10/18/14, 02/07/15, 05/02/15, 12/13/14, 07/11/15, 09/19/15 and 06/27/15, respectively) did not exclude either 401k retirement contributions, dental or health insurance which are not subject to income tax withholding.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-005, Continued

Condition, Continued:

- (15) Of eight federal payroll items tested for CFDA no. 93.505, totaling \$66,189, we noted the following:
- a. W-4 forms were not available for two employees (employee nos. 246281 and 372910).
 - b. Eight Chapter 7 tax calculations (employee nos. 249564, 402157, 442631, 246281, 372910, 481217, 833857 and 212678, payroll periods ended 10/04/14, 11/29/14, 01/24/15, 04/04/15, 05/30/15, 07/11/15, 08/22/15 and 11/15/14, respectively) did not exclude either 401k retirement contributions, dental or health insurance which are not subject to income tax withholding.
- (16) Of ten federal payroll items tested for CFDA no. 93.994, totaling \$46,692, we noted the following:
- a. W-4 forms were not available for two employees (employee nos. 100938 and 640409).
 - b. Eight Chapter 7 tax calculations (employee nos. 100938, 640409, 102842, 680593, 714834, 648741, 714834 and 552850, payroll periods ended 10/04/14, 09/30/15, 11/29/14, 03/21/15, 05/02/15, 06/13/15, 08/08/15, and 09/30/15, respectively) did not exclude either 401k retirement contributions, dental or health insurance which are not subject to income tax withholding.

Cause: The cause of the above conditions 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 related payroll entries be reviewed;
- 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, approved leave/comp time forms and overtime authorization;
- 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.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-005, Continued

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 Finding Nos. 2012-02, 2013-05, 2014-005 in CHCC's audits for fiscal years 2012 through 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: April Camacho, Payroll Supervisor, Clarinda Ngirausui, Human Resource (HR) Manager, Comptroller and Derek Sasamoto, CFO

Corrective Action: CHCC will implement the recommendations as specified. Management review of transactions such as payroll has already been discussed at the end of calendar year 2016 upon the hiring of a new CFO. Moreover, CHCC will ensure that supporting documentation is maintained.

CHCC HR Rules and Regulations have been promulgated in the CNMI Register effective November 29, 2016. All existing and new CHCC employees shall receive an updated individual copy and are required to acknowledge receipt of the regulations. Copies of the acknowledgement will be required to be part of the official personnel file. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Cash

Finding No. 2015-006

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, 2015 noted the following:

- Five 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	\$ (505,407)	\$ (298,545)	\$ 206,862
11350	\$ (32,572)	\$ 726,215	\$ 758,787
11360	\$ 395,929	\$ 702,244	\$ 306,315
11520	\$ 18,746	\$ 17,601	\$ (1,145)
11635	\$ 3,183,071	\$ 3,041,797	\$ (141,274)

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

- Of twenty-seven subsequent bank disbursements tested, supporting documentation evidencing the review and approval of twelve wire transfers was not provided.

<u>Bank Code</u>	<u>Bank Clearance Date</u>	<u>Amount</u>
11360	10/07/15	\$ 100,000
11360	10/07/15	\$ 46,480
11370	10/01/15	\$ 46,652
11370	10/05/15	\$ 100,823
11370	10/19/15	\$ 86,226
11520	10/05/15	\$ 31,332
11635	10/01/15	\$ 117,107
11635	10/02/15	\$ 116,084
11635	10/07/15	\$ 163,702
11635	10/13/15	\$ 141,579
11635	10/09/15	\$ 79,572
11635	10/14/15	\$ 125,541

- The bank reconciliation for the general and federal accounts (account #s 1075.11340 and 1075.11360) include outstanding checks greater than one year of \$23,034 and \$36,149, respectively. In addition, a voided check (check # 7002, dated 06/16/15) amounting to \$55,809 was included as an outstanding check at September 30, 2015.

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 of the above conditions 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.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-006, Continued

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 Finding Nos. 2013-06 and 2014-006 in CHCC's audits for fiscal years 2013 and 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek Sasamoto, CFO

Corrective Action: CHCC established bank reconciliation and bank deposit policies and procedures in October 2016. Additionally, CHCC will implement the process of timely posting of reconciling items resulting from bank reconciliations. Moreover, communications have already occurred regarding the requirement of management review and approval for all banking transactions such as wire transfers, ACH pass-thru payments, etc. Approval will be sought through a memorandum to the CFO which requires approval and supporting documentation for the transaction being requested. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Accounts Receivable

Finding No. 2015-007

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

Condition: At September 30, 2015, CHCC recorded receivables (fund 1075) of \$42,849,332. Receivables per the sub-ledger were \$67,548,224. 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 2014 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.
- Fiscal year 2015 billings totaling \$6,315,455, collected subsequent to year end, were excluded from the accounts receivable balance at September 30, 2015. An audit adjustment was proposed to correct this condition.

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

Effect: The effect of the above conditions 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 Finding Nos. 2013-07 and 2014-007 in CHCC's audits for fiscal years 2013 and 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Tiffany Sablan, Director of Revenue Cycle

Corrective Action: CHCC will evaluate current procedures for accounts receivable and implement new processes to correct this condition and implement the recommendation. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Accounts Receivable

Finding No. 2015-008

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, 2015 noted the following:

1. As of September 30, 2015, CHCC's receivables amounted to \$67,755,748. Payments received in fiscal year 2015 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, 2015 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, 2015 were not available.
4. At September 30, 2015, CHCC recorded an allowance for doubtful accounts of \$24,141,067. An assessment of the allowance for doubtful accounts for the receivable balance at September 30, 2015 was not performed.
5. Payment of accounts is recorded as revenue when received. Payments received for fiscal years 2012, 2013 and 2014 receivables totaling \$8,173,459 were recorded as revenue during the year ended September 30, 2015. This condition was corrected through proposed audit adjustments.

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

Effect: The effect of the above conditions 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 as Finding Nos. 2013-08 and 2014-008 in CHCC's audits for fiscal years 2013 and 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Tiffany Sablan, Director of Revenue Cycle

Corrective Action: CHCC will evaluate the current procedures in terms of billing and collections and implement the recommendation as specified. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Inventory

Finding No. 2015-009

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, 2015.
- (3) Receiving report numbers are not in sequential order.
- (4) A valuation of pharmacy inventory is not regularly performed resulting in an overstatement of \$51,661 at September 30, 2015.
- (5) Changes to the inventory master file/database are not documented.
- (6) An assessment of inventory obsolescence was not provided.
- (7) Tests of the inventory subledger noted the following:
 - a. As of September 30, 2015, 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	\$ 854,168	\$ 958,329	\$ 104,161
Central Supply	14120	\$ 47,390	\$ (80,000)	\$ (127,390)
Pharmacy	14140	\$ 418,382	\$ 470,043	\$ 51,661

The variances were corrected through proposed audit adjustments.

- 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 \$25,687. One was included three times in the inventory valuation report resulting in an overstatement of \$650.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-009, Continued

Condition, Continued:

- (8) Of four medical supply items tested, we noted the following:
- a. An explanation of variances noted in the unit movement of four (item nos. 10391, 13315, 31194 and 25895) was not provided.

<u>Index No.</u>	<u>Quantity at 09/30/14</u>	<u>Receipts</u>	<u>Issuances</u>	<u>Expected Quantity at 09/30/15</u>	<u>Per Final Valuation Report</u>	<u>Variance</u>
10391	23	-	-	23	23	-
13315	12	48	34	26	32	(6)
25895	265	-	27	238	165	73
31194	2	4,368	2,384	1,986	2,883	(897)

- b. The unit cost for one (index no. 13315) was \$121 less than the expected amount.
 - c. One (index no. 10391) had no movement since 2013.
- (9) Of ten items physically counted at the Medical Supply office, one (item no. 200027) was nine hundred and sixty units less than the quantity on the final inventory valuation report. In addition, two (items nos. 200036 and 15229) were expired but were included in the final inventory valuation report.

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

Effect: The effect of the above conditions is the 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.

Prior Year Status: The lack of reconciliation of inventory to the general ledger was reported as Finding Nos. 2012-09, 2013-09 and 2014-009 in CHCC's audits for fiscal years 2012 through 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jesus Babauta, Medical Supply Officer, Comptroller and Derek Sasamoto, CFO

Corrective Action: CHCC will evaluate current processes and implement change where necessary in order to implement the recommendation, including ensuring that inventory be valued at net realizable value. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Capital Assets

Finding No. 2015-010

Criteria: Capital assets should be properly recorded and maintained.

Condition: During the year ended September 30, 2015, CHCC recorded machinery, equipment, office equipment, improvements and vehicle expenses totaling \$670,581. Of that amount, two non-federal items totaling \$20,281 were tested and the following noted:

- a. One expedited purchase (593740-000-OP) amounting to \$4,602 with an estimated useful life of more than one year was expensed. In addition, Section 3-108 (3) of the CNMI procurement regulations states that the Procurement & Supply (P&S) Director must determine in writing that factors justify the expedited purchase and shall process the necessary documents and assist the expenditure authority in procuring the goods or service. A written determination from the P&S Director justifying the expedited purchase was not available.
- b. One item (591028-000-OP) was procured through emergency procurement; however, a written justification of the basis for the emergency and selection of the vendor was not made by the official with the expenditure authority.
- c. Based on CHCC's capitalization policy, CHCC expensed \$471,044 of capital asset acquisitions during the year ended September 30, 2015.

CHCC has not established the estimated useful lives of the assets transferred to CHCC by the CNMI government in fiscal year 2014 and thus, has not recorded depreciation expense and accumulated depreciation in fiscal year 2015. Further, CHCC has not conducted a physical inventory of its capital assets and has not updated construction in progress projects.

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

Effect: The effect of the above conditions 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, 2014, 2013 and 2012;
- 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; and
- Relevant invoices and other supporting documents be maintained and filed.

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 Finding Nos. 2013-10 and 2014-010 in CHCC's audits for fiscal years 2013 and 2014.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-010, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jesus Babauta, Medical Supply Officer (MSO)

Corrective Action: Communications regarding capital asset inventory and reporting have already taken place with CHCC MSO. The identified CHCC personnel continues to address, manage and physically count all assets and identify assets that are no longer in use in a timely manner. Program Directors will also keep asset listing logs, conduct quarterly physical asset counts and report damages, theft or misuse of assets, if any. Additionally, this task will be undertaken in the current year along with corresponding postings and updates to the JD Edwards system. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Liabilities

Finding No. 2015-011

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 forty-four subsequent disbursements tested totaling \$3,478,650, the following were noted:
 - a. The invoices, supporting statements or equivalent documents were not provided for one payment (check # 8845) totaling \$6,596.
 - b. The purchase requisition and purchase order for four items (check nos. 7904, 8312, 8640 and 8789) were approved after the invoice date.
 - c. We were unable to determine if two items (supplier nos. 110162 and 110622) totaling \$21,360 were accrued at year end as vendor details were not available.
 - d. We noted gaps in the sequence of checks (GL account nos. 1075.11340 and 1075.11360) issued after year end. Of sixty-eight gaps, an explanation for one was not provided. In addition, ten were actual checks issued which were subsequently cleared by the bank.
2. 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	\$ (20,393,741)	\$ (20,413,109)	\$ (19,368)
1012	\$ (154,983)	\$ (144,640)	\$ 10,343
2023	\$ (2,404,851)	\$ (3,312,726)	\$ (907,875)

An explanation or reconciliation of the variance was not available.

3. At September 30, 2015, CHCC recorded accrued payroll of \$421,593. Estimated accrued payroll amounted to \$821,933 resulting in a difference of \$400,340. An explanation of the variance was not available.

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

Effect: The effect of the above conditions 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 as Finding Nos. 2012-06, 2013-11 and 2014-011 in CHCC's audits for fiscal years 2012 through 2014.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-011, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Lucy Sanchez, Accounting Supervisor and Derek Sasamoto, CFO

Corrective Action: CHCC will enforce the proper maintenance of supporting documentation for executed transactions. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Due to Related Parties

Finding No. 2015-012

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, 2015, CHCC recorded \$3,223,617 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 \$3,619,355. A reconciliation of the variance was not available.
2. At September 30, 2015, CHCC recorded a payable to the Commonwealth Utilities Corporation (CUC) and utilities expense of \$15,168,602 and \$4,679,053, respectively. CUC confirmed receivables and utility revenue from CHCC of \$18,374,556 and \$6,539,391 resulting in differences of \$3,205,954 and \$1,860,338, respectively. Of the \$3,205,954 difference, \$3,146,127 represents assessed penalties. Management requested that adjusting entries to record the assessed penalties not be recorded at September 30, 2015 pending ongoing discussions with CUC management. A reconciliation of the remaining difference of \$59,827 was not available.
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, 2015, based on CHCC's operational budget for fiscal year 2015, an audit adjustment of \$398,682 was proposed to record the 1% fee.

In addition, Public Law 18-66 (the Appropriations and Budget Authority Act of 2015) requires the expenditure authority to submit an itemized expenditures report on operations and personnel and payments of the public auditor's fee to the presiding officers of the legislature at the end of each quarter and year to date totals as of the close of the reporting period, if applicable. We have been advised that such a report has not been provided to the legislature.

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

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

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

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-012, Continued

Prior Year Status: The lack of recording related party transactions and reconciliation of account balances in a timely manner was reported as Finding Nos. 2013-12 and 2014-012 in CHCC's audits for fiscal years 2013 and 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek Sasamoto, CFO

Corrective Action: CHCC will review and analyze the amounts due to related parties in order to ensure that all amounts reported as due and owed reconcile with the parties. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Withholding Taxes Payable

Finding No. 2015-013

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, 2015, CHCC recorded Chapter 2 and Chapter 7 withholding taxes outstanding of \$4,043,020. The actual amount due per the employee withholding returns and outstanding prior year balance amounted to \$4,284,493 resulting in a variance of \$241,473. Management did not consider the amount material to warrant an audit adjustment.

Total withholdings, fiscal year 2015	\$ 2,500,524
Penalty and Interest	665,420
Outstanding balance prior year	2,370,622
Current year payments	<u>(1,252,073)</u>
Expected balance at 9/30/15	4,284,493
Per general ledger	<u>4,043,020</u>
Variance	\$ <u>241,473</u>

In addition, we noted the following:

1. CHCC did not report Chapter 2 and Chapter 7 withholding taxes withheld from employee salaries on or before the due date for the first, third and fourth quarters of fiscal year 2015.
2. Chapter 2 and Chapter 7 withholding payments made during the fiscal year relate to prior year outstanding amounts. No withholding payments were remitted for all four quarters of fiscal year 2015.
3. Payments were sporadic throughout the year and not specifically referenced to the quarter being paid. Similarly, the withholding returns did not indicate when payments were made.
4. A reconciliation of the quarterly returns to actual payments made is not being maintained.

Cause: The cause of the above conditions is the lack of compliance with CNMI tax laws and monitoring of required payments for each payroll period.

Effect: The effect of the above conditions 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 Finding Nos. 2012-07, 2013-13 and 2014-013 in CHCC's audits for fiscal years 2012 through 2014.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-013, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Delia Johnson, Treasurer and Derek Sasamoto, CFO

Corrective Action: Cash shortfalls affect CHCC's compliance. CHCC will request the CNMI Government to provide adequate funding, or increase its rates, to ensure adequate recovery of expenses for providing quality healthcare in the CNMI. Also, CHCC will implement processes to ensure taxes are paid timely, that reports are filed timely and that amounts actually paid are reconciled to quarterly withholding reports. Current processes will be evaluated in order to accomplish this goal. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: September 30, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Social Security and Medicare Payments

Finding No. 2015-014

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 2015. The deposits (payments), however, were made between one and one hundred and seventy-five days past scheduled deposit dates. We examined the schedule of deposits provided totaling \$1,834,341 made during the fiscal year and noted the following:

1. Deposits made in October 2014, November 2014, February 2015 and August 2015 totaling \$676,963 were not included in the total deposits made.
2. Deposits made in March, June and July 2015 were \$54,811 less than the actual deposit made per the bank statements.
3. A deposit of \$21,729 for September 2015 was included in the schedule; however, no deposits were made per the bank statement.
4. No deposits were made in December 2014 and May 2015; however, payroll was processed for these months.
5. Deposits are not reconciled or referenced to Form 941. Similarly, Form 941 does not indicate when a deposit was made.
6. Deposits appear to be sporadic and not based on the earliest amount due.

In addition, CHCC recorded a FICA liability of \$1,465,713 at September 30, 2015. The actual amount due at September 30, 2015 was \$1,552,073 resulting in a variance of \$86,360. Management did not consider the amount material to warrant an audit adjustment.

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 of the above conditions is the lack of policies and procedures for monitoring FICA reporting requirements and payments.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-014, Continued

Effect: The effect of the above conditions 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 Finding Nos. 2012-08, 2013-14 and 2014-014 in CHCC's audits for fiscal years 2012 through 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Delia Johnson, Treasurer and Derek Sasamoto, CFO

Corrective Action: Cash shortfalls affect CHCC's compliance. CHCC will request the CNMI Government to provide adequate funding, or increase its rates, to ensure adequate recovery of expenses for providing quality healthcare in the CNMI. Processes to ensure that IRS payments are made timely and in full, as well as reported timely and accurately, are ongoing. Transmittals for federal tax deposits are now in place summarizing the payroll period and the resulting tax obligation. Evidence of preparation, management review and approval are also documented on the transmittal. The deposit confirmation number is also maintained along with hard copies of supporting documentation. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: September 30, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-015
 Federal Agency: U.S. Department of Energy
 CFDA Program: 81.041 State Energy Program
 Pass-Through Entity: CNMI Department of Public Works
 Award Number: 582999-OC
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$2,953

Criteria: In accordance with applicable period of availability requirements, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period. The non-Federal entity shall 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: For two (or 40%) of five nonpayroll disbursements tested, aggregating \$418,313 of a total population of \$427,875, obligations were incurred and liquidated beyond 90 days from the grant expiration date of 12/31/14. 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>
1812A	1212290	02/27/15	6601	05/04/15	\$ 61,587
1812A	1217494	05/04/15	6602	05/04/15	<u>2,953</u>
Total					\$ <u>64,540</u>

Cause: CHCC did not effectively monitor compliance with applicable period of availability requirements.

Effect: CHCC is in noncompliance with period of availability requirements, and questioned costs of \$2,953 are presented at this finding. No questioned costs are presented for PV No. 1212290, as the amount is already questioned in Finding No. 2015-016.

Recommendation: The responsible personnel should review funding period dates prior to charging expenditures to a Federal award. Furthermore, the responsible personnel should monitor check payments so that liquidations occur timely. Grantor approval should be sought if extensions are needed.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Warren Villagomez, Facility Director and Jack Deleon Guerrero, Facility Manager

Corrective Action: CHCC was under the impression that this grant was extended based on verbal advice from the CNMI Department of Public Works, Division of Energy. Moreover, liquidations were based on when payment/funds were received from CNMI DOF. CHCC will ensure that any sub-grantee agreements it enters into with grantee agencies are fully complied with and that instructions from the grantee agency are also evaluated for appropriateness and compliance with federal regulations.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-016
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Pass-Through Entity: CNMI Department of Public Works
Award Number: 582999-OC
Area: Procurement and Suspension and Debarment
Questioned Costs: \$410,579

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 Materials 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.

In addition, the sub-grant agreement states that contracts in excess of \$100,000 shall provide lobbying certification and disclosure.

Condition: For one (or 50%) of two contracts tested, aggregating \$418,313 of a total population of \$427,875, the following were noted for contract no. 583058-OC in the amount of \$410,579:

1. A non-competitive procurement method per Title 70, section 70-30.3-230 (emergency procurement) was used. A written justification was provided that the equipment is essential in ensuring adequate provisions for sanitation, sterilization and maintenance of indoor air quality for the hospital and that the demand for the equipment will not permit a delay resulting from competitive proposals. However, CHCC received a bid submission from the selected vendor about seven months before the date of the written justification. Therefore, sufficient time was available for a competitive process.
2. The required lobbying certification and disclosure were not provided.

Cause: CHCC believed there was insufficient time to procure through competitive methods.

Effect: CHCC is in noncompliance with procurement regulations, and questioned costs of \$410,579 exist.

Recommendation: Responsible personnel should properly plan the timing of procurements so as to allow for competitive procurement methods in accordance with applicable procurement requirements. If time constraints become a significant factor in the procurement process, the responsible personnel should obtain grantor approval prior to using non-competitive procurement methods.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-016, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Pass-Through Entity: CNMI Department of Public Works
Award Number: 582999-OC
Area: Procurement and Suspension and Debarment
Questioned Costs: \$410,579

Auditee Response and Corrective Action Plan:

Name of Contact Person:

Corrective Action:

The auditor found that the non-competitive procurement for the JWS Chiller in accordance with CNMI DOF Procurement Rules and Regulations NMIAC 70-30.3-230 was inappropriate given the bid submission dated seven (7) months prior to the justification. The auditor therefore concluded there was sufficient time available for the competitive process.

The auditor, however, did not factor in the complex grant extension process and the confusion in processing at CNMI DOF, Division of Procurement & Supply (P&S). In addition, the procurement should have and could have also been properly designated as an appropriate sole-sourced contract. Finally, the auditor should take issue with the CNMI Department of Public Works (DPW), Division of Energy (DOE) as DPW DOE was the grant recipient; CHCC was a sub-grant recipient.

1. It was a valid emergency procurement.
 - a. The need was urgent and well-documented.

CHCC had two chillers to cool the hospital. In 2013 and 2014, they were both old and prone to break down. There were constant problems with both chillers. The two chillers were repeatedly being repaired, and at the time of the approval for the emergency procurement, one of the chillers was completely down.

While the cost of the repairs themselves was reasonable, the frequent breakdowns created uncertainty as to their continued ability to function for any protracted time. The stop-gap repairs were sufficient in the short-term but were not a solution. The solution was to replace at least one of the chillers, both for purposes of continuity but also to save on electrical costs. CHCC is now and was at the time of the contract, in arrears to the Commonwealth Utilities Corporation. Reducing the electricity costs for the hospital was paramount in trying to stay financially solvent, pay the CUC arrearages, and do what was best for the environment.

Maintaining proper room temperature is essential to maintain appropriate infection control, such as preventing the growth of mold and bacteria. This is particularly true for the operating rooms and in Hemodialysis. As explained in CHCC Operating Policy 4522, the most common infections are surgical wounds and pneumonia. Proper temperature control along with proper medical techniques are essential to reducing the spread of infections.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-016, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Pass-Through Entity: CNMI Department of Public Works
Award Number: 582999-OC
Area: Procurement and Suspension and Debarment
Questioned Costs: \$410,579

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Growth of mold and bacteria in those areas can have dire consequences and would likely put CHCC in violation of the Center for Medicare and Medicaid Services Conditions of Participation. CMS CoP Section 481.42 requires the condition of the physical plant and overall hospital environment be developed and maintained in such a manner consistent with the well-being and comfort level of patients.

At the time of contract approval, the interior temperature of certain areas such as the main lobby area, the Family Care Clinic, Medical Records and some offices exceeded 75 degrees Fahrenheit. Again, this higher temperature is conducive to the growth of dangerous molds and bacteria. While CHCC now has electronic health records, there are vast paper records in Medical Records that are susceptible to mold growth at higher temperatures.

Of course, along with the higher temperatures, there is a concurrent increase in the degree of humidity, thereby affecting the comfort level of patients, medical staff, and visitors as well as contributing to increased and dangerous mold and bacteria growth.

- b. Much of the delay was due to DPW DOE.

CHCC was in the midst of dealing with multi-faceted problems arising from the breakdowns of the two chillers when it received a call from DPW DOE asking if CHCC had any urgent projects as there was still some ARRA funding available. The DPW DOE offer could not have come at a better time for CHCC.

DPW DOE said it needed the information immediately. CHCC had to determine specifications needed and got JWS to provide a quotation. CHCC was given less than a month to do this and succeeded.

Meanwhile, the ARRA funding had already expired. Therefore, DPW DOE requested an extension of the funding from the grantor agency. This was not a quick process. There was a lot of negotiations between the federal government and DPW DOE.

CHCC was not a part of this process and was completely unaware of how long this would take. During the negotiations, CHCC continued with its inadequate chillers, aware of the possibility that if the one functioning chiller broke down, there could be devastating ramifications, including the shutting down of the hospital for all but emergency services.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-016, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Pass-Through Entity: CNMI Department of Public Works
Award Number: 582999-OC
Area: Procurement and Suspension and Debarment
Questioned Costs: \$410,579

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- c. Substantial delay was also caused by P&S.

There were repeated problems with the processing of the contract through P&S. The current CHCC attorney represented P&S at the time this contract was being processed. There was confusion as to which agency should have been listed on the contract at P&S, the agency that received the grant and aided in assembling the appropriate specifications (DPW) or CHCC, the sub-grant recipient. There were different issues including which agency funds had been transferred to pay for the contract. The contract was rejected more than once. This was a lengthy process and it is difficult to establish the dates of the procurement since the P&S Director did not and does not use e-mail.

One of the first things the current CHCC attorney did, within her first six months of employment, was to draft CHCC Procurement Regulations. Public Law 16-51, which established the hospital and Public Health as a corporation, explicitly permitted CHCC to develop its own procurement rules and regulations. For whatever reason, the attorneys who preceded the current one did not draft procurement regulations. The attorney drafted the regulations in their entirety within six months of starting with CHCC.

The attorney was off island for protracted medical reasons when the Office of the Attorney General had issues with CHCC, which had its own Finance and Accounting, using P&S Procurement Rules and Regulations. With the assistance of another attorney in the Office of the Attorney General, the CHCC attorney was able to get the CHCC Procurement Rules and Regulations promulgated and then later adopted in September 2015. At that time, CHCC staff began the process of converting all contracts to CHCC Procurement Rules and Regulations.

Having its own Procurement Rules and Regulations is integral to CHCC doing compliant procurement. The generic procurement rules are suitable for most agencies but do not take into account the unique obstacles of procuring goods, services, licenses, and leases of real property for a hospital. This is particularly true because of the need for CHCC to be in compliance with stringent federal regulations for running a hospital (the CMS CoP).

2. It should have also been designated as an appropriate sole-sourced contract.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-016, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Pass-Through Entity: CNMI Department of Public Works
Award Number: 582999-OC
Area: Procurement and Suspension and Debarment
Questioned Costs: \$410,579

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

While it is true that the justification only technically lists being in accordance with the CNMI DOF Procurement Rules and Regulations NMIAC 70-30.3-230, if you read the justification closely, you can also see that the justification is based, in part, on CNMI DOF Procurement Rules and Regulations NMIAC 70-30.3-225, Sole Source Procurement. As explained in the original justification, JWS was selected for the sole source because it performed several projects funded through the ARRA program for both the CNMI Government and CHCC. JWS was aware of all of the requirements for performance under an ARRA contract, including compliance with the "Buy American" provisions and the ability to complete the projects in a timely manner. JWS successfully completed on time the retrofit at the Honorable Jesus P. Mafnas Memorial Building (the Legislature), the 200 ton chiller retrofit at the Guma Hustisia Building (the Judiciary), the retrofit at the Tinian Judicial Complex and the retrofit at the Rota Health Center.

In addition to its track record of successful installation of complex systems, JWS was cognizant of the importance of infection control. If chillers or air conditioning units are not stored properly prior to installation or properly installed, the very machines that are supposed to inhibit the spread of mold and bacteria will disseminate it throughout the hospital.

Thus, the project was appropriately sole-sourced to JWS. The original justification did explain this but it failed to call it a sole-sourced contract and identify the appropriate section in the P&S Rules and Regulations. Nevertheless, the justification did highlight the reasons behind the rationale to sole source. The failure to cite the proper section was a clerical error.

3. CHCC was a sub-grant recipient; audit findings should be for DPW DOE, the grant recipient.

CHCC was the sub-recipient of the grant. DPW DOE was the grant recipient. The auditor should conclude that if there was any noncompliance, the finding should be for DPW DOE, not against CHCC, the sub-recipient.

Proposed Completion Date: N/A

Auditor Response: The procurement file documentation provided to us is not sufficient to substantiate the documented emergency procurement method applied by CHCC.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-017
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Pass-Through Entity: CNMI Department of Public Works
Award Number: 582999-OC
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with Article V, Performance and Financial Report of the sub-grant agreement, CHCC is to submit quarterly performance and financial reports to CNMI Department of Public Works (Agency). A template of the report is also included in the agreement as exhibit C.

Condition: No quarterly performance and financial reports were prepared by CHCC.

Cause: CHCC believed the reports were to be submitted only upon request from the Agency.

Effect: CHCC is in noncompliance with applicable reporting requirements. The funds drawn down correspond with expenditures recorded in the general ledger; therefore, no questioned costs result.

Recommendation: The responsible personnel should correspond with the Agency to clarify the reporting requirement and should submit the required reports.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek Sasamoto, CFO

Corrective Action: CHCC's role and responsibilities as a sub-grantee need to be clarified and better communication should be included in the policies and procedures to ensure compliance with the grants awarded. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-018
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Pass-Through Entity: CNMI Department of Public Works
Award Number: 582999-OC
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: In accordance with special terms and conditions of the sub-grant agreement and Section 1606 of the Recovery Act, all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by and through the federal government pursuant to the Recovery Act shall be paid wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor in accordance with subchapter 31 of title 40, United States Code.

Condition: Tests of contracts and nonpayroll expenditures noted the following:

1. Required prevailing wage rate clauses were not included in contract no. 583058-OC in the amount of \$410,579 for the replacement of a hot water tank.
2. No required certified payrolls from the contractor was provided.

Cause: CHCC believed that the wage rate requirement did not apply to the contract as it is a retrofit with minimum labor.

Effect: CHCC is in noncompliance with special tests and provisions requirements. No questioned costs are presented at this finding as the cost is already questioned in Finding No. 2015-016.

Recommendation: The responsible personnel should correspond with the CNMI Department of Public Works to clarify the applicability of the wage rate requirement.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek Sasamoto, CFO

Corrective Action: CHCC will evaluate processes to ensure that required contractual disclosures such as prevailing wage rates are indicated in documentation where required. CHCC's role and responsibilities as a sub-grantee need to be clarified and better communication should be included in the policies and procedures to ensure compliance with the grants awarded. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-019
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.069 Public Health Emergency Preparedness
 Award Numbers: 5U90TP000540-03 and 5U90TP000540-04
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$33,994

Criteria: In accordance with applicable allowable costs/cost principles requirements, costs must be adequately documented in order to be allowable under Federal awards.

Condition:

1. Of nine payroll expenditures tested, aggregating \$48,601 of a population of \$225,657, the following were noted:
 - a. For one (or 11%), the NOPA was not provided for employee no. 519862 to substantiate the employee's employment and wage rate. Total program charges in FY2015 totaled \$24,867.
 - b. For five (or 56%), timesheets were not provided.

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Pay Period</u>	<u>Employee Number</u>	<u>Questioned Costs</u>
CHH4074B	61100	11/01/14	11/01/14	519862	\$ 673
CHH4074B	61100	04/18/15	04/18/15	100829	1,077
CHH4074B	61100	05/30/15	05/30/15	548844	2,094
CHH5074B	61100	09/05/15	09/05/15	102761	1,005
CHH4074B	61196	12/13/14	12/13/14	100829	<u>2,488</u>
					7,337
Less amount already questioned in Condition 1.a. above					<u>(673)</u>
					\$ <u>6,664</u>

- c. For two (or 22%), NOPAs were approved months and even a year after the effective date for the following:

<u>Business Unit</u>	<u>Employee No.</u>	<u>NOPA Effective Date</u>	<u>NOPA Approval Date</u>	<u>Days Lapsed</u>
CHH5074B	100829	07/01/15	07/13/16	378
CHH5074B	102761	07/01/15	09/15/15	76

No questioned costs are presented as drawdowns are performed on expenditures that are properly approved.

2. For two (or 22%) of nine nonpayroll expenditures tested, aggregating \$88,294 of a population of \$203,139, invoices were not provided.

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Document Number</u>	<u>Obligating Document No.</u>	<u>Questioned Costs</u>
CHH4074B	62250	02/20/15	1211517	588109-OP	\$ 2,463
CHH5074B	64540	08/17/15	238567	597109-OP	<u>29,995</u>
					32,458
Less amount already questioned at Finding No. 2015-021, Condition 2					<u>(29,995)</u>
					\$ <u>2,463</u>

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-019, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.069 Public Health Emergency Preparedness
Award Numbers: 5U90TP000540-03 and 5U90TP000540-04
Area: Allowable Costs/Cost Principles
Questioned Costs: \$33,994

Cause: CHCC did not enforce recordkeeping controls in accordance with applicable allowable costs/cost principles requirements.

Effect: CHCC is in noncompliance with allowable costs/cost principles requirements, and questioned costs of \$33,994 exist.

Recommendation: The responsible personnel should establish a recordkeeping system whereby underlying support for each transaction is processed timely and filed accordingly for easy retrieval to substantiate costs. The responsible personnel should not approve payroll costs, indirect costs, or other program expenditures unless underlying support is provided for review.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Warren F. Villagomez, Director for Preparedness Program and Cora P. Ada, Preparedness Coordinator

Corrective Action Plan:

Condition 1 (a) and (c):

CHCC fully accepts the findings. CHCC payroll will not process employee payroll payments without a proper timesheet from each employee as provided by each department/program supervisor. Moreover, any changes to wage rates will not be processed without an approved NOPA supporting the change. The processing and issuance of NOPAs are the responsibility of the Human Resource Department (HR) and beyond the Program's control. Upon review of this finding, we coordinated with HR and requested assistance to obtain copies of the NOPA for employee no. 519862 for two periods NTE 06/30/15 signed and dated 11/05/14 whereas for period NTE 06/30/16 was signed 09/15/15, respectively. For whatever reason HR may have had at the time of the audit, when the document was not presented, only HR that can explain what transpired. As for the Preparedness Program, we do know for a fact that there are steps and protocols that we adhere to.

There are several steps that every Program must adhere to in requesting renewal/hiring of staff:

- A letter addressed to the HR Manager must be submitted to renew/hire employees with approval from the Chief Executive Officer. The letter must be supported by a Notice of Grant Award (NOA), a budget breakdown and an approved allotment advice. Thus, in the absence of the NOA due to pending release from the grantor agency, the Program informs HR of the pending release of the NOA. Once HR receives the notification from the Program, HR prepares a letter of request for an employee extension for the CEO's approval.

To eliminate this finding, the Program will coordinate diligently with HR and assist, if necessary, to alleviate the burden of time for HR to process documents.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-019, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.069 Public Health Emergency Preparedness
Award Numbers: 5U90TP000540-03 and 5U90TP000540-04
Area: Allowable Costs/Cost Principles
Questioned Costs: \$33,994

Auditee Response and Corrective Action Plan, Continued:

Corrective Action Plan, Continued:

Condition 1 (b):

The Preparedness Program makes it a point to retain copies of documents prior to submitting to the Payroll Unit. We reviewed our files and identified that we have copies of the timesheets except for employee no. 102761. It may have been that the timesheets for the other four employees were misfiled. It is the policy of the Payroll Unit not to process employee payroll in the absence of timesheets and summaries from Programs.

To eliminate this finding, our Administrative Officer will work closely with the Payroll Unit as often as possible to ensure we assist in providing any misfiled documents. Thus, we also seek to be informed by the auditor should the timekeeping unit fail to provide the requested timesheets.

Condition 2:

The Preparedness Program has been diligent in making sure that we have complete copies of documents with transmittals before submitting to the Accounting Department (this is supported by our Program's Administrative Plan which is currently in place). CHCC Accounting will not process any payments without a proper invoice supported by complete documentation, such as completed receiving reports. Our review of our Program files revealed that we have complete copies of invoices for the two identified transactions. Our Administrative Officer coordinates with the Accounting Supervisor as back up should they misfile their purchase vouchers (PVs) and it is now a practice in our program to obtain confirmation that they have completed sets of documents to be presented to the auditor.

To eliminate this finding, our Program will continue to collaborate with the Finance Office to ensure that all documents requested for testing will be furnished. We asked the auditor's indulgence to continue informing Programs for back-ups. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: Ongoing

Auditor Response: Timesheets (condition 1 (b)) and invoices (condition 2) were not made available.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-020
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.069 Public Health Emergency Preparedness
 Award Number: 5U90TP000540-03 (BU CHH4074B)
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$-0-
 Award Number: 5U90TP000540-04 (BU CHH5074B)
 Area: Period of Performance
 Questioned Costs: \$-0-

Criteria: In accordance with applicable period of availability requirements, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period. The non-Federal entity shall 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.

In accordance with applicable period of performance 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: For two (or 29%) of seven nonpayroll expenditures tested, aggregating \$88,294 of a total population of \$203,139, supporting documentation was not provided.

<u>Business Unit</u>	<u>Object Account</u>	<u>General Ledger Date</u>	<u>Document Number</u>	<u>Document Type</u>	<u>Amount</u>
CHH4074B	62250	02/20/15	1211517	PV	\$ 2,463
CHH5074B	64540	08/17/15	238567	OV	<u>29,995</u>
					<u>32,458</u>
			Less amounts already questioned at:		
			Finding No. 2015-019 Condition 2		(2,463)
			Finding No. 2015-021 Condition 2		<u>(29,995)</u>
					<u>(32,458)</u>
					\$ _____

Cause: CHCC did not effectively monitor compliance with applicable period of availability and period of performance requirements.

Effect: CHCC is in noncompliance with applicable period of availability and period of performance requirements.

Recommendation: The responsible personnel should review funding period dates prior to charging expenditures to a Federal award. Furthermore, the responsible personnel should monitor check payments so that liquidations occur timely. Grantor approval should be sought if extensions are needed. Documentation that demonstrates compliance with applicable period of availability requirements and period of performance requirements should be maintained.

Prior Year Status: Noncompliance with period of availability requirements was reported as Finding No: 2014-035 in the Single Audit of CHCC for fiscal year 2014.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-020, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.069 Public Health Emergency Preparedness
Award Number: 5U90TP000540-03 (BU CHH4074B)
Area: Period of Availability of Federal Funds
Questioned Costs: \$-0-
Award Number: 5U90TP000540-04 (BU CHH5074B)
Area: Period of Performance
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Warren F. Villagomez, Director for Preparedness Program and Cora P. Ada, Preparedness Coordinator

Corrective Action: The Preparedness Programs duly acknowledge the findings and this is beyond our control. We do know for a fact that there is standard protocol in place prior to the development and implementation of Federal Grants Management. Our program diligently works with the Accounts Payable Section, who is in charge of processing PVs, and we have proof of transmittals that we submitted all invoices in a timely manner. Also, our records through transmittals reveal that we have repetitively submitted documents to the Accounts Payable Section. We have access to our business unit to view transactions and sometimes we advise of any improper handling of transactions that need to be adjusted. Also, in reference to Finding No. 2015-019, our file revealed that we have the documents pertaining to the two transactions.

CHCC will work with federal programs to ensure that expenses are charged to the proper period, that liquidations at year end are performed within the allowable 90-day liquidation period and that supporting documentation is maintained in order to substantiate the proper liquidation. For any liquidations after this date, CHCC will ensure that approval is sought and approved by the grantor prior to the expiration of the allowable liquidation period. CHCC has also implemented a new process where CHCC accounting will send out encumbrance reports to federal programs after the end of every month in order for the programs to better manage and liquidate their procurements in coordination with Accounting. Moreover, CHCC Grants Management Office has provided a listing of all current CHCC grants and their corresponding grant cycles and expiration dates and this document also indicates the 90-day liquidation period date so further verification can occur within Accounting prior to certifying procurement requests, as well as prior to entering invoices for payment. Policies and procedures describing these changes will be developed and implemented along with training of staff of the new policies and procedures.

Proposed Completion Date: Ongoing

Auditor Response: See Auditor Response at Finding No. 2015-19.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-021
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.069 Public Health Emergency Preparedness
 Award Numbers: 5U90TP000540-03 and 5U90TP000540-04
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$73,284

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 Materials 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.
- 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 ten nonpayroll expenditures tested, totaling \$121,740, the following were noted:

1. For one (or 10%), less than three quotations were obtained for airfare costs:

<u>Business Unit</u>	<u>TA/ Contract No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Questioned Costs</u>
CHH5074B	315975-OT	62500	09/21/15	1246665	\$ 3,301

2. For two (or 20%), no procurement documents were provided for the following:

<u>Business Unit</u>	<u>TA/ Contract No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Questioned Costs</u>
CHH4074B	596748-OP	64540	09/15/15	238679	\$ 39,988
CHH5074B	597109-OP	64540	08/17/15	238567	29,995
					\$ <u>69,983</u>

Cause: CHCC did not enforce compliance with established policies and procedures over procurement regulations.

Effect: CHCC is in noncompliance with procurement regulations, and questioned costs of \$73,284 exist.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-021, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.069 Public Health Emergency Preparedness
Award Numbers: 5U90TP000540-03 and 5U90TP000540-04
Area: Procurement and Suspension and Debarment
Questioned Costs: \$73,284

Recommendation: The responsible personnel should monitor and enforce compliance with applicable procurement requirements, including the review of procurement files for completeness as to written rationales for any deviations from applicable procurement requirements.

Prior Year Status: Noncompliance with procurement regulations was reported as Finding No. 2014-021 in CHCC's Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Warren F. Villagomez, Director for Preparedness Program and Cora P. Ada, Preparedness Coordinator

Corrective Action: The Preparedness Programs duly acknowledge this finding, however, the Preparedness Programs initiates the processing of travel authorizations and have no control as far as obtaining three quotations. CHCC's Travel Section administers this process.

CHCC promulgated and adopted new procurement regulations in September 2015 which changed the threshold for requiring three quotations. CHCC will ensure that procurement regulations are followed. Moreover, payments will not be made without proper procurement authorization. For any situation that may lead to after-the-fact procurements, CHCC will require a justification detailing the reason why the procurement process was not adhered to. CHCC will also enforce the regulations on employees who act beyond their scope of employment upon incurring an unauthorized obligation for CHCC. For travel, CHCC obtains the lowest fare available from the most capable travel agent as some travel agents are unable to secure flight reservations beyond 2 or 3 days while travel authorization documents are routed for approval.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-022
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.069 Public Health Emergency Preparedness
 Award Numbers: 5U90TP000540-03 Revised and 3U90TP000540-03S1 Revised
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance applicable reporting requirements, 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, 2015, we noted the following variances:

Report Details	Business Unit CHH 4074B		
	SF-425	General Ledger	Variance
Federal Cash			
10a. Cash Receipts	\$ 386,424	\$ 314,444	\$ 71,890
10b. Cash Disbursements	<u>385,670</u>	<u>335,407</u>	<u>50,263</u>
10c. Cash on Hand	\$ <u>754</u>	\$ <u>(20,963)</u>	\$ <u>21,717</u>
Federal Expenditures and Unobligated Balance			
10e. Federal Share of Expenditures	\$ 386,424	\$ 335,407	\$ 51,017
10f. Federal Share of Unliquidated Obligations	<u>-</u>	<u>50,263</u>	<u>(50,263)</u>
10g. Total Federal Share	\$ <u>386,424</u>	\$ <u>385,670</u>	\$ <u>754</u>
10h. Unobligated balance of Federal Funds	\$ 18,172	\$ 18,926	\$ (754)

Cause: CHCC did not monitor reports for accuracy and completeness prior to report submission.

Effect: CHCC is in noncompliance with applicable reporting requirements. The funds drawn down correspond with expenditures recorded in the general ledger; therefore, no questioned costs result.

Recommendation: The responsible personnel should review the SF-425 report prior to submission to the grantor to verify that amounts are supported by underlying accounting records. Such accounting records should be maintained on file to substantiate reported amounts and to facilitate any reconciliation process with the grantor.

Prior Year Status: Noncompliance with grant reporting requirements was reported as Finding No. 2014-022 in CHCC's Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Warren F. Villagomez, Director for Preparedness Program, Vince Camacho, Grants Administrator and Priscilla M. Iakopo, Assistant CFO

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-022, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.069 Public Health Emergency Preparedness
Award Numbers: 5U90TP000540-03 Revised and 3U90TP000540-03S1 Revised
Area: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: CHCC fully accepts the finding. In collaboration with the Grants Management Office and Accounting, a transmittal process will take effect to ensure that prior to submitting any federal grant reports, the preparer must route the documents to the Grants Administrator and CFO for review and approval. This process will ensure the accuracy and timeliness of submitting federal financial reports. Moreover, CHCC will ensure that supporting documentation is maintained and supported and that the submitted reports are reconciled to system reports. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-023
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)
 Award Numbers: 1U79SM061625-01 and 1U79SM061625-01 Revised
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$48,474

Criteria: In accordance with applicable allowable costs/cost principles requirements, costs must be adequately documented in order to be allowable under Federal awards.

Further, 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. Of nine payroll expenditures, aggregating \$74,673 of a population of \$254,995, we noted the following:
 - a. For one (or 11%), the employee's NOPA was not provided to substantiate the employee's employment and wage rate.

<u>Employee No.</u>	<u>Amount Paid in FY2015</u>
103142	\$ 17,016

- b. For seven (or 78%), the NOPA was not timely approved:

<u>Business Unit</u>	<u>Employee No.</u>	<u>PAF Effective Date</u>	<u>PAF Approval Date</u>	<u>Days Lapsed</u>
CHH41040	837008	10/10/14	12/01/14	52
CHH41040	442719	01/01/15	02/03/15	33
CHH41040	200059	02/23/15	03/12/15	17
CHH41040	372919	05/09/15	03/11/16	307
CHH41040	402393	05/07/15	05/11/15	4
CHH41040	200059	09/30/15	03/11/16	163
CHH41040	402393	09/30/15	03/11/16	163

No questioned costs are presented as drawdowns are performed on expenditures that are properly approved.

2. For one (or 20%) of five nonpayroll expenditures, aggregating \$111,023 of a total population of \$178,764, the invoice and/or obligating document was not provided to substantiate costs:

<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>
CHH41040	62500	1213975	PV	03/19/15	312593-OT	\$ 199

3. No written indirect cost agreement was provided to substantiate the rate used.

<u>Business Unit</u>	<u>Object No.</u>	<u>Amount</u>
CHH41040	62790	\$ 31,259

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-023, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.104 Comprehensive Community Mental Health Services for
Children with Serious Emotional Disturbances (SED)
Award Numbers: 1U79SM061625-01 and 1U79SM061625-01 Revised
Area: Allowable Costs/Cost Principles
Questioned Costs: \$48,474

Cause: CHCC did not enforce recordkeeping controls in accordance with applicable allowable costs/cost principles requirements.

Effect: CHCC is in noncompliance with applicable allowable costs/cost principles requirements, and questioned costs of \$48,474 exist.

Recommendation: The responsible personnel should establish a recordkeeping system whereby underlying support for each transaction is processed timely and filed accordingly for easy retrieval to substantiate costs. The responsible personnel should not approve payroll costs, indirect costs, or other program expenditures unless underlying support is provided for review.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Nadine Sablan, Community Guidance Center Director and Derek Sasamoto, CFO

Corrective Action: In terms of the indirect cost (IDC) rate, CHCC is now utilizing the allowable de minimus rate of 10% as provided in 2 CFR 200.414(f) barring any future IDC negotiations. As for the condition for accounts payable, CHCC Accounting will ensure the establishment of a recordkeeping system that ensures the processing of payments with proper procurement documentation and authorization. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-024
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)
 Award Numbers: 1U79SM061625-01 and 1U79SM061625-01 Revised
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$108,768

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 Procurement and Supply (P&S) Director for approval.
- 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 five nonpayroll expenditures tested, totaling \$111,023, the following were noted:

1. For one (or 20%), procurement did not exhibit full and open competition as the technical specifications for the required television appeared specific to the particular brand offered by the selected vendor:

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Obligating Document No.</u>	<u>Amount</u>
CHH41040	63120	09/28/15	238799	599948-OP	\$ 3,768

2. For two (or 40%), sole source was used, but no written justification was provided as to why no other available vendor could provide the needs assessment and training services.

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Obligating Document No.</u>	<u>Amount</u>
CHH41040	62060	06/25/15	1232382	589681-OC	\$ 55,000
CHH41040	62060	06/25/15	1232383	589681-OC	<u>50,000</u>
					\$ <u>105,000</u>

Cause: CHCC did not enforce compliance with established policies and procedures over procurement regulations.

Effect: CHCC is in noncompliance with applicable procurement regulations, and questioned costs of \$108,768 exist.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-024, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.104 Comprehensive Community Mental Health Services for
Children with Serious Emotional Disturbances (SED)
Award Numbers: 1U79SM061625-01 and 1U79SM061625-01 Revised
Area: Procurement and Suspension and Debarment
Questioned Costs: \$108,768

Recommendation: The responsible personnel should monitor and enforce compliance with applicable procurement requirements, including the review of procurement files for completeness as to written rationales for any deviations from applicable procurement requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Nadine Sablan, Community Guidance Center Director and Derek Sasamoto, CFO

Corrective Action: CHCC will ensure that procurement regulations are adhered to and that proper justifications are submitted and approved in order to promote full and open competition and to justify situations where this condition of full competition is not possible. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-025
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)
 Award Number: 1U79SM061625-01
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance applicable reporting requirements, 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, 2015, we noted the following variances:

Report details - Business Unit CHH41040	<u>Per SF-425</u>	<u>Per General Ledger</u>	<u>Variance</u>
Federal cash:			
10a. Cash receipts	\$ 483,921	\$ 425,834	\$ 58,087
10b. Cash disbursements	<u>483,921</u>	<u>483,921</u>	<u>-</u>
10c. Cash on hand	\$ <u>-</u>	\$ <u>(58,087)</u>	\$ <u>58,087</u>

Cause: CHCC did not monitor reports for accuracy and completeness prior to report submission.

Effect: CHCC is in noncompliance with applicable reporting requirements. The funds drawn down correspond with expenditures recorded in the general ledger; therefore, no questioned costs result.

Recommendation: The responsible personnel should review the SF-425 report prior to submission to the grantor to verify that amounts are supported by underlying accounting records. Such accounting records should be maintained on file to substantiate reported amounts and to facilitate any reconciliation process with the grantor.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Nadine Sablan, Community Guidance Center Director, Vince Camacho, Grants Administrator and Derek Sasamoto, CFO

Corrective Action: In collaboration with the Grants Management Office and Accounting, a transmittal process will take effect to ensure that prior to submitting any federal grant reports, the preparer must route the documents to the Grants Administrator and CFO for review and approval. This process will ensure the accuracy and timeliness in submitting federal financial reports. Moreover, CHCC will ensure that supporting documentation is maintained and supported and that the submitted reports are reconciled to system reports. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-026
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
 Award Numbers: 5U52PS004100-02 Revised and 5U52PS004100-03 Revised
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$6,416

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

Condition:

1. For two (or 33%) of six nonpayroll expenditures, aggregating \$9,472 of a total population of \$181,959, travel expenditures were recorded, but the travel did not occur, and a reversal of the charges was not made, as follows:

Business Unit	General Ledger Date	Document No.	Contract Number	Questioned Costs
CHH4116C	01/14/15	1208419	311333-OT	\$ 3,208
CHH4116C	01/14/15	1208424	311333-OT	<u>3,208</u>
				\$ <u>6,416</u>

2. For six (or 60%) of ten federal payroll items tested, totaling \$37,322 of a population of \$304,380, NOPA forms were approved by the Human Resources Officer more than a month and even more than a year after the effective date of the NOPA, as follows:

Business Unit	Employee No.	PAF Effective Date	PAF Approval Date	Days Lapsed
CHH5116C	337907	01/01/15	03/06/15	64
CHH5116B1	102652	01/01/15	08/24/15	235
CHH5116B1	578284	01/01/15	08/24/15	235
CHH5116E1	442876	01/01/15	08/24/15	235
CHH5116E1	442876	04/01/15	07/23/16	479
CHH5116E1	442876	04/01/15	07/23/16	479

Cause: CHCC did not consistently monitor travel and payroll activities in accordance with applicable allowable costs/cost principles requirements.

Effect: CHCC is in noncompliance with applicable allowable costs/cost principles requirements, and questioned costs of \$6,416 exist since projected questioned costs exceed \$10,000.

Recommendation: The responsible personnel should review program charges for authorization, validity, and completeness in a timely manner in accordance with applicable allowable costs/cost principles requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: John Dax Moreno, Communicable Disease Manager (CDM), Vince Camacho, Grants Administrator, Priscilla M. Iakopo, Assistant CFO and Human Resources Director

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-026, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.116 Project Grants and Cooperative Agreements for
Tuberculosis Control Programs
Award Numbers: 5U52PS004100-02 Revised and 5U52PS004100-03 Revised
Area: Allowable Costs/Cost Principles
Questioned Costs: \$6,416

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

Condition 1:

CHCC Accounting will ensure that proper reversal of charges occurs upon cancellation of approved travels. In addition, the CDM will request for expenditure reversals via memorandum to ensure that proper records of expenditure reversal are requested.

Condition 2:

The Human Resources Director will ensure that NOPAs are processed and released on a timely basis. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-027
Federal Agency: U.S. Department of Health and Human Services
CFDA Programs: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
Award Numbers: 5U52PS004100-02 Revised and 5U52PS004100-03 Revised
Area: Cash Management
Questioned Costs: \$22,889

Criteria: In accordance with applicable cash management requirements, if an entity has awards funded on a reimbursement payment basis, the program costs should be paid for with entity funds before reimbursement is requested from the Federal Government.

Condition: Total drawdowns are greater than total expenditures by \$22,889.

Total drawdowns	\$ 535,007
Total expenditures	<u>512,118</u>
Variance	\$ <u>22,889</u>

Cause: CHCC did not monitor cash drawdowns in accordance with applicable cash management requirements.

Effect: CHCC is in noncompliance with applicable cash management requirements, and questioned costs of \$22,889 exist.

Recommendation: The responsible personnel should periodically monitor federal drawdowns and disbursements in accordance with applicable cash management requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: John Dax Moreno, CDM, Vince Camacho, Grants Administrator and Derek Sasamoto, CFO

Corrective Action: CHCC Accounting and Grants Management Office will work together to ensure that drawdowns are supported by proper documentation summarizing the approved expenses eligible for drawdown. For those that are not supported by system reports and documentation, the drawdown will not occur. The CDM will monitor cash drawdowns and disbursements by having a bookkeeping system maintained for program funds. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-028
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
 Award Numbers: 5U52PS004100-02 Revised and 5U52PS004100-03 Revised
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$1,150

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: For three (or 50%) of six transactions tested, totaling \$9,472 of a population of \$181,959, the required minimum three price quotations were not obtained. Instead, sole source procurement was used to acquire advertising and travel services that are available from more than one vendor, as follows:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Contract Number</u>	<u>PO/Contract Amount</u>	<u>Questioned Costs</u>
CHH4116C	12/12/14	1206249	574427-OP	\$ 3,900	\$ 650
CHH5116C	03/26/15	1214402	590265-OP	\$ 7,000	500
CHH4116C	01/14/15	1208419	311333-OT	\$ 3,208	3,208
CHH4116C	01/14/15	1208424	311333-OT	\$ 3,208	<u>3,208</u>
					7,566
Less amounts already questioned at Finding No. 2015-026 Condition 1					<u>(6,416)</u>
					\$ <u>1,150</u>

Cause: CHCC did not enforce compliance with established policies and procedures over procurement regulations.

Effect: CHCC is in noncompliance with applicable procurement regulations, and questioned costs of \$1,150 exist since projected questioned costs exceed \$10,000.

Recommendation: The responsible personnel should monitor and enforce compliance with applicable procurement requirements, including the review of procurement files for completeness as to written rationales for any deviations from applicable procurement requirements.

Prior Year Status: Failure to comply with applicable procurement regulations was reported as Finding No. 2014-025 in CHCC's Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: John Dax Moreno, CDM, Priscilla M. Iakopo, Assistant CFO and Derek Sasamoto, CFO

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-028, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
Award Numbers: 5U52PS004100-02 Revised and 5U52PS004100-03 Revised
Area: Procurement and Suspension and Debarment
Questioned Costs: \$1,150

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: CHCC has promulgated and adopted new procurement regulations in September 2015. These new regulations altered the thresholds requiring three quotations. CHCC will ensure that procurement regulations are adhered to. However, advertising, given that there are only two companies in the CNMI, is commonly sought from both companies. Thus, CHCC may submit one procurement request to one company referencing their specific quotation and another procurement request for the other company. For travel, CHCC obtains the lowest fare available from the most capable travel agent as some travel agents are unable to secure flight reservations beyond 2 or 3 days while travel authorization documents are routed for approval. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-029
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs
Award Numbers: 5U52PS004100-02 Revised and 5U52PS004100-03 Revised
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, reports of Federal awards submitted to the Federal awarding agency should include all activity of the reporting period, be supported by underlying accounting or performance records, and be fairly presented in accordance with program requirements.

Condition: Tests of program reporting requirements noted that there is no documentation to demonstrate the performance of monitoring procedures on annual and performance reports.

Cause: CHCC has not established documentation requirements regarding monitoring controls over compliance with applicable reporting requirements.

Effect: CHCC is in potential noncompliance with applicable reporting requirements. No questioned costs are presented due to our inability to quantify internal control weaknesses.

Recommendation: The responsible personnel should establish and implement documentation procedures for monitoring annual and performance reports in accordance with applicable reporting requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: John Dax Moreno, CDM, Grants Management Office and Derek Sasamoto, CFO

Corrective Action: The CDM will assist in establishing proper documentation to assist in monitoring controls over compliance with applicable reporting requirements by establishing a calendar of reports through Google Calendar to be shared with the applicable parties, such as Accounting and Grants Management Office. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-030
 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)
 Award Numbers: 3 H80CS24104-03-00 and 6 H80CS28324-01-00
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$170,973

Criteria: In accordance with applicable allowable costs/cost principles requirements, costs must be adequately documented in order to be allowable under Federal awards.

Condition: Tests of major program expenditures noted the following:

1. Of thirteen payroll expenditures, aggregating \$235,366 of a population of \$551,104, the following were noted:

- a. For two (or 15%), payroll journal entries were not provided:

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Document Type</u>	<u>Amount</u>
CHH4224A	61100	04/30/15	254961	JE	\$ 24,889
CHH4224A	61100	04/30/15	254961	JE	<u>76,924</u>
					\$ <u>101,813</u>

- b. For one (or 16%), the employee's NOPA was not provided to substantiate the employee's employment and wage rate.

<u>Employee No.</u>	<u>Amount Charged in FY2015</u>
558587	\$ 67,000

- c. For one (or 8%), employee no. 795983 was paid 1.75 hours more than hours stated on the timesheet for pay period ended 01/10/15, resulting in questioned costs of \$20.

- d. For three (or 23%), NOPAs were approved after the effective date for the following:

<u>Business Unit</u>	<u>Employee No.</u>	<u>NOPA Effective Date</u>	<u>NOPA Approval Date</u>	<u>Days Lapsed</u>
CHH5224A	795983	05/01/15	08/24/15	115
CHH5224A	476585	05/01/15	08/24/15	115
CHH5224A	559396	05/01/15	08/24/15	115

No questioned costs are presented as drawdowns are based on the approved rate.

2. For one (or 25%) of four nonpayroll expenditures, aggregating \$6,094 of a total population of \$135,712, no invoice or other supporting document was provided.

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Document Type</u>	<u>Amount</u>
CHH4224A	62500	02/27/15	1212289	PV	\$ 2,140

Cause: CHCC did not enforce recordkeeping controls in accordance with applicable allowable costs/cost principles requirements.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-030, 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)
Award Numbers: 3 H80CS24104-03-00 and 6 H80CS28324-01-00
Area: Allowable Costs/Cost Principles
Questioned Costs: \$170,973

Effect: CHCC is in noncompliance with applicable allowable costs/cost principles requirements, and questioned costs of \$170,973 exist.

Recommendation: The responsible personnel should establish a recordkeeping system whereby underlying support for each transaction is processed timely and filed accordingly for easy retrieval to substantiate costs. The responsible personnel should not approve payroll costs or other program expenditures unless underlying support is provided for review.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Vince Castro, Kagman Community Health Center (KCHC) Director, Derek Sasamoto, CFO and Clarinda Ngirausui, Human Resource Manager

Corrective Action: CHCC and KCHC fully accepts the findings. CHCC and KCHC will perform due diligence by ensuring that the responsible personnel establish a recordkeeping system that supports each transaction, that each transaction is timely processed and filed accordingly. Also, we will ensure that the responsible personnel does not approve payroll costs or other program expenditures unless underlying support is provided for review. Accounting will ensure that all journal entries are tracked, documented, approved and accounted for in terms of file maintenance. Accounting will also ensure that no payments are made without proper supporting documentation. CHCC payroll will also ensure that verifications are performed to ensure accurate processing of payroll transactions. For any transaction error, adjustments will be made and evidenced for management review and approval.

Proposed Completion Date: Immediately

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-031
 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)
 Award Number: H80CS24104 (BU CHH4224A)
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$2,143
 Award Number: H80CS28324 (BU CHH5224A)
 Area: Period of Performance
 Questioned Costs: \$4,254

Criteria: In accordance with applicable period of availability and period of performance requirements, 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. For one (or 25%) of four nonpayroll expenditures tested, aggregating \$6,094 of a total population of \$135,712, liquidation occurred beyond 90 days from the budget end date. Grant extension documentation was not provided.

Business Unit	Document No.	General Ledger Date	Check No.	Check Date	Liquidation End Date	Days Lapsed	Questioned Costs
CHH4224A	238173	06/10/15	3961	04/02/16	07/30/15	247	\$ 2,143

2. For one (or 7%) of fourteen subsequent expenditures tested, aggregating \$177,289 of a total population of \$564,988, liquidation occurred beyond 90 days from the budget end date. Grant extension documentation was not provided.

Business Unit	Document No.	General Ledger Date	Check No.	Check Date	Liquidation End Date	Days Lapsed	Questioned Costs
CHH5224A	240726	06/14/16	Not paid as of 10/01/16	N/A	07/30/16	N/A	\$ 4,254

Cause: CHCC did not effectively monitor compliance with applicable period of availability requirements and period of performance requirements.

Effect: CHCC is in noncompliance with period of availability and period of performance requirements, and questioned costs of \$6,397 exist as the projected questioned costs exceed \$10,000.

Recommendation: The responsible personnel should review funding period dates prior to charging expenditures to a Federal award. Furthermore, the responsible personnel should monitor check payments so that liquidations occur timely. Grantor approval should be sought if extensions are needed.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Derek Sasamoto, CFO and Grants Management Office

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-031, 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)
Award Number: H80CS24104 (BU CHH4224A)
Area: Period of Availability of Federal Funds
Questioned Costs: \$2,143
Award Number: H80CS28324 (BU CHH5224A)
Area: Period of Performance
Questioned Costs: \$4,254

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: Accounting will work with CHCC's Grants Management Office to ensure that obligations are liquidated within the allowable program period including the grant-end 90-day liquidation period. CHCC Accounting will implement a process whereby programs are sent their encumbrance reports every month end in order to provide awareness to the programs and needed liquidations prior to the end of the period of performance. This will also lead to better coordination between the two departments which will create efficiency. Moreover, Accounts Payable Processing and Approval policies have been put in place in October 2016. Training and meetings have also occurred amongst CHCC's CFO, Grants Management Office and Federal Accounting clarifying the 90-day liquidation regulations and policy whereby obligations must be incurred on or before current grant period expiration and that the 90-day liquidation period is strictly for liquidating obligations. Finally, CHCC's Grants Management Office has provided a listing of all current CHCC grants and their corresponding grant cycles and expiration dates, which also indicates the 90-day liquidation period date so further verification can occur within Accounting prior to certifying procurement requests, as well as prior to entering invoices for payment. Policies and procedures describing these changes will be developed and implemented along with training of staff of the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-032
 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)
 Award Numbers: H80CS24104 and H80CS28324
 Area: Program Income
 Questioned Costs: \$46,158

Criteria: In accordance with applicable program income requirements, the program is required to use program income for activities that further the objectives of the program.

Condition: Of three expenditures aggregating \$46,158, of a total population of \$110,511, the following were noted:

1. For one (or 33%), supporting documents were not provided for journal entry CHCC JE 2016-0178 dated 10/31/14 amounting to \$28,620.
2. For two (or 66%), supporting payment document was not provided for the following:

<u>Fund</u>	<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Amount</u>
01075	1872A	63050	12/01/14	\$ 1,040
01075	1872A	64580	01/20/15	\$ 16,498

Cause: CHCC did not enforce compliance with applicable program income requirements.

Effect: CHCC is in noncompliance with applicable program income requirements, and questioned costs of \$46,158 exist.

Recommendation: The responsible personnel should enforce recordkeeping controls over documentation that substantiates the uses of program income in accordance with applicable program income requirements.

Prior Year Status: Noncompliance with program income requirements was reported as Finding No. 2014-028 in the Single Audit of CHCC for FY2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Vince Castro, KCHC Director and Derek Sasamoto, CFO

Corrective Action: CHCC Accounting will ensure that supporting documentation is not only maintained but required by programs prior to transacting payments on their behalf. Moreover, supporting documentation for all journal vouchers will be maintained and required along with management review and approval. The KCHC Director must ensure that documentation is provided to support the goals and objectives of program income. Policies and procedures describing these changes will be developed and implemented along with training of staff of the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-033
 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)
 Award Number: H80CS24104
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, the program is required to submit an SF-425, Federal Financial Report for cash status and the Uniform Data System (UDS) reports.

Condition:

1. Based on total expenditures reported to the grantor for the reporting period ended April 30, 2015, we noted the following variances:

Report details - Business Unit CHH4224A	<u>Per SF-425</u>	<u>Per General Ledger</u>	<u>Variance</u>
Federal expenditures and unobligated balance:			
10e. Federal share of expenditures	\$ 660,789	\$ 624,326	\$ 36,463
10f. Federal share of unliquidated obligations	\$ -	\$ 36,463	\$ (36,463)
Program income:			
10l. Total federal program income earned	\$ 511,230	\$ 510,691	\$ 539
10n. Program income expended in accordance with the addition alternative	<u>106,416</u>	<u>106,413</u>	<u>3</u>
10o. Unexpended program income	<u>\$ 404,814</u>	<u>\$ 404,278</u>	<u>\$ 536</u>

2. Test of reporting requirements noted differences in reporting for the UDS Report as compared to the accounting system for reporting period ended 12/31/15:

Table 5 - Staffing and Utilization

<u>Per UDS Report</u>			
<u>Line Item</u>	<u>(a) FTEs</u>	<u>(b) Clinic Visits</u>	<u>(c) Patients</u>
Line 8 - Total Physicians	0.83	1,616	-
Line 15 - Total Medical Care Services	5.83	3,472	1,473
Line 29 - Total Enabling Services	3.00	-	-
Line 33 - Total Administration and Facility	5.00	-	-
<u>Per RPMS Data</u>			
<u>Line Item</u>	<u>(a) FTEs</u>	<u>(b) Clinic Visits</u>	<u>(c) Patients</u>
Line 8 - Total Physicians	-	1,624	-
Line 15 - Total Medical Care Services	-	3,480	-
Line 29 - Total Enabling Services	-	-	-
Line 33 - Total Administration and Facility	-	-	-
<u>Variance</u>			
<u>Line Item</u>	<u>(a) FTEs</u>	<u>(b) Clinic Visits</u>	<u>(c) Patients</u>
Line 8 - Total Physicians	0.83	(8)	-
Line 15 - Total Medical Care Services	5.83	(8)	1,473
Line 29 - Total Enabling Services	3.00	-	-
Line 33 - Total Administration and Facility	5.00	-	-

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-033, 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)
 Award Number: H80CS24104
 Area: Reporting
 Questioned Costs: \$-0-

Condition, Continued:

Table 8 Part A - Financial Costs

Per UDS Report

<u>Line Item</u>	(a) <u>Accrued Cost</u>	(c) <u>Total Cost after Allocation of Facility and Non-Clinical Support Services</u>
Line 4 (c) – Total Medical Care Services	\$ -	\$ 713,244
Line 13 (c) – Total Enabling and Other Services	\$ -	\$ 98,885
Line 16 – Total Overhead	\$ 374,562	\$ -

Per RPMS Data

<u>Line Item</u>	(a) <u>Accrued Cost</u>	(c) <u>Total Cost after Allocation of Facility and Non-Clinical Support Services</u>
Line 4 (c) – Total Medical Care Services	\$ -	\$ -
Line 13 (c) – Total Enabling and Other Services	\$ -	\$ -
Line 16 – Total Overhead	\$ -	\$ -

Variance

<u>Line Item</u>	(a) <u>Accrued Cost</u>	(c) <u>Total Cost after Allocation of Facility and Non-Clinical Support Services</u>
Line 4 (c) – Total Medical Care Services	\$ -	\$ 713,244
Line 13 (c) – Total Enabling and Other Services	\$ -	\$ 98,885
Line 16 – Total Overhead	\$ 374,562	\$ -

Table 9 Part D - Patient Related Revenue

Per UDS Report

<u>Line Item</u>	(a) <u>Full Charges this Period</u>	(b) <u>Amount Collected this Period</u>	(c.1) <u>Collection of Reconciliation /Wrap Around Current Year</u>	(c.2) <u>Collection of Reconciliation/ Wrap Around Previous Years</u>	(d) <u>Allowances</u>	(e) <u>Sliding Discounts</u>
Line 1 – Medical Non-Managed Care	\$ 334,079	\$ 214,056	\$ 10,625	\$ 109,398	\$ 1,251	\$ -
Line 10 – Private Non-Managed Care	\$ 20,858	\$ 4,172	\$ -	\$ -	\$ -	\$ -
Line 13 – Self Pay	\$ 19,526	\$ 3,030	\$ -	\$ -	\$ -	\$ 4,050

Per RPMS Data

<u>Line Item</u>	(a) <u>Full Charges this Period</u>	(b) <u>Amount Collected this Period</u>	(c.1) <u>Collection of Reconciliation /Wrap Around Current Year</u>	(c.2) <u>Collection of Reconciliation/ Wrap Around Previous Years</u>	(d) <u>Allowances</u>	(e) <u>Sliding Discounts</u>
Line 1 – Medical Non-Managed Care	\$ 334,079	\$ 214,056	\$ -	\$ -	\$ -	\$ -
Line 10 – Private Non-Managed Care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Line 13 – Self Pay	\$ 19,356	\$ 2,865	\$ -	\$ -	\$ -	\$ -

Variance

<u>Line Item</u>	(a) <u>Full Charges this Period</u>	(b) <u>Amount Collected this Period</u>	(c.1) <u>Collection of Reconciliation /Wrap Around Current Year</u>	(c.2) <u>Collection of Reconciliation/ Wrap Around Previous Years</u>	(d) <u>Allowances</u>	(e) <u>Sliding Discounts</u>
Line 1 – Medical Non-Managed Care	\$ -	\$ -	\$ 10,625	\$ 109,398	\$ 1,251	\$ -
Line 10 – Private Non-Managed Care	\$ 20,858	\$ 4,172	\$ -	\$ -	\$ -	\$ -
Line 13 – Self Pay	\$ 170	\$ 165	\$ -	\$ -	\$ -	\$ 4,050

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-033, 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)
Award Number: H80CS24104
Area: Reporting
Questioned Costs: \$-0-

Cause: CHCC did not monitor reports for accuracy and completeness prior to report submission.

Effect: CHCC is in noncompliance with applicable reporting requirements. No questioned costs result as the funds drawn down correspond with expenditures recorded in the general ledger.

Recommendation: The responsible personnel should review the SF 425 report and UDS reports prior to submission to the grantor to verify that amounts are supported by underlying accounting records. Such accounting records should be maintained on file to substantiate reported amounts and to facilitate any reconciliation process with the grantor.

Prior Year Status: Noncompliance with grant reporting requirements was reported as Finding No. 2014-029 in CHCC's Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Vince Castro, Kagman Community Health Center Director, Grants Management Officer and Derek Sasamoto, CFO

Corrective Action:

Condition 1:

We agree with the finding and an Operating Policy, Federal Financial Reporting (FFR), Code 7030, was adopted on 10/27/16. We will perform due diligence by ensuring that the responsible personnel adhere to the Operating Policy, Code 7030, in order to comply with applicable reporting requirements. Also, we will ensure that the responsible personnel review the SF-425 report and the UDS reports prior to submission to the grantor; ensuring that the amounts are supported by underlying accounting records.

Condition 2:

The responsible personnel will review the SF-425 and UDS reports prior to submitting to the grantor. During the preparation of the UDS report, the responsible personnel will ensure that amounts reported are supported by underlying accounting or other records, which will be maintained for each UDS table. Any changes requested by the grantor reviewer will also be documented and any changes will be recorded as addendums to the records. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-034
 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
 Award Number: 1U79SP020710-01
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$68,762

Criteria: In accordance with applicable period of availability requirements, 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: For one (or 33%) of three grant awards tested, aggregating \$924,904 of a total population of \$5,325,082, grant no. 1U79SP020710-01 included amounts liquidated beyond 90 days from the grant expiration date of 09/29/15. 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>
CHH5243B	1254585	12/21/15	3706	01/27/16	\$ 176
CHH5243B	1254585	12/21/15	3706	01/27/16	52
CHH5243B	1254585	12/21/15	3706	01/27/16	31
CHH5243B	1254585	12/21/15	3706	01/27/16	51
CHH5243B	1254585	12/21/15	3706	01/27/16	123
CHH5243B	1254585	12/21/15	3706	01/27/16	8
CHH5243B	1254598	12/21/15	3709	01/27/16	2,000
CHH5243B	1254602	12/21/15	3708	01/27/16	625
CHH5243B	1254613	12/21/15	3713	01/27/16	1,999
CHH5243B	1254619	12/21/15	3717	01/27/16	45
CHH5243B	1254621	12/21/15	3717	01/27/16	70
CHH5243B	1254622	12/21/15	3717	01/27/16	225
CHH5243B	1254534	12/21/15	3704	01/27/16	34,694
CHH5243B	1255031	12/28/15	3912	01/27/16	455
CHH5243B	1255032	12/28/15	3912	01/27/16	1,545
CHH5243B	1255013	12/28/15	3707	01/27/16	751
CHH5243B	1255014	12/28/15	3707	01/27/16	514
CHH5243B	1255019	12/28/15	3703	01/27/16	255
CHH5243B	1255059	12/28/15	3707	01/27/16	171
CHH5243B	1255060	12/28/15	3707	01/27/16	134
CHH5243B	1255103	12/29/15	3717	01/27/16	1,660
CHH5243B	1255170	12/29/15	3711	01/27/16	750
CHH5243B	1255175	12/29/15	3711	01/27/16	4,279
CHH5243B	1255176	12/29/15	3711	01/27/16	8,250
CHH5243B	1255163	12/29/15	3710	01/27/16	194
CHH5243B	1255167	12/29/15	3710	01/27/16	97
CHH5243B	1255169	12/29/15	3710	01/27/16	56
CHH5243B	1255162	12/29/15	3710	01/27/16	345
CHH5243B	1255165	12/29/15	3710	01/27/16	23
CHH5243B	1255166	12/29/15	3710	01/27/16	1,629
CHH5243B	1255223	12/30/15	3715	01/27/16	5,625
CHH5243B	1255232	12/30/15	3705	01/27/16	736
CHH5243B	1255421	12/30/15	3716	01/27/16	199
CHH5243B	1255422	12/30/15	3716	01/27/16	199
CHH5243B	1255423	12/30/15	3716	01/27/16	199
CHH5243B	1255424	12/30/15	3716	01/27/16	199
CHH5243B	1255426	12/30/15	3716	01/27/16	199
CHH5243B	1255430	12/30/15	3716	01/27/16	199
					<u>199</u>
					\$ <u>68,762</u>

Cause: CHCC did not effectively monitor compliance with applicable period of availability requirements.

Effect: CHCC is in noncompliance with applicable period of availability requirements, and questioned costs of \$68,762 exist.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-034, 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
Award Number: 1U79SP020710-01
Area: Period of Availability of Federal Funds
Questioned Costs: \$68,762

Recommendation: The responsible personnel should review funding period dates prior to charging expenditures to a Federal award. Furthermore, the responsible personnel should monitor check payments so that liquidations occur timely. Grantor approval should be sought if extensions are needed.

Prior Year Status: Noncompliance with period of availability requirements was reported as Finding No. 2014-032 in CHCC's Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Nadine Sablan, Community Guidance Center Director, Herb Sablan, Substance Abuse Treatment Supervisor and Derek Sasamoto, CFO and Grants Management Office

Corrective Action: CHCC Accounting will work closely with CHCC's Grants Management Office to better coordinate proper and timely federal program payments within the allowable periods of performance. CHCC Accounting has implemented a new process where encumbrance reports are sent out after each month-end to federal programs for awareness of needed liquidations and to coordinate these payments within the allowable period of performance. Moreover, CHCC has established period of availability policies and procedures in September 2016 and held meetings with CHCC's Grants Management Office and Federal Accounting to clarify the policy and federal regulation regarding period of availability of funds. Additionally, CHCC's Grants Management Office has provided a listing of all current CHCC grants and their corresponding grant cycles and expiration dates, which indicates the 90-day liquidation period date so further verification can occur within Accounting prior to certifying procurement requests, as well as prior to entering invoices for payment.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-035
 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
 Award Numbers: 5U79SP015621-05 and 1U79SP020710-01
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$80,976

Criteria: In accordance with applicable local procurement regulations, bidding is not required for procurement under \$2,500 (micro-purchase procurement). 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 P&S Director for approval. Furthermore, procurement requirements shall not be artificially divided so as to constitute a small purchase.

Condition: Of twelve expenditures tested, totaling \$179,523 of a population of \$677,351, we noted the following:

1. For three (or 25%) price quotations were not obtained; instead, sole source procurement was used. Further, we noted that business unit CHH5243B charged \$6,000 with the same vendor, using different purchase order numbers in \$2,000 increments, which appears to be an artificial division so as to constitute a micro-purchase.

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Contract Number</u>	<u>PO/Contract Amount</u>	<u>Questioned Costs</u>
CHH5243B	09/09/15	1245459	598241-OP	\$ 2,000	\$ 2,000
H3243B	05/06/15	1217702	591087-OP	\$ 4,666	4,666
H3243B	05/27/15	238073	587238-OP	\$ 9,996	<u>1,800</u>
					\$ <u>8,466</u>

2. For two (or 17%), sole source procurement was used for the purchase of a particular curriculum, based on the rationale that the vendor was the only authorized vendor. However, there is no documentation explaining why the selected curriculum was chosen over any other similar curriculum available from other vendors.

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Contract Number</u>	<u>PO/Contract Amount</u>	<u>Questioned Costs</u>
H3243B	12/19/14	1206767	579212-OP	\$ 28,500	\$ 28,500
H3243B	04/06/15	1215129	586708-OM	\$ 44,010	<u>44,010</u>
					\$ <u>72,510</u>

Cause: CHCC did not enforce compliance with established policies and procedures over procurement regulations.

Effect: CHCC is in noncompliance with applicable procurement regulations, and questioned costs of \$80,976 exist.

Recommendation: The responsible personnel should monitor and enforce compliance with applicable procurement requirements, including the review of procurement files for completeness as to written rationales for any deviations from applicable procurement requirements.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-035, 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
Award Numbers: 5U79SP015621-05 and 1U79SP020710-01
Area: Procurement and Suspension and Debarment
Questioned Costs: \$80,976

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Nadine Sablan, Community Guidance Center Director, Herbert Sablan, Substance Abuse Treatment Supervisor and Derek Sasamoto, CFO and Procurement Director

Corrective Action: CHCC has promulgated and adopted new procurement regulations in September 2015 which established new thresholds for requiring three quotations. CHCC will ensure these regulations are adhered to and that sole source procurements are properly justified. For Condition 1, document no. 1245459, this procurement is under \$2,500 and is not subject to the three-quotation requirement. For Condition 2, given CHCC operates in the healthcare setting, selected curriculum can be very specific. For example, curriculum specific to Pacific Island communities or specific to substance abuse in the Asia Pacific region is unique and this example may be a reason for the selection of the particular curriculum and situations like this must be considered. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

Auditor Response: The reasoning for including document no. 1245459 is included in Condition 1.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-036
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
Award Number: 1U79SP020710-01
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, recipients of federal funds may be required to submit performance reports. Further, in accordance with applicable internal controls for federal programs, it requires that non-Federal entities (e.g., auditee management) receiving Federal awards establish and maintain internal controls designed to reasonably assure compliance with Federal laws, regulations, and program compliance requirements.

Condition: Tests of program reporting requirements noted that there are no monitoring procedures performed on the reports. Further, submissions of the programmatic quarterly reports due 01/31/15, 04/30/15 and 06/30/15 were not provided.

Cause: CHCC has not established documentation requirements regarding monitoring controls over compliance with applicable reporting requirements.

Effect: CHCC is in noncompliance with applicable reporting requirements. No questioned costs are presented due to our inability to quantify internal control weaknesses.

Recommendation: The responsible personnel should establish and implement documentation procedures for monitoring programmatic reports in accordance with applicable reporting requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Nadine Sablan, Community Guidance Center Director and Herbert Sablan, Substance Abuse Treatment Supervisor

Corrective Action: The Program Director will ensure that all responsible personnel adhere to the rules and regulations to meet reporting requirements. The Program Director will work with the Grants Management Office in establishing a grant monitoring system to ensure reports are submitted accurately and timely. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-037
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.268 Immunization Cooperative Agreements
 Award Number: 5H23IP000736-02 Revised
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$8,000

Criteria: In accordance with applicable allowable costs/cost principles requirements, costs must be adequately documented to be allowable under Federal awards.

Condition: Tests of major program expenditures noted the following:

1. For seven (or 70%) of ten payroll expenditures, aggregating \$44,583 of a total population of \$428,949, NOPAs were approved more than two months after the effective date:

<u>Business Unit</u>	<u>Employee No.</u>	<u>PAF Effective Date</u>	<u>PAF Approval Date</u>	<u>Days Lapsed</u>
CHH52681	713819	01/01/15	03/05/15	63
CHH52681	169107	01/01/15	03/05/15	63
CHH52681	713819	01/01/15	03/05/15	63
CHH52681	402339	01/01/15	05/28/15	147
CHH52682	311268	01/01/15	03/06/15	64
CHH52686	246303	01/01/15	03/05/15	63
CHH52681	713819	01/01/15	03/05/15	63

No questioned costs are presented as drawdowns are based on the approved rate.

2. For one (or 6%) of seven nonpayroll expenditures, aggregating \$22,196 of a total population of \$299,819, no invoice or another cost basis was provided.

<u>Business Unit</u>	<u>Object Account</u>	<u>Document No.</u>	<u>Document Type</u>	<u>General Ledger Date</u>	<u>PO Reference</u>	<u>Amount</u>
CHH42681	62710	252072	JE	12/29/14	N/A	\$ 8,000

Cause: CHCC did not enforce recordkeeping controls in accordance with applicable allowable costs/cost principles requirements.

Effect: CHCC is in noncompliance with allowable costs/cost principles requirements, and questioned costs of \$8,000 exist as projected questioned costs exceed \$10,000.

Recommendation: The responsible personnel should establish a recordkeeping system whereby underlying support for each transaction is processed timely and filed accordingly for easy retrieval to substantiate costs. The responsible personnel should not approve payroll costs, indirect costs, or other program expenditures unless underlying support is provided for review.

Prior Year Status: Noncompliance with allowable costs/cost principles requirements was reported as Finding No. 2014-034 in CHCC's Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jeremy Sasamoto, Vaccines for Children Immunization Program Manager and Derek Sasamoto, CFO

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-037, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Number: 5H23IP000736-02 Revised
Area: Allowable Costs/Cost Principles
Questioned Costs: \$8,000

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The program will establish a recordkeeping system and maintain and file all supporting documents. In addition, CHCC Accounting will ensure that payments are properly supported either by original invoice and/or proper procurement documentation. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-038
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.268 Immunization Cooperative Agreements
 Award Number: 5H23IP000736-03 Revised
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$24,916

Criteria: In accordance with applicable period of availability requirements, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period. The non-Federal entity shall 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 seven nonpayroll expenditures tested, aggregating \$22,196 of a total population of \$299,819, we noted the following:

a. For one (or 14%) liquidation occurred beyond 90 days from the budget end date. Grant extension documentation was not provided.

Business Unit	Document No.	General Ledger Date	Check No.	Check Date	Liquidation End Date	Days Lapsed	Amount
CHH42681	237036	12/30/14	3870	02/29/16	03/31/15	335	\$ 9,966

b. For one (or 14%), the supporting payment document was not provided.

Business Unit	Object Account	General Ledger Date	Document Number	Document Type	Amount
CHH42681	62710	12/29/14	252072	JE	\$ 8,000

No questioned cost is presented as the amount is already questioned at finding no. 2015-037.

2. For four (or 50%) of eight subsequent expenditures tested, aggregating \$59,872 of a total population of \$282,724, liquidation occurred beyond 90 days from the budget end date. Grant extension documentation was not provided.

Business Unit	Document No.	General Ledger Date	Check No.	Check Date	Liquidation End Date	Days Lapsed	Amount
CHH52681	239744	02/11/16	4056	04/18/16	03/31/16	19	\$ 1,250
CHH52681	239882	03/03/16	4063	04/18/16	03/31/16	19	6,002
CHH52681	239856	03/01/16	4063	04/18/16	03/31/16	19	7,698
							<u>\$ 14,950</u>

Cause: CHCC did not effectively monitor compliance with applicable period of availability requirements.

Effect: CHCC is in noncompliance with period of availability requirements, and questioned costs of \$24,916 exist.

Recommendation: The responsible personnel should review funding period dates prior to charging expenditures to a Federal award. Furthermore, the responsible personnel should monitor check payments so that liquidations occur timely. Grantor approval should be sought if extensions are needed.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-038, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Number: 5H23IP000736-03 Revised
Area: Period of Availability of Federal Funds
Questioned Costs: \$24,916

Prior Year Status: Noncompliance with period of availability requirements was reported as Finding No. 2014-035 in CHCC's Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jeremy Sasamoto, Vaccines for Children Immunization Program Manager and Derek Sasamoto, CFO and Grants Management Office Director

Corrective Action: The program will diligently monitor and ensure that expenditures are charged within funding period dates. Moreover, CHCC Accounting will work closely with CHCC's Grants Management Office to ensure that liquidations occur within the allowable period of performance. Period of availability of federal funds policies and procedures have been put in place in September 2016 and meetings discussing this policy and the federal regulation and its proper implementation has taken place amongst the responsible parties. Encumbrance reports are also currently being provided to CHCC Federal Programs to allow them to better monitor their unliquidated obligations and ensure they are liquidated within the proper period of performance. CHCC Accounting will ensure that payments are properly supported either by original invoice and/or proper procurement documentation. Additionally, CHCC's Grants Management Office has provided a listing of all current CHCC grants and their corresponding grant cycles and expiration dates and this document also indicates the 90-day liquidation period date so further verification can occur within Accounting prior to certifying procurement requests, as well as prior to entering invoices for payment. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No: 2015-039
 Federal Agency: U.S. Department of Health & Human Services
 CFDA Program: 93.268 Immunization Cooperative Agreements
 Award Number: 5H23IP000736-02 Revised
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$7,186

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 Procurement and Supply (P&S) Director for approval.
- 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 seven nonpayroll expenditures tested, totaling \$22,196 of a total population of \$299,819, we noted the following:

1. For one (or 14%), no procurement documents were provided.

<u>Business Unit</u>	<u>TA/Contract No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Questioned Costs</u>
CHH42681	Not applicable	62710	12/29/14	252072	\$ 8,000

No questioned cost is presented as the amount was already questioned at finding 2015-037.

2. For two (or 28%), sole source procurement was used; however, no documentation was provided to demonstrate consideration of other available vendors.

<u>Business Unit</u>	<u>TA/Contract No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Questioned Costs</u>
CHH42681	584211-OP	62080	11/13/14	1204274	\$ 4,200
CHH42681	586841-OP	63040	02/18/15	237339	<u>2,986</u>
					\$ <u>7,186</u>

Cause: CHCC did not enforce compliance with established policies and procedures over procurement regulations.

Effect: CHCC is in noncompliance with applicable procurement regulations, and questioned costs of \$7,186 exist.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No: 2015-039, Continued
Federal Agency: U.S. Department of Health & Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Number: 5H23IP000736-02 Revised
Area: Procurement and Suspension and Debarment
Questioned Costs: \$7,186

Recommendation: The responsible personnel should monitor and enforce compliance with applicable procurement requirements, including the review of procurement files for completeness as to written rationales for any deviations from applicable procurement requirements.

Prior Year Status: Noncompliance with procurement regulations was reported as Finding No. 2014-021 in CHCC's Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jeremy Sasamoto, Vaccines for Children Immunization Program Manager and Derek Sasamoto, CFO

Corrective Action: CHCC will ensure that procurement documentation properly supports requests for payments. For those situations that allowed an after-the-fact procurement, CHCC requires that a justification detailing the circumstances that led to the condition is provided and approved. CHCC will ensure that sole source justifications meet the criteria of the procurement regulations. For Condition 2, given that it is a sole source, no consideration for other vendors would be given if no other vendor is available. Moreover, CHCC's procurement rules and regulations were adopted in September 2015. Thus, CHCC is now following the threshold of obtaining three quotations for purchases ranging from \$5,000 to \$25,000, as required by Procurement Regulations. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

Auditor Response: Condition 2 indicates there was no documentation as to why no consideration to other vendors was given.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-040
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Numbers: 5H2IP000736-02 Revised, 5H23IP000736-03 and
5H23IP000736-03 Revised
Area: Program Income
Questioned Costs: \$19,977

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 charged administration fees for direct immunization services and generated \$19,977 in program income. However, no documentation was provided to demonstrate that the program income was used to further the objectives of the program.

Cause: CHCC did not enforce compliance with applicable program income requirements.

Effect: CHCC is in noncompliance with applicable program income requirements, and questioned costs of \$19,977 exist.

Recommendation: The responsible personnel should consider creating a unique account number to specifically track the receipts and uses of program income in order to demonstrate compliance with applicable program income requirements.

Prior Year Status: Noncompliance with program income requirements was reported as Finding No. 2014-037 in CHCC's Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jeremy Sasamoto, Vaccines for Children Immunization Program Manager, Vince Camacho, Grants Administrator and Derek Sasamoto, CFO

Corrective Action: CHCC will develop and implement procedures to ensure that program income is documented and recorded properly for the program. The establishment of a unique account for program income will also be implemented. Moreover, utilization of the program income must meet program requirements, goals and objectives. Program income policies and procedures were established in June 2015. In addition, the Grants Management Office has established a Grants Management Policies and Procedures Manual in September 2016. The Grants Management Office will establish a monitoring system to ensure all federal programs comply with program income requirements. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-041
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Number: 5H23IP000736-02 Revised
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, 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 March 31, 2015, we noted the following variances:

Report details - Business Unit CHH42681/2/3/4/5/6	<u>Per SF-425</u>	<u>Per General Ledger</u>	<u>Variance</u>
Federal cash:			
10a. Cash receipts	\$ 1,535,929	\$ 719,877	\$ 816,052
10b. Cash disbursements	<u>1,536,604</u>	<u>720,143</u>	<u>816,461</u>
10c. Cash on hand	\$ <u>(675)</u>	\$ <u>(266)</u>	\$ <u>(409)</u>
Federal expenditures and unobligated balance:			
10d. Total federal funds authorized	\$ 1,942,042	\$ 971,810	\$ 970,232
10e. Federal share of expenditures	<u>1,535,929</u>	<u>719,877</u>	<u>816,052</u>
10h. Unobligated balance of federal funds	\$ <u>406,113</u>	\$ <u>251,933</u>	\$ <u>154,180</u>

Cause: CHCC did not monitor reports for accuracy and completeness prior to report submission and reported amounts related to the 2013 grant award, as opposed to only the 2014 grant award.

Effect: CHCC is in noncompliance with applicable reporting requirements. However, the funds drawn down correspond with expenditures recorded in the general ledger; therefore, no questioned costs result.

Recommendation: The responsible personnel should review the SF 425 report prior to submission to the grantor to verify that amounts are supported by underlying accounting records. Such accounting records should be maintained on file to substantiate reported amounts and to facilitate any reconciliation process with the grantor.

Prior Year Status: Noncompliance with grant reporting requirements was reported as Finding No. 2014-038 in CHCC's Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jeremy Sasamoto, Vaccines for Children Immunization Program Manager, Vince Camacho, Grants Administrator and Derek Sasamoto, CFO

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-041, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Number: 5H23IP000736-02 Revised
Area: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The Program Manager will ensure that all responsible personnel adhere to rules and regulations to meet reporting requirements. The Program Director will work with the Grants Management Office in establishing a grant monitoring system to ensure reports are submitted accurately and timely. Additionally, CHCC will ensure that supporting documentation is maintained and supported. CHCC will ensure that the responsible personnel review the SF-425 and UDS reports prior to submission to the grantor, ensuring that the amounts are supported by underlying accounting records. During the preparation of the UDS report, the responsible personnel will ensure that amounts reported are supported by underlying accounting or other records, which will be maintained for each UDS table. Any changes requested by the grantor reviewer will also be documented and any changes will be recorded as addendums to the records. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-042
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 Centers for Disease Control and Prevention –
 Investigations and Technical Assistance
 Award Number: 5U58DP003974-03
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$3,450

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: For one (or 11%) of nine expenditures tested, totaling \$34,989, of a population of \$197,038, the required minimum three price quotations were not obtained for the following:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Contract Number</u>	<u>P/OContract Amount</u>	<u>Questioned Costs</u>
CHH4283N	06/30/15	238305	581561-OP	\$ 3,450	\$ 3,450

Cause: CHCC did not enforce compliance with established policies and procedures over procurement regulations.

Effect: CHCC is in noncompliance with applicable procurement regulations, and questioned costs of \$3,450 exist since projected questioned costs exceed \$10,000.

Recommendation: The responsible personnel should monitor and enforce compliance with applicable procurement requirements, including the review of procurement files for completeness as to written rationales for any deviations from applicable procurement requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Becky Robles, Non-Communicable Disease (NCD) Bureau Administrator

Corrective Action: CHCC will ensure that price quotations are submitted where required. Moreover, CHCC promulgated and adopted new procurement regulations in September 2015 which altered the thresholds for the 3-quotation requirement.

Proposed Completion Date: Completed

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-043
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 Centers for Disease Control and Prevention –
Investigations and Technical Assistance
Award Number: 5U58DP003974-03
Area: Subrecipient Monitoring
Questioned Costs: \$25,000

Criteria: In accordance with applicable subrecipient monitoring requirements, a pass-through entity's responsibilities include the following:

- Monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Condition:

1. A subrecipient agreement was executed with the University of Hawaii in the amount of \$25,000, on behalf of its Department of Family Medicine and Community Health, John A. Burns School of Medicine (JABSOM) on 9/20/12 for the period from June 30, 2012 to June 29, 2015.
2. No requirements are in place for individuals performing subrecipient monitoring activities to possess the knowledge, skills, and abilities required including understanding the subrecipient's environment, systems, and controls sufficiently to identify the level and methods of monitoring required.
3. No control procedures are in place to monitor the University of Hawaii, JABSOM's compliance with applicable laws, regulations, and provisions of contracts, and grant agreements. Further, no monitoring procedures are performed to verify that required performance or narrative reports are accurate and timely submitted.

Cause: The program coordinator took office in May 2015 and was not yet fully aware of subrecipient relationships and applicable subrecipient monitoring requirements.

Effect: CHCC is in noncompliance with applicable subrecipient monitoring requirements, and questioned costs of \$25,000 exist.

Recommendation: CHCC should consider providing training to program personnel on applicable subrecipient monitoring requirements. The responsible personnel should establish and implement policies and procedures to monitor subrecipients and to document the monitoring activities performed.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Becky Robles, NCD Bureau Administrator

Corrective Action: Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures on subrecipient monitoring requirements.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-044
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
Award Numbers: X02MC23094, X02MC26337 and X02MC27412
Area: Eligibility
Questioned Costs: \$-0-

Criteria: In accordance with the CNMI Healthy Outcomes for Maternal & Early Childhood (H.O.M.E) Visiting Program Policies & Procedures Manual, families are eligible for intensive home visiting services when they are determined at risk for poor family outcomes, as determined by the Parent Survey (PS).

Further, the 2010 Statewide Needs Assessment identified six communities determined to be the highest risk area and therefore, in particular need of improved/expanded home visiting services. These communities are Kagman, DanDan, Koberville/San Antonio, Garapan, Tinian and Rota Islands.

Condition: During examination of sixty-seven case files, the following were noted:

1. For one file (or 1%), case no. 103 indicated no supervisory review was performed.
2. For one file (or 1%), case no. 53 indicated the family did not reside in one of the designated approved communities for eligibility.
3. For three files (or 4%), one or more consent forms were not in the participant's file.

<u>Case No.</u>	<u>Village</u>	
110	Kagman	Consent for Services, Confidential Policy, Our Family Rights, and Family Rights, Responsibility & Confidential Policy
77	Garapan	Family Rights, Responsibility & Confidential Policy
104	Kagman	Consent for Services

4. For one file (or 1%), the Parent Survey for case no. 12 was not in file or could not be located.
5. For two files (or 3%), case nos. 112 and 119 included consent forms that were copies and not original in the participant's file.
6. For one file (or 1%), case no. 113 did not have consent forms signed and/or dated by the program personnel.
7. For one file (or 1%), case no. R0002 did not have the screening form.

Cause: The program did not effectively apply controls over compliance with applicable eligibility requirements.

Effect: The program is not in compliance with applicable eligibility requirements. No questioned costs are presented as we are unable to quantify the extent of noncompliance.

Recommendation: The program should strengthen controls over compliance with applicable eligibility requirements.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-044, 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
Award Numbers: X02MC23094, X02MC26337 and X02MC27412
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Heather Pangelinan, Maternal, Child, and Health Bureau (MCHB) Administrator and Yuline Fitial, HOME Visiting Program Project Coordinator

Corrective Action: To ensure compliance with applicable eligibility requirements, the program will conduct bi-annual chart reviews instead of annual reviews to ensure that all participant charts have required documentation. In addition, all villages have been approved to receive program services as of April 2016. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-045
 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
 Award Numbers: X02MC23094 and X02MC26337
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$29,793

Criteria: In accordance with applicable period of availability requirements, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period. The non-Federal entity shall 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. For two (or 67%) of three grant awards tested, aggregating \$596,299, of a total population of \$3,651,402, grant no. X02MC23094 (BU H15050) and X02MC26337 (BU h25050) included amounts liquidated beyond 90 days from the grant expiration date of 09/29/14 and 09/30/15, 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>
H15050	1205196	11/26/14	2151	01/09/15	\$ 346
H15050	1205469	12/02/14	2144	01/09/15	800
H25050	1255075	12/29/15	3652	01/23/16	755
H25050	1255180	12/29/15	3653	01/23/16	240
H25050	1255091	12/29/15	4953	10/13/16	15
H25050	1255070	12/29/15	3656	01/23/16	347
H25050	1255080	12/29/15	3656	01/23/16	78
H25050	1255081	12/29/15	3656	01/23/16	18
H25050	1255083	12/29/15	3656	01/23/16	20
H25050	1255084	12/29/15	3656	01/23/16	52
H25050	1255085	12/29/15	3656	01/23/16	84
H25050	1255086	12/29/15	3656	01/23/16	92
H25050	1255087	12/29/15	3656	01/23/16	98
H25050	1255088	12/29/15	3656	01/23/16	97
H25050	1255089	12/29/15	3656	01/23/16	77
H25050	1255091	12/29/15	4953	10/13/16	141
H25050	1255092	12/29/15	3656	01/23/16	39
H25050	1255093	12/29/15	3656	01/23/16	61
H25050	1255094	12/29/15	3656	01/23/16	228
H25050	1255095	12/29/15	3656	01/23/16	107
H25050	1255096	12/29/15	3656	01/23/16	40
H25050	1255097	12/29/15	3656	01/23/16	24
H25050	1255098	12/29/15	3656	01/23/16	35
H25050	1255099	12/29/15	3656	01/23/16	154
H25050	1255100	12/29/15	3656	01/23/16	13
H25050	1255256	12/30/15	3655	01/23/16	288
H25050	1255257	12/30/15	3651	01/23/16	288
H25050	1255258	12/30/15	3655	01/23/16	288
H25050	1255259	12/30/15	3655	01/23/16	288

\$ 5,113

2. For one (or 14%) of seven nonpayroll expenditures tested, aggregating \$66,180 of a total population of \$255,717, obligation occurred after the end of the period of availability of 09/29/14. 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 Tested</u>	<u>Questioned Costs</u>
H15050	1202693	10/23/14	1844	10/24/14	\$ 24,680	\$ 24,680

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-045, 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
Award Numbers: X02MC23094 and X02MC26337
Area: Period of Availability of Federal Funds
Questioned Costs: \$29,793

Cause: CHCC did not effectively monitor compliance with applicable period of availability requirements.

Effect: CHCC is in noncompliance with applicable period of availability requirements, and questioned costs of \$29,793 exist.

Recommendation: The responsible personnel should review funding period dates prior to charging expenditures to a Federal award. Furthermore, the responsible personnel should monitor check payments so that liquidations occur timely. Grantor approval should be sought if extensions are needed.

Prior Year Status: Noncompliance with period of availability was reported as Finding No. 2014-032 in the Single Audit of CHCC for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Heather Pangelinan, MCHB Administrator, Yuline Fitial HOME Visiting Program Project Coordinator and Maxine Pangelinan, MCHB Fiscal Specialist

Corrective Action: The program will work with CHCC's Accounting Office and Grants Management Office to ensure adherence to CHCC's Period of Availability of Federal Funds Policy 7028, approved in September 2016, which indicates requirements for abiding by grant period of availability to ensure that expenditures and payments are made within approved periods. Moreover, encumbrance reports are now provided to Federal Programs each month to allow improved monitoring of obligations and needed liquidations. Also, CHCC's Grants Management Office has provided a listing of all current CHCC grants and their corresponding grant cycles and expiration dates, which indicates the 90-day liquidation period date so further verification can occur within Accounting prior to certifying procurement requests, as well as prior to entering invoices for payment. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures

Proposed Completed Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-046
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.994 Maternal and Child Health Services Block Grant to the States
Award Numbers: 6B04MC25363-01-05, 6B04MC26687-01-05 and 6B04MC28119-01-04
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$15,217

Criteria: In accordance with applicable matching, level of effort, earmarking requirements, unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30 percent of payment amounts for services for children with special health care needs.

Condition: Tests of the program's supporting documents and accounting records noted a deficiency in the earmarking requirements, computed as follows:

Total expenditures	\$ 444,436
Required earmarking rate	<u>30%</u>
Required earmarking floor	133,331
Total applied	<u>118,114</u>
Deficiency	\$ <u>15,217</u>

Cause: CHCC did not enforce compliance with applicable earmarking requirements.

Effect: CHCC is in noncompliance with applicable earmarking requirements, and questioned costs of \$15,217 exist.

Recommendation: The responsible personnel should periodically monitor earmarking levels. If earmarking levels are tracking to be deficient, the responsible personnel should consider requesting a waiver from the grantor well in advance of the award period end date.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Heather Pangelinan, MCHB Administrator and Maxine Pangelinan, MCHB Fiscal Specialist

Corrective Action: A quarterly financial report will be developed to identify expenditures within earmarking requirements. The report will be prepared by the MCHB Fiscal Specialist and reviewed by the MCHB Administrator and Grants Management Office to ensure proper monitoring and adherence to earmarking requirements. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-047
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.994 Maternal and Child Health Services Block Grant to the States
 Award Number: 6B04MC25363-01-05
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$844

Criteria: In accordance with applicable local procurement regulations, the purpose is to foster effective broad-based competition. Bidding is not required for procurement under \$2,500; 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: For two (or 33%) of six expenditures tested, totaling \$5,785 of a population of \$140,414, price quotations or bidding was not obtained.

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Contract Number</u>	<u>PO/Contract Amount</u>	<u>Amount Tested</u>	<u>Questioned Costs</u>
H3994B	10/01/14	1200325	582067-OP	\$ 2,500	\$ 510	\$ 510
H3994B	12/17/14	1206666	582067-OP	\$ 2,500	\$ 334	<u>334</u>
						\$ <u>844</u>

Cause: CHCC lacks specific regulations for procurements at exactly \$2,500.

Effect: CHCC is in noncompliance with applicable procurement regulations, and questioned costs of \$844 exist since projected questioned costs exceed \$10,000.

Recommendation: CHCC should document its policies and procedures over procurements at exactly \$2,500 and should monitor and enforce compliance with applicable procurement requirements, including the review of procurement files for completeness as to written rationales for any deviations from applicable procurement requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Heather Pangelinan, MCHB Administrator and Maxine Pangelinan, MCHB Fiscal Specialist

Corrective Action: The Program will abide by current CHCC procurement regulations, approved on 09/28/15. Current procurement regulations do not require three quotations for purchases below \$5,000; therefore, the program will ensure that three quotations are obtained for purchases valued at \$5,000. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures

Proposed Completion Date: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-048
Federal Agency: U.S. Department of Agriculture
U.S. Department of Energy
U.S. Department of Health and Human Services
CFDA Programs: 10.557 Special Supplemental Nutrition Program for Women,
Infants, and Children
81.041 State Energy Program
93.069 Public Health Emergency Preparedness
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)
93.268 Immunization Cooperative Agreements
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a State must use, manage and dispose of equipment acquired under a Federal award by the State in accordance with State laws and procedures.

The CNMI Property Management Policies states that equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, meet the following requirements:

- Description of the property.
- Manufacturer's serial and model numbers, federal stock number, national stock number, or other identification.
- Acquisition source of the property, including grant or agreement number and method of procurement.
- Whether title is vested with the CNMI or U.S. Government
- Acquisition date and cost.
- Percentage (at the end of the budget year) of U.S. participation in the project or program for which the property was acquired
- Location, use, condition, and the date the information was reported.
- Unit Acquisition Cost
- Date of disposal and sale price method used to determine fair market value where the CNMI compensates the agency for its share.

Further, the Division of Procurement and Supply, Materials Supply Office (MSO) will conduct an annual inventory of property held by each Accountable Person as reflected in the master inventory control record. Further, the Division of Procurement and Supply shall perform random audits of property held by each Accountable Person to validate the integrity of the property control process.

Condition: Tests of major program expenditures noted the following:

1. MSO did not perform a fixed asset physical inventory for FY 2015. We are unable to assess the overall cumulative monetary value of this deficiency. However, a summary of total capital outlays over the past three years for CHCC's FY 2015 major programs that do not have zero balances is as follows:

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-048, Continued
 Federal Agency: U.S. Department of Agriculture
 U.S. Department of Energy
 U.S. Department of Health and Human Services
 CFDA Programs: 10.557 Special Supplemental Nutrition Program for Women,
 Infants, and Children
 81.041 State Energy Program
 93.069 Public Health Emergency Preparedness
 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)
 93.268 Immunization Cooperative Agreements
 Area: Equipment and Real Property Management
 Questioned Costs: \$-0-

Condition, Continued:

<u>CFDA Number</u>	<u>FY2015</u>	<u>FY2014</u>	<u>FY2013</u>	<u>Total</u>
10.557	\$ -	\$ -	\$ 79,856	\$ 79,856
81.041	\$ 410,579	\$ -	\$ -	\$ 410,579
93.069	\$ 69,983	\$ 40,765	\$ -	\$ 110,748
93.116	\$ 7,995	\$ 90,190	\$ -	\$ 98,185
93.224	\$ -	\$ 36,919	\$ -	\$ 36,919
93.268	\$ 22,196	\$ 37,001	\$ 37,949	\$ 97,146

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 are not updated.
4. The fixed asset listings for subrecipients funded through CFDA # 81.041 were not provided.
5. A reconciliation was not performed between the Program and MSO.

Cause: CHCC did not enforce compliance with applicable equipment and real property management requirements.

Effect: CHCC is in noncompliance with applicable equipment and real property management requirements. No questioned cost is presented as we are unable to quantify the extent of the noncompliance. This noncompliance applies to the following major programs, for which cumulative capital outlays over the past three years exceed FY 2015 program materiality levels: CFDA numbers 10.557, 81.041, 93.069, 93.116, 93.224 and 93.268.

Recommendation: CHCC should consider identifying a fixed asset team and providing training on applicable equipment and real property management requirements, including documentation requirements. The responsible personnel should coordinate and conduct the required annual physical inventories and should reconcile results to the property records in accordance with applicable equipment and real property management requirements.

Prior Year Status: The lack of controls to comply with equipment management requirements was reported as Finding No. 2014-044 in CHCC's Single Audit for fiscal year 2014.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-048, Continued
Federal Agency: U.S. Department of Agriculture
U.S. Department of Energy
U.S. Department of Health and Human Services
CFDA Programs: 10.557 Special Supplemental Nutrition Program for Women,
Infants, and Children
81.041 State Energy Program
93.069 Public Health Emergency Preparedness
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)
93.268 Immunization Cooperative Agreements
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Persons:

USDOA 10.557: Erin Angela Camacho, WIC Program Administrator, Jessica Rasiang, WIC Program Admin. Specialist, Patrick Reyes, WIC Program Systems Administrator and Jesus Babauta, Acting Director of Procurement & Supply (MSO)

USDOE 81.041: Derek Sasamoto, CFO

USDHHS 93.069: Derek Sasamoto, CFO

USDHHS 93.116: John Dax Moreno, Communicable Disease Manager

USDHHS 93.224: Derek Sasamoto, CFO

USDHHS 93.268: Derek Sasamoto, CFO

Corrective Actions:

USDOA 10.557: The WIC Program maintains its own master property listing and has implemented procedures to ensure that all new property acquisitions are completely recorded in the WIC master property listing by responsible staff. The WIC Financial Manager will not approve an invoice for payment (for new property acquisitions) unless the invoice file and/or receiving report show documentation that it has been added/recorded to the WIC property listing and verified for completeness.

The WIC Program communicated with the Acting Director of Procurement & Supply (MSO) on 12/20/14 to discuss corrective actions pertaining to WIC equipment and real property management. As agreed, the WIC Program will coordinate with MSO and (1) provide their fixed asset unit a copy of the updated WIC Program master property listing, and (2) schedule an annual inventory of WIC Program property and reconciliation of both property records.

The WIC Program will also request to be included in the any training provided by CHCC on equipment and real property requirements including documentation requirements.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-048, Continued
Federal Agency: U.S. Department of Agriculture
U.S. Department of Energy
U.S. Department of Health and Human Services
CFDA Programs: 10.557 Special Supplemental Nutrition Program for Women,
Infants, and Children
81.041 State Energy Program
93.069 Public Health Emergency Preparedness
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)
93.268 Immunization Cooperative Agreements
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Actions, Continued:

USDOE 81.041: CHCC has begun discussions with CHCC MSO in order to address inventory findings. Also, CHCC adopted new procurement regulations in September 2015. Fixed asset inventory will be conducted once every year and staff will be trained on proper procedures as well as posting to the JD Edwards system. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

USDHHS 93.069: CHCC has begun discussions with CHCC MSO in order to address inventory findings. Also, CHCC adopted new procurement regulations in September 2015. Fixed asset inventory will be conducted once every year and staff will be trained on proper procedures as well as posting to the JD Edwards system. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

USDHHS 93.116: Although the program took the advice of the auditors in FY2014 to continue to update their fixed assets lists, MSO did not perform an in-house inventory, their records have missing information, their listings were not updated and reconciliation was not performed. The Communicable Disease Manager will assist CHCC in establishing proper documentation of a fixed asset physical inventory, complete property records for FY2015 and onwards and reconcile lists between the program and MSO.

USDHHS 93.224: CHCC has begun discussions with CHCC MSO in order to address inventory findings. Also, CHCC adopted new procurement regulations in September 2015. Fixed asset inventory will be conducted once every year and staff will be trained on proper procedures as well as posting to the JD Edwards system. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-048, Continued
Federal Agency: U.S. Department of Agriculture
U.S. Department of Energy
U.S. Department of Health and Human Services
CFDA Programs: 10.557 Special Supplemental Nutrition Program for Women,
Infants, and Children
81.041 State Energy Program
93.069 Public Health Emergency Preparedness
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)
93.268 Immunization Cooperative Agreements
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Actions, Continued:

USDHHS 93.268: CHCC has begun discussions with CHCC MSO in order to address inventory findings. Also, CHCC adopted new procurement regulations in September 2015. Fixed asset inventory will be conducted once every year and staff will be trained on proper procedures as well as posting to the JD Edwards system. Policies and procedures describing these changes will be developed and implemented along with training of staff on the new policies and procedures.

Proposed Completion Dates:

USDOA 10.557: Ongoing
USDOE 81.041: March 31, 2017
USDHHS 93.069: March 31, 2017
USDHHS 93.116: June 30, 2017
USDHHS 93.224: March 31, 2017
USDHHS 93.268: March 31, 2017

COMMONWEALTH HEALTHCARE CORPORATION

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2015

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2015:

Questioned costs as previously reported	\$ 653,621
Questioned costs of fiscal year 2015 Single Audit	<u>1,216,156</u>
Unresolved questioned costs at September 30, 2015	\$ <u>1,869,777</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report.