

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, 2016

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

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

We have audited, 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 financial statements of the Commonwealth Healthcare Corporation (CHCC), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statement of net position as of September 30, 2016, 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 July 26, 2018. Our report was qualified due to 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, to validate the existence of capital assets, and to determine the propriety of inventories, revenues and expenses.

Internal Control Over Financial Reporting

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

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 2016-001 through 2016-010, 2016-025, and 2016-032 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001, 2016-003, 2016-006, 2016-008 through 2016-010, 2016-025, and 2016-032.

CHCC's Response to Findings

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

Purpose of this Report

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

Deloitte & Touche LLC

July 26, 2018

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 THE UNIFORM GUIDANCE

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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CHCC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Each Major Federal Program

As described in items 2016-011 through 2016-015, 2016-017 through 2016-020 and 2016-025 through 2016-032 in the accompanying Schedule of Findings and Questioned Costs, CHCC did not comply with requirements regarding the following:

| Finding # | CFDA # | Program Name | Compliance Requirement |
|------------------|---------------|---|--|
| 2016-011 | 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | Period of Availability of Federal Funds Period of Performance |
| 2016-012 | 93.224 | Health Center Program | Allowable Costs/Cost Principles |
| 2016-013 | 93.224 | Health Center Program | Period of Availability of Federal Funds |
| 2016-014 | 93.224 | Health Center Program | Procurement and Suspension and Debarment |
| 2016-015 | 93.224 | Health Center Program | Reporting |
| 2016-017 | 93.243 | SAMHS Projects of Regional and National Significance | Allowable Costs/Cost Principles |
| 2016-018 | 93.243 | SAMHS Projects of Regional and National Significance | Period of Performance |
| 2016-019 | 93.243 | SAMHS Projects of Regional and National Significance | Procurement and Suspension and Debarment |
| 2016-020 | 93.243 | SAMHS Projects of Regional and National Significance | Special Tests and Provisions |
| 2016-032 | 93.243 | SAMHS Projects of Regional and National Significance | Equipment and Real Property Management |
| 2016-025 | 93.268 | Immunization Cooperative Agreements | Other Information - Reporting |
| 2016-026 | 93.505 | ACA Maternal, Infant, and Early Childhood Home Visiting Program | Period of Availability of Federal Funds Period of Performance |
| 2016-027 | 93.505 | ACA Maternal, Infant, and Early Childhood Home Visiting Program | Procurement and Suspension and Debarment |
| 2016-028 | 93.505 | ACA Maternal, Infant, and Early Childhood Home Visiting Program | Reporting |
| 2016-029 | 93.982 | Mental Health Disaster Assistance and Emergency | Allowable Costs/Cost Principles |
| 2016-030 | 93.982 | Mental Health Disaster Assistance and Emergency | Period of Performance |
| 2016-031 | 93.982 | Mental Health Disaster Assistance and Emergency | Procurement and Suspension and Debarment |

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

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, CHCC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-016, 2016-021 through 2016-024, and 2016-032. Our opinion on each major federal program is not modified with respect to these matters.

CHCC’s response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. CHCC’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance, 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 2016-011 through 2016-015, 2016-017 through 2016-020 and 2016-025 through 2016-032 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 2016-016, 2016-021 through 2016-024, and 2016-032 to be significant deficiencies.

CHCC's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. CHCC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of CHCC as of and for the year ended September 30, 2016, and have issued our report thereon dated July 26, 2018, which was qualified due to our inability to determine the effects of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* on CHCC's financial statements, to validate the existence of capital assets, and to determine the propriety of inventories, revenues and expenses. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte Touche LLC

July 26, 2018

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|---|---------------------|--|---------------------------------|----------------------|
| U.S. DEPARTMENT OF AGRICULTURE DIRECT PROGRAM | | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | | \$ - | \$ 4,347,030 |
| U.S. DEPARTMENT OF THE INTERIOR DIRECT PROGRAM | | | | |
| Economic, Social, and Political Development of the Territories | 15.875 | | - | 133,058 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES DIRECT PROGRAMS | | | | |
| Public Health Emergency Preparedness | 93.069 | | - | 4,683 |
| Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements | 93.074 | | | 690,673 |
| Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) | 93.104 | | - | 607,363 |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | | - | 225,657 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | | - | 476,747 |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | | - | 45,714 |
| Family Planning Services | 93.217 | | - | 216,016 |
| Health Center Program Cluster: | | | | |
| Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) | 93.224 | | - | 886,456 |
| Total Health Center Program Cluster | | | - | 886,456 |
| Grants to States to Support Oral Health Workforce Activities | 93.236 | | - | 18,172 |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | | 82,220 | 893,478 |
| Universal Newborn Hearing Screening | 93.251 | | - | 225,277 |
| Immunization Cooperative Agreements | 93.268 | | - | 3,766,752 |
| Centers for Disease Control and Prevention Investigations and Technical Assistance | 93.283 | | - | 421,407 |
| Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program | 93.314 | | - | 87,555 |
| Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) | 93.323 | | - | 33,772 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | | - | 915,296 |
| PPHF National Public Health Improvement Initiative | 93.507 | | - | 67,421 |
| 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 | 93.521 | | - | 117,864 |
| ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance | 93.624 | | - | 449,170 |
| Adult Medicaid Quality: Improving Maternal and Infant Health Outcomes in Medicaid and CHIP | 93.644 | | | 36,009 |
| Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) | 93.815 | | - | 150,788 |
| Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program | 93.912 | | - | 169,263 |
| HIV Care Formula Grants | 93.917 | | - | 46,067 |
| Assistance Programs for Chronic Disease Prevention and Control | 93.945 | | - | 203,803 |
| Block Grants for Community Mental Health Services | 93.958 | | - | 83,593 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | | - | 310,625 |
| Mental Health Disaster Assistance and Emergency Mental Health | 93.982 | | - | 772,639 |
| Preventive Health and Health Services Block Grant | 93.991 | | - | 37,097 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | | - | 507,252 |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | <u>82,220</u> | <u>12,466,609</u> |
| U.S. DEPARTMENT OF HOMELAND SECURITY PASS-THROUGH PROGRAM FROM: | | | | |
| CNMI Government - Crisis Counseling | 97.032 | FEMA-4235-DR | - | 113,595 |
| TOTAL FEDERAL AWARDS | | | <u>\$ 82,220</u> | <u>\$ 17,060,292</u> |
| Reconciliation: | | | | |
| Federal grant expenditures | | | | \$ 16,664,961 |
| Add: | | | | |
| Expenditures capitalized during the year | | | | 397,142 |
| Unreconciled differences | | | | <u>(1,811)</u> |
| | | | | <u>\$ 17,060,292</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, 2016

(1) Scope of Review

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 Uniform Guidance audit (the "Single Audit").

(2) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of CHCC under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of CHCC, it is not intended to and does not present the financial position, changes in net position or cash flows of CHCC.

(3) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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.

b. Subgrantees

Certain program funds are passed through CHCC to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees outside of CHCC's control utilized the funds.

c. Indirect Costs

CHCC does not have an indirect cost negotiation agreement and does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. CHCC does not allocate indirect costs to programs.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

- | | | |
|----|--|---------------|
| 1. | Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Qualified |
| | 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: | Qualified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 9. | Identification of major federal programs: | |

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|---|
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 93.224 | Health Center Program (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 |
| 93.505 | Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program |
| 93.982 | Mental Health Disaster Assistance and Emergency Mental Health |

- | | | |
|-----|--|-----------|
| 10. | Dollar threshold used to distinguish between type A and type B Programs: | \$750,000 |
| 11. | Auditee qualified as low-risk auditee? | No |

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Section II - Financial Statement Findings

| Reference Number | Finding |
|------------------|---|
| 2016-001 | General Ledger System/Financial Reporting |
| 2016-002 | Revenue/Receipts |
| 2016-003 | Local Procurement/Nonpayroll Expenditures |
| 2016-004 | Payroll/Employee Benefits |
| 2016-005 | Inventory |
| 2016-006 | Capital Assets |
| 2016-007 | Liabilities |
| 2016-008 | Due to Related Parties |
| 2016-009 | Withholding Taxes Payable |
| 2016-010 | Social Security and Medicare Payments |
| 2016-025 | Financial Reporting |
| 2016-032 | Equipment and Real Property Management |

Section III - Federal Award Findings and Questioned Costs

| Reference Number | CFDA Numbers | Finding | Questioned Costs |
|------------------|--------------|---|-------------------|
| 2016-011 | 10.557 | Period of Availability of Federal Funds | \$ 132,712 |
| 2016-011 | 10.557 | Period of Performance | 174,805 |
| 2016-032 | 10.557 | Equipment and Real Property Management | - |
| 2016-012 | 93.224 | Allowable Costs/Cost Principles | 5,301 |
| 2016-032 | 93.224 | Equipment and Real Property Management | - |
| 2016-013 | 93.224 | Period of Availability of Federal Funds | 1,348 |
| 2016-014 | 93.224 | Procurement and Suspension and Debarment | 52,901 |
| 2016-015 | 93.224 | Reporting | - |
| 2016-016 | 93.243 | Activities Allowed or Unallowed | - |
| 2016-017 | 93.243 | Allowable Costs/Cost Principles | 33,869 |
| 2016-032 | 93.243 | Equipment and Real Property Management | - |
| 2016-018 | 93.243 | Period of Performance | 20,400 |
| 2016-019 | 93.243 | Procurement and Suspension and Debarment | 31,895 |
| 2016-020 | 93.243 | Special Tests and Provisions – Wage Rate Requirements | 17,500 |
| 2016-021 | 93.268 | Allowable Costs/Cost Principles | 5,107 |
| 2016-032 | 93.268 | Equipment and Real Property Management | - |
| 2016-022 | 93.268 | Period of Availability of Federal Funds | 7,516 |
| 2016-023 | 93.268 | Procurement and Suspension and Debarment | 28,421 |
| 2016-024 | 93.268 | Program Income | 32,139 |
| 2016-025 | 93.268 | Other Information - Reporting | - |
| 2016-026 | 93.505 | Period of Availability of Federal Funds | 12,781 |
| 2016-026 | 93.505 | Period of Performance | 91 |
| 2016-027 | 93.505 | Procurement and Suspension and Debarment | 73,111 |
| 2016-028 | 93.505 | Reporting | - |
| 2016-029 | 93.982 | Allowable Costs/Cost Principles | 50,913 |
| 2016-030 | 93.982 | Period of Performance | 7,033 |
| 2016-031 | 93.982 | Procurement and Suspension and Debarment | 29,720 |
| | | | <u>\$ 717,563</u> |

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

General Ledger System/Financial Reporting

Finding No. 2016-001

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 (fund 1012) for CHCC transactions is maintained by the CNMI Department of Finance (DOF), but is not reconciled or monitored by DOF or CHCC;
- (2) No accounting policies or controls exist over financial reporting and the preparation of journal entries;
- (3) Journal entries prepared by CHCC are not in sequence, some are unsupported and/or are not evidenced as reviewed or approved by management;
- (4) Monthly financial statements and/or reports are prepared on an as needed basis; and
- (5) A budget-to-actual report is not prepared.

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

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

Recommendation: We recommend CHCC:

- Establish accounting policies and control procedures over the financial reporting process;
- Verify the accuracy and completeness of recorded transactions;
- Monitor, review and approve journal entries before posting;
- Prepare financial reports required by Public Law 16-51; and
- Prepare a budget-to-actual report to document whether actual expenses are within approved budgetary levels.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-001, Continued

Recommendation, Continued:

Identification as a Repeat Finding: Finding No. 2015-001.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Revenue/Receipts

Finding No. 2016-002

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; and
- (3) Of sixty-three revenue items tested, totaling \$17,352,718, we noted eleven were not supported by approved journal vouchers or billings.

| <u>Business Unit</u> | <u>Document No.</u> | <u>Date</u> | <u>Amount</u> |
|----------------------|---------------------|-------------|---------------|
| 1867A | 299001 | 09/30/16 | \$ 19,414 |
| 1863A | 258766 | 10/15/15 | \$ 32,357 |
| 1880A | 295396 | 09/08/16 | \$ 40,921 |
| 1863A | 259646 | 10/31/15 | \$ 31,755 |
| 1863A | 260460 | 11/30/15 | \$ 42,616 |
| 1863A | 260725 | 12/17/15 | \$ 1,945,277 |
| 1863A | 260805 | 10/31/15 | \$ 27,854 |
| 1863A | 262177 | 12/31/15 | \$ 44,086 |
| 1863A | 262458 | 02/23/16 | \$ 35,510 |
| 1863A | 294107 | 07/21/16 | \$ 329,399 |
| 1863A | 294191 | 07/22/16 | \$ 57,492 |

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.

Identification as a Repeat Finding: Finding No. 2015-003.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Local Procurement/Nonpayroll Expenditures

Finding No. 2016-003

Criteria: CHCC 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 \$5,000 and under \$25,000. The CEO, the official with expenditure authority, must obtain price quotations from at least three vendors and base the selection on competitive price and quality for procurement valued at \$5,000 to \$25,000. Any price quotations obtained must be written, documented, and submitted to the CHCC 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 CEO, 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.
- For emergency procurement, a written justification of the basis for the emergency and for the selection of a particular contractor must be made by the CEO, the official with expenditure authority and be approved by the P&S Director.

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

Condition: Tests of nonpayroll expenditures noted the following:

1. CHCC recorded \$475,839 of advances (account # 1075.12430) at September 30, 2016. Of total advances, \$233,891 relates to prior years.
2. Of forty-seven nonpayroll expenditures tested, totaling \$906,966, we noted the following:
 - a. One was procured through emergency procurement. Written justification of the basis for the emergency and for selection of a particular contractor prepared by the Chief Executive Officer (CEO), the expenditure authority, and approval from CHCC P&S was not provided.

| <u>General Ledger Date</u> | <u>Document No.</u> | <u>Contract/Purchase Order (PO) No.</u> | <u>Contract/PO Amount</u> | <u>Amount of Expenditure Tested</u> | <u>Description</u> |
|----------------------------|---------------------|---|---------------------------|-------------------------------------|----------------------------------|
| 10/07/15 | PV 1248436 | 597309 OP | \$ 45,000 | \$ 5,550 | Purchase of diesel for generator |

- b. One was procured through emergency procurement. However, quotations were solicited from three vendors and the vendor with the highest bid was selected. In addition, there was no evidence that justification for emergency procurement was prepared by the CEO, the expenditure authority, and written approval from CHCC P&S was not provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-003, Continued

Condition, Continued:

| General Ledger Date | Document No. | Contract/PO No. | Contract/PO Amount | Amount of Expenditure Tested | Description |
|---------------------|--------------|-----------------|--------------------|------------------------------|---|
| 08/11/16 | PV 1294959 | 613569 OP | \$ 79,840 | \$ 19,960 | 25% down payment for purchase of Atlas Copco ZT122-125 Oil Free Rotary Compressor |

- c. For four procured through emergency procurement, there was no evidence that the written justification for emergency procurement was prepared by the CEO, the expenditure authority.

| General Ledger Date | Document No. | Contract/Purchase Order (PO) No. | Contract/PO Amount | Amount of Expenditure Tested | Description |
|---------------------|--------------|----------------------------------|--------------------|------------------------------|---|
| 01/15/16 | OV 239537 | 599761 OP | \$ 7,981 | \$ 6,989 | Purchase of servemex Mini MP 5200 portable analyzer |
| 01/22/16 | PV 1257085 | 600680 OP | \$ 8,797 | \$ 8,797 | Repair of HVAC at dialysis building |
| 06/30/16 | PV 1288471 | 612634 OC | \$ 180,000 | \$ 30,000 | Housekeeping services |
| 08/01/16 | PV 1293491 | 612634 OC | \$ 180,000 | \$ 30,000 | Housekeeping services |

- d. For six 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.

| General Ledger Date | Document No. | Contract/Purchase Order (PO) No. | Contract/PO Amount | Amount of Expenditure Tested | Description |
|---------------------|--------------|----------------------------------|--------------------|------------------------------|---|
| 05/18/16 | PV 1268155 | 612170 OP | \$ 91,989 | \$ 45,600 | Laboratory services |
| 07/07/16 | PV 1290124 | 612648 OC | \$ 275,000 | \$ 13,462 | Linen laundry services |
| 09/14/16 | PV 1299539 | 609794 OP | \$ 1,200,000 | \$ 27,831 | Purchase various hemodialysis machine consumables and supplies for maintenance of the hemodialysis machines |
| 04/14/16 | PV 1264749 | 551877 OC | \$ 86,577 | \$ 17,894 | Professional services for the repair and maintenance of various medical and dental equipment |
| 02/10/16 | PV 1258802 | 606151 OP | \$ 59,172 | \$ 27,086 | Service support plus reporting subscription |
| 05/12/16 | OV 240446 | 609794 OP | \$ 1,200,000 | \$ 26,480 | Purchase various hemodialysis machine consumables and supplies for maintenance of the hemodialysis machines |

- e. Three prior year expenses (PV 1248436, OV 240964 and PV 1251034 amounting to \$5,550, \$3,834 and \$1,959, respectively) were recorded as fiscal year 2016 expenses. In addition, supporting invoices for two (PV 1251034 and OV 240964) were dated 06/25/15 and 08/13/15, respectively, however, the request for purchase and purchase order were approved in fiscal year 2016.

- f. Supporting invoices and/or procurement documents evidencing full and open competition for twenty-two expenditures were not available.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-003, Continued

Condition, Continued:

| <u>Reference No</u> | <u>Business Unit</u> | <u>Amount</u> |
|---------------------|----------------------|---------------|
| IA 4515 | 1815A | \$ 2,739 |
| IA 4564 | 1815A | \$ 8,032 |
| II 47249 | 1831A | \$ 855 |
| II 47427 | 1832A | \$ 458 |
| II 47733 | 1831A | \$ 1,241 |
| II 48059 | 1851A | \$ 420 |
| II 48397 | 1831A | \$ 4,656 |
| II 48747 | 1832A | \$ 44 |
| II 48990 | 1840A | \$ 53 |
| JE 293043 | 1840A | \$ 5,401 |
| JE 295462 | 1801A | \$ 5,678 |
| PV 1249592 | 1963A | \$ 65,628 |
| PV 1252283 | 1852A | \$ 13,164 |
| PV 1256545 | 1817A | \$ 50,000 |
| PV 1260603 | 1817A | \$ 50,000 |
| PV 1261892 | 1810A | \$ 15,000 |
| PV 1264087 | 1817A | \$ 100,000 |
| PV 1282586 | 1817A | \$ 50,000 |
| PV 1287108 | 1817A | \$ 50,000 |
| PV 1292284 | 1817A | \$ 50,000 |
| PV 1295261 | 1820A | \$ 115,499 |
| PV 1297081 | 1801A | \$ 1,220 |

Cause: The cause of the above conditions is the lack of control over monitoring and approving of nonpayroll expenditures, 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 nonpayroll expenditures and advances. We also recommend CHCC strengthen procedures to comply with procurement regulations and to establish and maintain efficient filing of relevant documents.

Identification as a Repeat Finding: Finding No. 2015-004.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with Condition 2b and 2f for reasons indicated in the Corrective Action Plan. CHCC describes corrective actions for all other conditions in the Corrective Action Plan.

Auditor Response: For Condition 2b, there was no evidence that justification for emergency procurement was prepared by the CEO, the expenditure authority, and written approval from CHCC P&S was not provided. For Condition 2f, documents were requested from CHCC during fieldwork. Invoices, contracts or equivalent documents were not made available.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Payroll/Employee Benefits

Finding No. 2016-004

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: Of seventy-five payroll items tested, we noted the following:

- a. Seventy-one NOPAs were not signed as approved by the Human Resources Officer at a reasonable time from the effective date.
- b. Four annual leave forms were approved after the leave dates.

| <u>Business Unit</u> | <u>Payroll Period Ended</u> | <u>Employee No.</u> |
|----------------------|-----------------------------|---------------------|
| 1831A | 08/20/16 | 415458 |
| 1906A | 04/02/16 | 103176 |
| 1860A | 05/28/16 | 212561 |
| 1824A | 11/14/15 | 555665 |

In addition, approvals for two leave forms were not dated, therefore, we are unable to determine when the leaves were approved.

| <u>Business Unit</u> | <u>Payroll Period Ended</u> | <u>Employee No.</u> |
|----------------------|-----------------------------|---------------------|
| 1823A | 11/14/15 | 680288 |
| CHH5815B | 07/09/16 | 817326 |

- c. Two timesheets were not signed by the preparer/employee and/or were not evidenced as reviewed and approved by the department head and/or the CEO.

| <u>Business Unit</u> | <u>Payroll Period Ended</u> | <u>Employee No.</u> |
|----------------------|-----------------------------|---------------------|
| 1860A | 04/30/16 | 604601 |
| 1831A | 04/16/16 | 860321 |

- d. The approved overtime form for one (employee no. 512091, payroll period ended 02/20/16) was not available.
- e. The approved annual leave form for employee no. 836509 for the payroll period ended 12/12/15 was not available.
- f. For twenty-two employees, overtime was incurred prior to the approving officer's approval. In addition, approval for one overtime form was not dated; therefore, we were unable to determine when the overtime was approved.
- g. One employee (employee no. 100602, payroll period ended 01/23/16) reported eight hours of compensatory time; however, total compensatory time hours approved were three.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-004, Continued

Condition, Continued:

- h. For twelve employees, the rate paid did not agree to the approved rate per NOPA.

| <u>Employee No.</u> | <u>Payroll Period Ended</u> |
|---------------------|-----------------------------|
| 295273 | 10/01/16 |
| 373584 | 09/17/16 |
| 411317 | 02/06/16 |
| 415437 | 03/19/16 |
| 415445 | 05/14/16 |
| 415446 | 06/25/16 |
| 555665 | 11/14/15 |
| 712636 | 05/14/16 |
| 789206 | 02/06/16 |
| 814063 | 12/26/15 |
| 833087 | 04/16/16 |
| 876741 | 08/20/16 |

- i. Timecards for thirteen employees were manually entered, without supporting justification and department head approval.

| <u>Business Unit</u> | <u>Payroll Period Ended</u> | <u>Employee No</u> |
|----------------------|-----------------------------|--------------------|
| 1830A | 08/06/16 | 879461 |
| 1831A | 08/20/16 | 415458 |
| 1824A | 05/14/16 | 415445 |
| 1861A | 06/25/16 | 769231 |
| 1912A | 04/02/16 | 100691 |
| 1828A | 12/26/15 | 814063 |
| 1832A | 08/06/16 | 838800 |
| 1822A | 07/09/16 | 594664 |
| 1826A | 07/23/16 | 860382 |
| 1833A | 03/19/16 | 415474 |
| 1862A | 02/06/16 | 580669 |
| 1860A | 04/30/16 | 604601 |
| 1863A | 09/17/16 | 373584 |

- j. Authorizations for ten timecard exemptions were not available.

| <u>Business Unit</u> | <u>Payroll Period Ended</u> | <u>Employee No</u> |
|----------------------|-----------------------------|--------------------|
| 1807A | 10/31/15 | 102709 |
| 1807A | 10/31/15 | 839024 |
| 1807A | 12/12/15 | 480094 |
| 1807A | 12/12/15 | 836509 |
| 1807A | 02/06/16 | 789206 |
| 1807A | 02/20/16 | 512091 |
| 1807A | 03/05/16 | 816813 |
| 1807A | 04/16/16 | 833087 |
| 1807A | 06/11/16 | 715886 |
| 1807A | 06/25/16 | 774790 |

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 that:

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-004, Continued

Recommendation, Continued:

- 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.

Identification as a Repeat Finding: Finding No. 2015-005.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Inventory

Finding No. 2016-005

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, 2016.
- (3) Receiving report numbers are not in sequential order.
- (4) A valuation of pharmacy inventory is not regularly performed resulting in an understatement of \$93,113 at September 30, 2016.
- (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, 2016, 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 | \$ 1,237,742 | \$ 1,131,667 | \$ (106,075) |
| Central Supply | 14120 | \$ 33,718 | \$ (64,767) | \$ (98,485) |
| Pharmacy | 14140 | \$ 511,495 | \$ 418,382 | \$ (93,113) |

The variances were corrected through proposed audit adjustments.

- a. 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) |

- b. CHCC's pharmacy does not maintain perpetual inventory records; therefore, the general ledger is not timely adjusted.
- c. Fourteen inventory items (index nos. 031747, 031704, 033464, 033448, 025704, 025712, 025720, 025674, 025690, 027626, 027642, 007757, 032667 and 030252) were included twice in the inventory valuation report (Medical Supply and Central Supply) resulting in an overstatement of \$13,193. One (index no. 025682) was included three times in the inventory valuation report resulting in an overstatement of \$217.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-005, 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 09/30/15</u> | <u>Receipts</u> | <u>Issuances</u> | <u>Expected Quantity at 09/30/16</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 fifteen items physically counted at the Medical Supply office, six do not agree to the final inventory valuation report.

| <u>Index No.</u> | <u>Quantity Per Test Count</u> | <u>Quantity Per Final Valuation Report</u> | <u>Difference</u> |
|------------------|------------------------------------|--|-------------------|
| 026182 | - | 2,500 | 2,500 |
| 028045 | 60 | 66 | 6 |
| 023418 | 48 | 9 | (39) |
| 031798 | 122 | 56 | (66) |
| 006343 | 10,128 | 10,224 | 96 |
| 021180 | 457 | 411 | (46) |

In addition, two (index nos. 000752 and 021180) 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.

Identification as a Repeat Finding: Finding No. 2015-009.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Capital Assets

Finding No. 2016-006

Criteria: Capital assets should be properly recorded and maintained. CHCC should conduct physical counts of property held by each accountable person or department to validate existence of capital assets.

Condition: During the year ended September 30, 2016, CHCC recorded machinery, equipment, office equipment, improvements and vehicle expenses totaling \$1,053,029, which qualify as capital asset acquisitions based on CHCC's capitalization policy. In addition, related depreciation expense and accumulated depreciation were not recorded at year end. These conditions were corrected through proposed adjustments at September 30, 2016.

In addition, CHCC did not perform a capital asset physical inventory for fiscal year 2016.

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

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

Recommendation: We recommend:

- Management establish policies and procedures for the accounting and maintenance of capital assets; and
- A complete physical count of all buildings and equipment be performed and the results reflected in CHCC's financial statements.

Identification as a Repeat Finding: Finding No. 2015-010.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Liabilities

Finding No. 2016-007

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 sixty-one subsequent disbursements tested, totaling \$15,913,954, the following were noted:
 - a. The invoices, supporting statements or equivalent documents were not provided for seven disbursements.

| <u>Check No.</u> | <u>Date</u> | <u>Amount</u> |
|------------------|-------------|---------------|
| 4896 | 10/11/16 | \$ 27,300 |
| 4954 | 10/13/16 | \$ 33,345 |
| 5034 | 11/09/16 | \$ 34,000 |
| 5151 | 12/05/16 | \$ 106,269 |
| 5285 | 12/22/16 | \$ 33,309 |
| 150085 | 11/01/16 | \$ 50,000 |
| 11627 | 12/02/16 | \$ 351,247 |

- b. Tests of subsequent disbursements noted unreconciled liabilities of \$2,502,771. Of this amount, \$2,180,506 relates to tax penalties and interest for late submission and payment of taxes. Audit adjustments were proposed to correct this condition.
2. At September 30, 2016, CHCC recorded accrued payroll of \$691,339. Estimated accrued payroll amounted to \$907,177 resulting in a difference of \$215,838. 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.

Identification as a Repeat Finding: Finding No. 2015-011.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Due to Related Parties

Finding No. 2016-008

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, 2016, CHCC recorded \$3,224,321 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 \$3,618,651. A reconciliation of the variance was not available.
2. 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.

In addition, Public Law 19-08 (the Appropriations and Budget Authority Act of 2016) 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.

Identification as a Repeat Finding: Finding No. 2015-012.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Withholding Taxes Payable

Finding No. 2016-009

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: Tests of withholding taxes 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 and third quarters of fiscal year 2016.
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 2016.
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.

Identification as a Repeat Finding: Finding No. 2015-013.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Social Security and Medicare Payments

Finding No. 2016-010

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 ended 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 2016. The deposits (payments), however, were made between one and two hundred eighty-seven days past scheduled deposit dates. We examined the deposits made during the fiscal year and noted the following:

1. No deposits were made in April and June 2016; however, payroll was processed for these months.
2. Deposits are not reconciled or referenced to Form 941. Similarly, Form 941 does not indicate when a deposit was made.
3. Deposits appear to be sporadic and not based on the earliest amount due.

In addition, penalties and interest for late submission of taxes of \$2,557,625 were not recorded during the year ended September 30, 2016. This condition was corrected through a proposed audit adjustment. Further, penalties and interest for the remaining balance of \$1,351,838 as of September 30, 2016 could not be determined due to inconsistent payments and lack of available information.

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

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.

Identification as a Repeat Finding: Finding No. 2015-014.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-011
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.557 Special Supplemental Nutrition for Women, Infants, and Children
 Award Number: 2015 7NM700NM7
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$132,712
 Award Number: 2016 7NM700NM7
 Area: Period of Performance
 Questioned Costs: \$174,805

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. Furthermore, funds spent forward must be the first funds expended by the State agency for costs incurred in the next fiscal year.

Condition: Expenditures were charged to the 2015 grant after the fund's period of availability expired, as follows:

| <u>Grant Year</u> | <u>Liquidation End</u> | <u>Expenditure Dates</u> | <u>Description</u> | <u>Amount</u> |
|-------------------|------------------------|--------------------------|--------------------|-------------------|
| 2015 | 12/31/15 | January 2016 | Travel | \$ 4,082 |
| 2015 | 02/28/16 | 04/22/16 | Generator | 70,100 |
| 2015 | 02/28/16 | 05/20/16 | Generator | 52,098 |
| 2015 | 02/28/16 | 06/24/16 | Generator | <u>6,432</u> |
| | | | | \$ <u>132,712</u> |

Furthermore, between October and December 2015, a total of \$88,611 in costs were charged to the 2015 grant, leaving an available spend forward amount of \$65,368. However, during that period of available spend forward funds, expenditures were charged to the 2016 grant, as follows:

| <u>Grant Year</u> | <u>Performance Start</u> | <u>Expenditure Dates</u> | <u>Description</u> | <u>Amount</u> |
|-------------------|--------------------------|--------------------------|--------------------|-------------------|
| 2016 | 01/01/2016 | Oct-Dec 2015 | Various | \$ <u>174,805</u> |

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

Effect: The effect of the above condition is noncompliance with applicable period of availability and period of performance requirements, and questioned costs of \$132,712 and \$174,805 exist, respectively.

Recommendation: We recommend that the CHCC review funding period dates prior to charging expenditures to a Federal award. Grantor approval should be sought if extensions are needed.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

| | |
|-------------------|--|
| Finding No.: | 2016-011, Continued |
| Federal Agency: | U.S. Department of Agriculture |
| CFDA Program: | 10.557 Special Supplemental Nutrition for Women, Infants, and Children |
| Award Number: | 2015 7NM700NM7 |
| Area: | Period of Availability of Federal Funds |
| Questioned Costs: | \$132,712 |
| Award Number: | 2016 7NM700NM7 |
| Area: | Period of Performance |
| Questioned Costs: | \$174,805 |

Auditor Response: The liquidation period based on the 120-day period for the FY2015 grant would end in January 2016. The expenditures were incurred April - June 2016. The grantor correspondence dated 06/24/16 does not specifically state that all expenditures are allowed to be liquidated until June 27, 2016. The grantor specifically refers to the remaining unliquidated balance of \$6,431. This amount was not liquidated until after 06/27/16. For the remaining \$174,805 in questioned costs, spend forward funds must be spent first before the subsequent grant funding is used. As a result, 2016 grant funds should not have been charged until after 12/31/15. This is why 2016 grant expenditures before 12/31/15 were questioned. As a result, the finding remains.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-012
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
 Award Numbers: 6 H80CS28324-01-00 and 5 H80CS28324-02-00
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$5,301

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. For three (or 21%) of fourteen payroll expenditures, aggregating \$219,827 of a population of \$697,438, the payroll labor distribution report was not provided:

| <u>Business Unit</u> | <u>Object Account No.</u> | <u>General Ledger Date</u> | <u>Document No.</u> | <u>Questioned Costs</u> |
|----------------------|---------------------------|----------------------------|---------------------|-------------------------|
| CHH5224A | 61196 | 10/03/15 | 9312 | \$ 1,141 |
| CHH6224A | 61210 | 06/11/16 | 9704 | <u>1,698</u> |
| | | | | \$ <u>2,839</u> |

2. Of four nonpayroll expenditures, aggregating \$4,583 of a total population of \$189,018, the following were noted:

- a. For one (or 25%), delayed approval of the travel authorization resulted in a higher cost.

| <u>Business Unit</u> | <u>Object Account No.</u> | <u>General Ledger Date</u> | <u>Document No.</u> | <u>General Ledger Amount</u> | <u>Obligating Document Amount</u> | <u>Questioned Cost</u> |
|----------------------|---------------------------|----------------------------|---------------------|------------------------------|-----------------------------------|------------------------|
| CHH5224 | 62500 | 03/14/16 | 1261727 | \$ 2,530 | \$ 2,018 | \$ 512 |

- b. For one (or 25%), the expenditure for a joint board meeting/holiday party, including board members and their non-employee guests, was not necessary or reasonable for the performance of the Federal award.

| <u>Business Unit</u> | <u>Object Account No.</u> | <u>General Ledger Date</u> | <u>Document No.</u> | <u>Questioned Cost</u> |
|----------------------|---------------------------|----------------------------|---------------------|------------------------|
| CHH5224A | 62480 | 12/10/15 | 1253781 | \$ 1,950 |

Cause: CHCC did not enforce recordkeeping and monitoring controls over compliance with applicable allowable costs/cost principles requirements.

Effect: CHCC is in noncompliance with applicable allowable costs/cost principles requirements, and questioned costs of \$5,301 exist since projected questioned costs exceed \$25,000.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-012, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program (Community Health Centers,
Migrant Health Centers, Health Care for the Homeless, and
Public Housing Primary Care)
Award Numbers: 6 H80CS28324-01-00 and 5 H80CS28324-02-00
Area: Allowable Costs/Cost Principles
Questioned Costs: \$5,301

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. Further, the approval process should be streamlined so that unnecessary costs are avoided.

Identification as a Repeat Finding: Finding No. 2015-030.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response:

Condition 1: We were unable to agree the amount recorded against the payroll labor distribution report.

Condition 2:

- a. Proper planning to allow for enough time for the approval process was not implemented for the purchase of the airfare. The finding remains.
- b. It is not documented how the inclusion of non-employee guests is necessary to improve employee morale and employee-employer relationships. The finding remains.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-013
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
 Award Number: 6H80CS28324-01-00
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$1,348

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

Condition: Of four nonpayroll expenditures tested, aggregating \$4,583, of a total population of \$189,019, one (or 25%) was liquidated after 90 days from the budget end date. Grant extension documentation was not provided.

| <u>Business Unit</u> | <u>Document No.</u> | <u>General Ledger Date</u> | <u>Budget End Date</u> | <u>Check No.</u> | <u>Check Date</u> | <u>Liquidation End Date</u> | <u>Days Lapsed</u> | <u>Questioned Costs</u> |
|----------------------|---------------------|----------------------------|------------------------|------------------|-------------------|-----------------------------|--------------------|-------------------------|
| CHH5224A | 240750 | 06/16/16 | 04/30/16 | 5285 | 12/22/16 | 07/30/16 | 145 | \$ 1,348 |

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 \$1,348 exist as the projected questioned costs exceed the threshold of \$25,000.

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.

Identification as a Repeat Finding: Finding No. 2015-031.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response: Payment was not made within the liquidation period. The finding remains.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-014
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
 Award Number: 6H80CS28324-01-00
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$52,901

Criteria: In accordance with applicable procurement requirements, States will use the same policies and procedures used for procurements from non-Federal Funds. CHCC procurement regulations state that bidding is not required but is encouraged for procurement over \$5,000 and under \$25,000, or \$50,000 if it is medical equipment, supplies, or devices. The Chief Executive Officer (CEO), the official with 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 \$5,000 to \$25,000, or \$50,000 for medical equipment, supplies, or devices. Any price quotations must be written, documented, and submitted to the CHCC Procurement and Supply (P&S) Director for approval.

Condition: Of fifteen nonpayroll expenditures tested, totaling \$50,358, for five (or 33%), less than three quotations were obtained.

| Business Unit | TA/ Contract No. | Object No. | General Ledger Date | Document No. | Contract Amount | Questioned Costs |
|---------------|---------------------|------------|---------------------|--------------|-----------------|------------------|
| CHH5224A | 317008-OT | 62500 | 11/13/15 | 1251765 | \$ 8,080 | \$ 8,080 |
| CHH5224A | 593089-OP | 62750 | 11/03/15 | 1250830 | \$ 7,800 | 5,200 |
| CHH5224A | 610761-OP | 63120 | 05/16/16 | 240454 | \$ 6,446 | 6,446 |
| CHH5224A | 611053-OP | 63120 | 06/14/16 | 240726 | \$ 20,278 | 20,278 |
| CHH5224A | 611054-OP | 63120 | 06/20/16 | 240763 | \$ 12,897 | <u>12,897</u> |
| | | | | | | \$ <u>52,901</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 \$52,901 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.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response: For item 317008-OT, procurement regulations require three quotations for purchases above \$5,000 and under \$25,000. There was no evidence showing that a third quotation would result in the same price. The finding remains.

For item 593089-OP and 610761-OP, three quotations were not provided during audit fieldwork. The finding remains.

For item 611054-OP, no effort was made to obtain a third quotation. Procurement regulations state that at least 3 quotations be obtained, not just solicited.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-015
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
 Award Number: 5H80CS28324-02-00
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, the program is required to submit a Uniform Data System (UDS) report.

Condition: Tests of major program expenditures noted the following:

1. Based on total expenditures reported to the grantor for the reporting period ended April 30, 2016, we noted the following variances:

| Report Details - Business Unit CHH5224A | <u>Per SF-425</u> | <u>Per General Ledger</u> | <u>Variance</u> |
|--|-------------------|---------------------------|-----------------|
| Federal expenditures and unobligated balance: | | | |
| 10e. Federal share of expenditures | \$ 811,559 | \$ 736,814 | \$ 74,745 |
| 10f. Federal share of unliquidated obligations | \$ - | \$ 74,745 | \$ (74,745) |
| Program income: | | | |
| 10l. Total federal program income earned | \$ - | \$ (310,715) | \$ 310,715 |
| 10n. Program income expended in accordance with the addition alternative | \$ - | \$ 41,674 | \$ (41,674) |
| 10o. Unexpended program income (line l minus line m or line n) | \$ - | \$ (352,389) | \$ 352,389 |

2. Tests of reporting requirements noted differences in reporting for the UDS report as compared to the accounting system for reporting period ended 12/31/16:

Table 5 - Staffing and Utilization

| <u>Per UDS Report</u> | <u>(a) FTEs</u> | <u>(c) Patients</u> |
|---|-----------------|---------------------|
| <u>Line Item</u> | | |
| Line 8 - Total Physicians | 1.25 | - |
| Line 15 - Total Medical Care Services | 6.25 | 1,592 |
| Line 29 - Total Enabling Services | 2.00 | - |
| Line 33 - Total Administration and Facility | 4.75 | - |
| <u>Per RPMS Data</u> | | |
| <u>Line Item</u> | <u>(a) FTEs</u> | <u>(c) Patients</u> |
| Line 8 - Total Physicians | - | - |
| Line 15 - Total Medical Care Services | - | 1,571 |
| Line 29 - Total Enabling Services | - | - |
| Line 33 - Total Administration and Facility | - | - |
| <u>Variance</u> | | |
| <u>Line Item</u> | <u>(a) FTEs</u> | <u>(c) Patients</u> |
| Line 8 - Total Physicians | 1.25 | - |
| Line 15 - Total Medical Care Services | 6.25 | 21 |
| Line 29 - Total Enabling Services | 2.00 | - |
| Line 33 - Total Administration and Facility | 4.75 | - |

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-015, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
 Award Number: 5 H80CS28324-02-00
 Area: Reporting
 Questioned Costs: \$-0-

Condition, Continued:

Table 8 Part A - Financial Costs

Per UDS Report

| <u>Line Item</u> | (c) <u>Total Cost after Allocation of Facility and Non-Clinical Support Services</u> |
|---|---|
| Line 4 (c) - Total Medical Care Services | \$ 850,561 |
| Line 13 (c) - Total Enabling and Other Services | \$ 77,381 |
| Line 16 - Total Overhead | \$ - |

Per JD Edwards Data

| <u>Line Item</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> | (c) <u>Total Cost after Allocation of Facility and Non-Clinical Support Services</u> |
|---|---|
| Line 4 (c) - Total Medical Care Services | \$ 850,561 |
| Line 13 (c) - Total Enabling and Other Services | \$ 77,381 |
| Line 16 - Total Overhead | \$ - |

Table 9 Part D - Patient Related Revenue

Per UDS Report

| <u>Line Item</u> | (a) Full Charges This Period | (b) Amount Collected This Period | (c.1) Collection of Reconciliation /Wrap Around Current Year | (d) Allowances | (e) Sliding Discounts |
|------------------------------------|------------------------------------|---|--|-------------------|-----------------------------|
| Line 1 - Medical Non-Managed Care | \$ 146,420 | \$ 116,276 | \$ 84,700 | \$ (868) | \$ - |
| Line 10 - Private Non-Managed Care | \$ 41,640 | \$ 3,139 | \$ - | \$ 184 | \$ - |
| Line 13 - Self Pay | \$ 11,871 | \$ 1,410 | \$ - | \$ - | \$ 6,836 |

Per RPMS Data

| <u>Line Item</u> | (a) Full Charges This Period | (b) Amount Collected This Period | (c.1) Collection of Reconciliation /Wrap Around Current Year | (d) Allowances | (e) Sliding Discounts |
|------------------------------------|------------------------------------|---|--|-------------------|-----------------------------|
| Line 1 - Medical Non-Managed Care | \$ - | \$ - | \$ - | \$ - | \$ - |
| Line 10 - Private Non-Managed Care | \$ - | \$ - | \$ - | \$ - | \$ - |
| Line 13 - Self Pay | \$ 6,512 | \$ 1,036 | \$ - | \$ - | \$ 1,041 |

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-015, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
 Award Number: 5 H80CS28324-02-00
 Area: Reporting
 Questioned Costs: \$-0-

Condition, Continued:

Table 9 Part D - Patient Related Revenue, Continued

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> | (d) <u>Allowances</u> | (e) <u>Sliding Discounts</u> |
|------------------------------------|--|--|--|--------------------------|-------------------------------------|
| Line 1 - Medical Non-Managed Care | \$ 146,420 | \$ 116,276 | \$ 84,700 | \$ (868) | \$ - |
| Line 10 - Private Non-Managed Care | \$ 41,640 | \$ 3,139 | \$ - | \$ 184 | \$ - |
| Line 13 - Self Pay | \$ 5,359 | \$ 374 | \$ - | \$ - | \$ 5,795 |

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 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.

Identification as a Repeat Finding: Finding No. 2015-033.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-016
 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: 5U79SP020710-02
 Area: Activities Allowed or Unallowed
 Questioned Costs: \$-0-

Criteria: In accordance with applicable activities allowed or unallowed requirements, construction is an unallowed activity.

Condition: For one (or 2%) of forty-two nonpayroll expenditures tested, aggregating \$316,771 of a population of \$657,783, the cost of construction was charged to the Federal award, and grantor approval was 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> |
|----------------------|---------------------------|----------------------------|------------------------|--------------------------------|-------------------------|
| CHH6243B | 64560 | 09/15/16 | 1299771 | 616351-OC | \$ 17,500 |

Cause: CHCC did not enforce monitoring controls over applicable activities allowed or unallowed requirements.

Effect: CHCC is in noncompliance with applicable activities allowed or unallowed requirements. This finding is reportable because the projected questioned cost exceeds the threshold; however, no questioned cost is presented at this finding as the amount is questioned at Finding No. 2016-020.

Recommendation: The responsible personnel should monitor transactions for activities allowed or unallowed prior to approving program expenditures.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response: The costs were charged to improvements for which the contract amount totaled \$70,000 which did not agree with the approved budgeted amount of \$4,000; and grantor approval was not provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-017
 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: 1U79SP020710-01 and 5U79SP020710-02
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$33,869

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 six payroll expenditures tested, aggregating \$43,862 of a population of \$235,695, the following were noted:
 - a. For one (or 17%), the NOPA was not provided for employee no. 385978 for business unit no. CHH5243B to substantiate the employee's employment and wage rate. No questioned cost is presented as the cost is questioned at Condition 1b below.
 - b. For three (or 50%), employees were improperly paid in the fiscal year as the NOPAs were approved more than 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> | <u>Questioned Costs</u> |
|----------------------|---------------------|----------------------------|---------------------------|--------------------|-------------------------|
| CHH6243B | 159845 | 09/30/15 | 08/30/17 | 700 | \$ 962 |
| CHH6243B | 385978 | 09/30/15 | 08/30/17 | 700 | 1,369 |
| CHH6243B | 172435 | 09/30/15 | 08/30/17 | 700 | <u>1,538</u> |
| | | | | | \$ <u>3,869</u> |

2. For two (or 17%) of twelve nonpayroll expenditures tested, aggregating \$170,445 of a population of \$657,783, invoices were not provided for the following professional services:

| <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> |
|----------------------|---------------------------|----------------------------|------------------------|--------------------------------|-------------------------|
| CHH6243B | 62060 | 04/05/16 | 1263654 | 608387-OC | \$ 15,000 |
| CHH6243B | 62060 | 09/12/16 | 1299208 | 608387-OC | <u>15,000</u> |
| | | | | | \$ <u>30,000</u> |

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 \$33,869 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.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-017, 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: 1U79SP020710-01 and 5U79SP020710-02
Area: Allowable Costs/Cost Principles
Questioned Costs: \$33,869

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response

Condition 1a - The NOPA was not provided; as such, finding stays.

Condition 2 - There was no document or memo from management indicating approval to pay based on the subrecipient agreement. Supporting documents for the payment made was not provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-018
 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: 5U79SP020710-02 Revised
 Area: Period of Performance
 Questioned Costs: \$20,400

Criteria: In accordance with applicable 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 20%) of five subsequent expenditures tested, aggregating \$99,671 of a total population of \$182,860, liquidation occurred beyond 90 days from the budget end date of 09/29/16. Grant extension documentation was not provided.

| <u>Business Unit</u> | <u>Document No.</u> | <u>General Ledger Date</u> | <u>Check No.</u> | <u>Check Date</u> | <u>Liquidation End Date</u> | <u>Days Lapsed</u> | <u>Amount</u> |
|----------------------|---------------------|----------------------------|------------------|-------------------|-----------------------------|--------------------|---------------|
| CHH6243B | 1309118 | 12/15/16 | 5375 | 01/12/17 | 12/29/16 | 14 | \$ 20,400 |

2. For two (or 17%) of twelve nonpayroll expenditures tested, aggregating \$170,445 of a total population of \$657,783, supporting documentation such as invoice and check were 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> |
|----------------------|-----------------------|----------------------------|------------------------|----------------------|---------------|
| CHH6243B | 62060 | 04/05/16 | 1263654 | PV | \$ 15,000 |
| CHH6243B | 62060 | 09/12/16 | 1299208 | PV | <u>15,000</u> |

Less amounts questioned at Finding No. 2016-017 Condition 2
 30,000
(30,000)
 \$ _____

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

Effect: CHCC is in noncompliance with applicable period of performance requirements, and questioned costs of \$20,400 exist since the projected costs exceed \$25,000.

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.

Identification as a Repeat Finding: Finding No. 2015-034.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response:

Condition 1 - Grant extension document was not provided; hence, finding stays.

Condition 2 - Supporting documents were not provided at the time of fieldwork.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-019
 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: 1U79SP020710-01 and 5U79SP020710-02
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$31,895

Criteria: In accordance with applicable procurement requirements, States will use the same policies and procedures used for procurements from non-Federal Funds.

CHHC's procurement regulations state the following:

- Bidding is not required but is encouraged for procurement over \$5,000 and under \$25,000. The Chief Executive Officer, the official with expenditure authority, must obtain price quotations from at least three vendors and base the selection on competitive price and quality for procurement valued at \$5,000 to \$25,000. Any price quotations obtained must be written, documented, and submitted to the CHCC 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 forty-two nonpayroll expenditures tested, totaling \$316,771 of a total population of \$657,783, we noted the following:

1. For two (or 5%), no procurement documents were provided for the acquisition of a digital single-lens reflex camera and an ergonomic chair.

| Business Unit | TA/Contract No. | TA/Contract Amount | Object | General Ledger Date | Document No. | Questioned Costs |
|---------------|-----------------|--------------------|--------|---------------------|--------------|------------------|
| CHH6243B | Not applicable | Not available | 63120 | 04/01/16 | 240086 | \$ 938 |
| CHH5243B | Not applicable | Not available | 63120 | 11/02/15 | 239097 | \$ 450 |
| | | | | | | \$ 1,388 |

2. For one (or 2%), three quotations were not obtained for cleaning services and venue rental.

| Business Unit | TA/Contract No. | Contract Amount | Total FY16 Expenditures Charged | Object | General Ledger Date | Document No. | Questioned Costs |
|---------------|-----------------|-----------------|---------------------------------|--------|---------------------|--------------|------------------|
| CHH6243B | 607649-OP | \$ 5,200 | \$ 5,200 | 62480 | 07/01/16 | 1289637 | \$ 5,200 |

3. For one (or 2%), procurement did not exhibit full and open competition as the program only gave a one-day notice by email to prospective vendors to submit a quote.

| Business Unit | TA/Contract No. | Contract Amount | Total FY16 Expenditures Charged | Object | General Ledger Date | Document No. | Questioned Costs |
|---------------|-----------------|-----------------|---------------------------------|--------|---------------------|--------------|------------------|
| CHH6243B | 609356-OP | \$ 9,818 | \$ 9,818 | 64560 | 06/01/16 | 240619 | \$ 9,818 |

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-019, 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: 1U79SP020710-01 and 5U79SP020710-02
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$31,895

Condition, Continued:

4. For one (or 2%), sole source was used, but no written justification was provided as to why no other available vendor could provide the evaluation services and generator repair.

| <u>Business Unit</u> | <u>TA/ Contract No.</u> | <u>Contract Amount</u> | <u>Total FY16 Expenditures Charged</u> | <u>Object</u> | <u>General Ledger Date</u> | <u>Document No.</u> | <u>Questioned Costs</u> |
|----------------------|-------------------------|------------------------|--|---------------|----------------------------|---------------------|-------------------------|
| CHH5243B | 599909-OP | \$ 18,977 | \$ 9,489 | 62660 | 10/06/15 | 1248301 | \$ 9,489 |

5. For one (or 2%), sole source was used to support the objective of targeting a specific community; however, the award documents did not specify any target group to be used.

| <u>Business Unit</u> | <u>TA/ Contract No.</u> | <u>Contract Amount</u> | <u>Total FY16 Expenditures Charged</u> | <u>Object</u> | <u>General Ledger Date</u> | <u>Document No.</u> | <u>Questioned Costs</u> |
|----------------------|-------------------------|------------------------|--|---------------|----------------------------|---------------------|-------------------------|
| CHH6243B | 604525-OP | \$ 6,750 | \$ 6,000 | 62080 | 03/29/16 | 1262860 | \$ 6,000 |

6. For one (or 2%), emergency procurement was used for the renovation of the main office building due to meeting the grant's expiration date; however, it is not a justifiable reason for emergency procurement.

| <u>Business Unit</u> | <u>TA/ Contract No.</u> | <u>Contract Amount</u> | <u>Total FY16 Expenditures Charged</u> | <u>Object</u> | <u>General Ledger Date</u> | <u>Document No.</u> |
|----------------------|-------------------------|------------------------|--|---------------|----------------------------|---------------------|
| CHH6243B | 616351-OC | \$ 70,000 | \$ 17,500 | 64520 | 09/15/16 | 1299771 |

No questioned cost is presented as the cost is questioned at Finding No. 2016-020 (Wage Rate Requirements).

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

Effect: CHCC is in noncompliance with applicable procurement regulations, and questioned costs of \$31,895 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.

Identification as a Repeat Finding: Finding No. 2015-035.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-019, 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: 1U79SP020710-01 and 5U79SP020710-02
Area: Procurement and Suspension and Debarment
Questioned Costs: \$31,895

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response:

Condition 1 - Supporting documents were not provided.

Condition 2 - Procurement documents were requested; however, required quotations were not included in the file at the time of request.

Condition 3 - The program only gave a one-day notice to respond to prospective vendors. Finding stays.

Condition 5 - The approved budget did not indicate the target group. Finding stays.

Condition 6 - Emergency procurement also cited meeting the grant's expiration date which is not a justifiable reason for the procurement. Planning was not done properly.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-020
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: 5U79SP020710-02 Revised
Area: Special Tests and Provisions - Wage Rate Requirements
Questioned Costs: \$17,500

Criteria: In accordance with the Wage Rate Requirements, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project by the Department of Labor.

Condition: Tests of major program expenditures noted the following:

1. Of one construction expenditure tested (or 100%), totaling \$17,500 of a total contract amount of \$70,000, weekly certified payroll reports and a statement of compliance from the contractor were not provided.
2. Management was not aware of the Wage Rate requirements and the Davis-Bacon Act.

Cause: Monitoring procedures were not performed to verify that contractors or subcontractors have complied with the required certified payrolls for each week in which work was performed under the contract or subcontract. Further, controls are not in place for key managers who have adequate knowledge and experience to discharge their responsibilities.

Effect: CHCC is in noncompliance with applicable Wage Rate requirements and the Davis-Bacon Act, and questioned costs of \$17,500 exist since the projected costs exceed \$25,000.

Recommendation: The responsible personnel should establish and implement policies and procedures to monitor compliance with applicable Wage Rate requirements and the Davis-Bacon Act, including documenting the monitoring procedures performed.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-021
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.268 Immunization Cooperative Agreements
 Award Numbers: 5H23IP000736-03 and 5NH23IP000736-04-00
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$5,107

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. Of thirteen payroll expenditures, aggregating \$114,282 of a population of \$558,441, the following were noted:

a. For two (or 15 %), payroll labor distribution reports 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>Questioned Costs</u> |
|----------------------|---------------------------|----------------------------|---------------------|----------------------|-------------------------|
| CHH62681 | 61196 | 08/06/16 | 9775 | T3 | \$ 1,010 |
| CHH62681 | 61260 | 02/20/16 | 9563 | T2 | \$ 951 |

b. For one (or 8%), the leave form was not provided.

| <u>Business Unit</u> | <u>Employee No.</u> | <u>Object Account No.</u> | <u>General Ledger Date</u> | <u>Document No.</u> | <u>Annual Leave Hours Per Payroll Register</u> | <u>Questioned Costs</u> |
|----------------------|---------------------|---------------------------|----------------------------|---------------------|--|-------------------------|
| CHH52681 | 712629 | 61100 | 01/09/16 | 9491 | 8 | \$ 116 |

2. Of five nonpayroll expenditures, aggregating \$9,260, of a population of \$230,090, the following were noted:

a. For one (or 20%), no invoice or other cost basis was provided to substantiate travel expenditures.

| <u>Business Unit</u> | <u>Object Account No.</u> | <u>General Ledger Date</u> | <u>Obligating Document No.</u> | <u>Document No.</u> | <u>Document Type</u> | <u>Questioned Costs</u> |
|----------------------|---------------------------|----------------------------|--------------------------------|---------------------|----------------------|-------------------------|
| CHH62687 | 62500 | 09/09/16 | 323674-OT | 1298729 | PV | \$ 2,570 |

b. For two (or 40%), costs incurred in the current year should have been recorded in the prior year.

| <u>Business Unit</u> | <u>Object Account No.</u> | <u>General Ledger Date</u> | <u>Obligating Document No.</u> | <u>Document No.</u> | <u>Document Type</u> | <u>Amount</u> |
|----------------------|---------------------------|----------------------------|--------------------------------|---------------------|----------------------|---------------|
| CHH52681 | 62060 | 02/26/16 | 604253-OP | 239829 | OV | \$ 3,200 |
| CHH52681 | 63120 | 02/24/16 | | 239821 | OV | \$ 460 |

No questioned costs are reported as drawdowns are based on expenditures recorded.

c. For one (of 20%), cost incurred for an executive chair was not deemed reasonable in fulfilling the program's objectives.

| <u>Business Unit</u> | <u>Object Account No.</u> | <u>General Ledger Date</u> | <u>Document No.</u> | <u>Obligating Document No.</u> | <u>Document Type</u> | <u>Questioned Costs</u> |
|----------------------|---------------------------|----------------------------|---------------------|--------------------------------|----------------------|-------------------------|
| CHH52681 | 63120 | 02/24/16 | 239821 | 592191-OP | OV | \$ 460 |

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-021, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Numbers: 5H23IP000736-03 and 5NH23IP000736-04-00
Area: Allowable Costs/Cost Principles
Questioned Costs: \$5,107

Cause: CHCC did not enforce recordkeeping and monitoring controls over compliance with applicable allowable costs/cost principles requirements.

Effect: CHCC is in noncompliance with allowable costs/cost principles requirements, and questioned costs of \$5,107 exist as projected questioned costs exceed \$25,000.

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.

Identification as a Repeat Finding: Finding No. 2015-037.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response:

Condition 1a: The cost recorded to the general ledger could not be substantiated. The finding remains.

Condition 2a: No supporting invoice was provided to support the amount recorded. The finding remains.

Condition 2c: The purchase of a \$460 Luxhide Executive Chair is not necessary for the performance of federal awards when more reasonable offerings are available. The finding remains.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-022
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.268 Immunization Cooperative Agreements
 Award Number: 5H23IP000736-03
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$7,516

Criteria: In accordance with applicable period of availability requirements, a 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 thirteen payroll expenditures tested, aggregating \$114,282 of a total population of \$558,441, one (or 8%) was obligated after the budget end date. Grant extension documentation was not provided.

| <u>Business Unit</u> | <u>Document No.</u> | <u>General Ledger Date</u> | <u>Budget End Date</u> | <u>Obligation Date</u> | <u>Days Lapsed</u> | <u>Questioned Costs</u> |
|----------------------|---------------------|----------------------------|------------------------|------------------------|--------------------|-------------------------|
| CHH52681 | 9491 | 01/09/16 | 12/31/15 | 01/09/16 | 9 | \$ 3,856 |

2. Of five nonpayroll expenditures tested, aggregating \$9,260, of a total population of \$230,090, for two (or 40%), liquidation occurred beyond 90 days from the budget end date. Grant extension documentation was not provided.

| <u>Business Unit</u> | <u>Document No.</u> | <u>General Ledger Date</u> | <u>Budget End Date</u> | <u>Check No.</u> | <u>Check Date</u> | <u>Liquidation End Date</u> | <u>Days Lapsed</u> | <u>Questioned Costs</u> |
|----------------------|---------------------|----------------------------|------------------------|------------------|-------------------|-----------------------------|--------------------|-------------------------|
| CHH52681 | 239829 | 02/26/16 | 12/31/15 | 4046 | 04/18/16 | 03/31/16 | 18 | \$ 3,200 |
| CHH52681 | 239821 | 02/24/16 | 12/31/15 | 4062 | 04/18/16 | 03/31/16 | 18 | 460 |
| | | | | | | | | \$ <u>3,660</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 \$7,516 exist as the projected questioned costs exceed the threshold of \$25,000.

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.

Identification as a Repeat Finding: Finding No. 2015-038.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response:

Condition 1: Expenditures should be obligated within the budget period related to the grant charged. The finding remains.

Condition 2: Each grant award has specific liquidation deadlines. The 90-day liquidation period starts at the end of each budget period. The finding remains.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No: 2016-023
 Federal Agency: U.S. Department of Health & Human Services
 CFDA Program: 93.268 Immunization Cooperative Agreements
 Award Numbers: 5H23IP000736-03 and 5H23IP000736-03 Revised
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$28,421

Criteria: In accordance with applicable procurement requirements, States will use the same policies and procedures used for procurements from non-Federal Funds. Further, CHCC procurement regulations state that bidding is not required but is encouraged for procurement over \$5,000 and under \$25,000, or \$50,000 if it is medical equipment, supplies, or devices. The CEO, the official with 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 \$5,000 to \$25,000, or \$50,000 for medical equipment, supplies, or devices. Any price quotations must be written, documented, and submitted to the CHCC Procurement and Supply (P&S) Director for approval.

Condition: Of twenty nonpayroll expenditures tested, totaling \$76,288, for four (or 20%), less than three quotations were obtained.

| Business Unit | TA/ Contract No. | Object No. | General Ledger Date | Document No. | Contract Amount | Questioned Costs |
|---------------|---------------------|------------|---------------------|--------------|-----------------|------------------|
| CHH52681 | 604507-OP | 62080 | 01/26/16 | 1257307 | \$ 5,000 | \$ 5,000 |
| CHH52681 | 604571-OP | 63120 | 02/16/16 | 239760 | \$ 7,631 | 7,631 |
| CHH52681 | 595948-OP | 64560 | 12/24/15 | 239429 | \$ 9,788 | 9,788 |
| CHH52681 | 604572-OP | 64560 | 03/03/16 | 239882 | \$ 6,002 | <u>6,002</u> |
| | | | | | | \$ <u>28,421</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 \$28,421 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.

Identification as a Repeat Finding: Finding No. 2015-039.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response: For 595948-OP, no effort was made to obtain at least three quotations. Procurement regulations state that at least 3 quotations be obtained, not just solicited.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-024
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Numbers: 5H23IP000736-03, 5H23IP000736-03 Revised,
5NH23IP000736-04-00 and 6NH23IP000736-04-02
Area: Program Income
Questioned Costs: \$32,139

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 \$32,139 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 \$32,139 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.

Identification as a Repeat Finding: Finding No. 2015-040.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response: Funds collected through the vaccinations are recorded under account 1867A.44540 based on our discussions with Roxanne Ada, Business Manager. These funds are commingled with other revenue generating sources under the same business unit. Based on the general ledger details, expenditures have been recorded under this business unit. Per discussion with Jeremey Sasamoto, Immunization Program Manager, the program has not seen any of the funds generated. The finding remains.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-025
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Number: 5NH23IP000736-04-00
Area: Other Information - Reporting
Questioned Costs: \$-0-

Criteria: In accordance with the June 2016 OMB Compliance Supplement, the annual dollar value of federally funded vaccine should be treated by the grantee as expenditures under a Federal award for purposes of determining audit coverage and reporting on the Schedule of Expenditures of Federal Awards.

Condition: Tests of the Schedule of Expenditures of Federal Awards and major program expenditures noted that the value of federally funded vaccines is not treated by the grantee as expenditures. The total dollar value of vaccines received during FY2016 is \$2,978,219.

Cause: The cause of the above condition is lack of understanding with respect to compliance with federal requirements.

Effect: The effect of the above condition is noncompliance with federal requirements. No questioned costs are raised as vaccines are provided by the grantor.

Recommendation: We recommend that CHCC implement procedures to comply with federal requirements by treating vaccines as expenditures for purposes of the Schedule of Expenditures of Federal Awards.

Identification as a Repeat Finding: Finding No. 2015-001.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-026
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Programs: 93.505 Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program
 Award Numbers: X02MC26337 and X02MC27412
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$12,781
 Award Number: X02MC28239 (BU CHH45050)
 Area: Period of Performance
 Questioned Costs: \$91

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 two (or 22%) of nine nonpayroll expenditures tested, aggregating \$61,409 of a total population of \$477,053, the obligating document was not within the budget period of the grant, and the liquidation occurred beyond 90 days from the budget end date of 09/30/15. Further, grant extension documentation was not provided. The below are subject to the period of availability.

| Business Unit | Document No. | PO/Contract Date | General Ledger Date | Check No. | Check Date | Liquidation End Date | Days Lapsed | Questioned Costs |
|---------------|--------------|------------------|---------------------|-----------|------------|----------------------|-------------|------------------|
| H25050 | 240602 | 04/22/16 | 05/27/16 | 6799 | 09/28/17 | 12/30/15 | 638 | \$ 225 |
| H25050 | 1258348 | 02/11/16 | 02/08/16 | 8990 | 02/12/16 | 12/30/15 | 44 | \$ 1,550 |
| | | | | | | | | \$ <u>1,775</u> |

2. Of fourteen subsequent expenditures tested, aggregating \$170,902 of a total population of \$714,622, the following were noted:

- a. For one (or 7%), liquidation occurred beyond 90 days from the budget end date of 09/30/16. Grant extension documentation was not provided. The below is subject to the period of availability.

| Business Unit | Document No. | General Ledger Date | Check No. | Check Date | Liquidation End Date | Days Lapsed | Questioned Costs |
|---------------|--------------|---------------------|-----------|------------|----------------------|-------------|------------------|
| CHH35050 | 1307437 | 11/22/16 | 5586 | 02/22/17 | 12/30/16 | 54 | \$ 1,300 |

- b. For two (or 14%), supporting documentation such as invoice and check were not provided. BU CHH35050 is subject to the period of availability and CHH45050 is subject to the period of performance.

| Business Unit | Object Account | General Ledger Date | Document No. | Document Type | Amount |
|---------------|----------------|---------------------|--------------|---------------|-----------------|
| CHH35050 | 62060 | 01/11/17 | 242584 | OV | \$ 9,706 |
| CHH45050 | 62500 | 02/25/17 | 1314945 | PV | \$ 91 |
| | | | | | \$ <u>9,797</u> |

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-026, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Programs: 93.505 Affordable Care Act (ACA) Maternal, Infant, and Early
Childhood Home Visiting Program
Award Numbers: X02MC26337 and X02MC27412
Area: Period of Availability of Federal Funds
Questioned Costs: \$12,781
Award Number: X02MC28239 (BU CHH45050)
Area: Period of Performance
Questioned Costs: \$91

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

Effect: CHCC is in noncompliance with period of availability and period of performance requirements, and questioned costs of \$12,872 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.

Identification as a Repeat Finding: Finding No. 2015-045.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response:

Condition 1 - CHH35050 last day of liquidation was 12/30/16 and check cleared on 10/11/17; thus, it is not within the period of availability. Finding stays.

Regarding document no. 1258348, document was not provided.

Condition 2a - Transaction 1307437 is for \$1,300 and not \$91. The last date of liquidation was 12/30/16, but check was dated 2/22/17. Finding stays.

Condition 2b - Documentation was not provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-027
 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: X02MC26337, X02MC27412 and X02MC28239
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$73,111

Criteria: In accordance with applicable procurement requirements, States will use the same policies and procedures used for procurements from non-Federal Funds.

CHHC's procurement regulations state the following:

- Bidding is not required but is encouraged for procurement over \$5,000 and under \$25,000. The CEO, the official with expenditure authority, must obtain price quotations from at least three vendors and base the selection on competitive price and quality for procurement valued at \$5,000 to \$25,000. Any price quotations obtained must be written, documented, and submitted to the CHCC 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 thirty-five nonpayroll expenditures tested, totaling \$148,925 of a total population of \$477,053, we noted the following:

- For two (or 6%), no procurement documents were provided. Also, no other documentation, such as an invoice or receiving report, was provided to substantiate contract costs and the applicable procurement methodology required.

| Business Unit | TA/ Contract No. | Contract Amount | Object Account No. | General Ledger Date | Document No. | Amount Tested | Questioned Costs |
|---------------|---------------------|-----------------|--------------------|---------------------|--------------|---------------|------------------|
| CHH35050 | Not available | Not available | 62500 | 02/29/16 | 1260553 | \$ 750 | \$ 750 |
| CHH45050 | Not available | Not available | 63040 | 12/23/15 | 1254916 | \$ 336 | \$ 336 |
| | | | | | | | \$ <u>1,086</u> |

- For one (or 3%), sole source was used, but no written justification was provided as to why no other available vendor could provide the training services.

| Business Unit | TA/ Contract No. | PO/Contract Amount | Total FY16 Expenditures Charged | Object Account No. | General Ledger Date | Document No. | Questioned Costs |
|---------------|---------------------|--------------------|---------------------------------|--------------------|---------------------|--------------|------------------|
| H25050 | 587235-OA | \$ 8,755 | \$ 8,755 | 62500 | 12/30/15 | 239449 | \$ 8,755 |

- For one (or 3%), the required minimum three price quotations were not obtained for telephone-related services; as such, it appears that sole source selection was applied; however, the required written justification was not provided.

| Business Unit | TA/ Contract No. | PO/Contract Amount | Total FY16 Expenditures Charged | Object Account No. | General Ledger Date | Document No. | Questioned Costs |
|---------------|---------------------|--------------------|---------------------------------|--------------------|---------------------|--------------|------------------|
| CHH35050 | 609357-OP | \$ 10,480 | \$ 10,480 | 62660 | 07/08/16 | 1290398 | \$ 10,480 |

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-027, 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: X02MC26337, X02MC27412 and X02MC28239
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$73,111

Condition, Continued:

4. For one (or 3%), although the required minimum three price quotations were obtained, the lowest bidder was not selected; no written rationale was provided. The difference is questioned.

| <u>Business Unit</u> | <u>TA/ Contract No.</u> | <u>PO/Contract Amount</u> | <u>2nd Highest Bidder Selected</u> | <u>Lowest Bidder</u> | <u>General Ledger Date</u> | <u>Document No.</u> | <u>Questioned Costs</u> |
|----------------------|-------------------------|---------------------------|---|----------------------|----------------------------|---------------------|-------------------------|
| H25050 | 596691-OP | \$ 8,862 | \$ 8,862 | \$ 8,183 | 10/15/15 | 238978 | \$ 679 |

5. For two (or 6%), sole source was used to buy portable cribs that are proprietary to one vendor, but no written justification was provided as to why those portable cribs were selected over any other available cribs.

| <u>Business Unit</u> | <u>TA/ Contract No.</u> | <u>PO/Contract Amount</u> | <u>Total FY16 Expenditures Charged</u> | <u>Object Account No.</u> | <u>General Ledger Date</u> | <u>Document No.</u> | <u>Questioned Costs</u> |
|----------------------|-------------------------|---------------------------|--|---------------------------|----------------------------|---------------------|-------------------------|
| CHH35050 | 599942-OP | \$ 8,662 | \$ 8,662 | 63050 | 10/29/15 | 239071 | \$ 8,662 |
| CHH35050 | 610249-OP | \$ 20,776 | \$ 20,776 | 63050 | 07/25/16 | 241011 | <u>20,776</u> |
| | | | | | | | <u>\$ 29,438</u> |

6. For one (or 3%), sole source was used for training; however, the written justification did not provide reasons why other training providers were not provided an opportunity to participate in the Federally-funded procurement process.

| <u>Business Unit</u> | <u>TA/ Contract No.</u> | <u>PO/Contract Amount</u> | <u>Total FY16 Expenditures Charged</u> | <u>Object Account No.</u> | <u>General Ledger Date</u> | <u>Document No.</u> | <u>Questioned Costs</u> |
|----------------------|-------------------------|---------------------------|--|---------------------------|----------------------------|---------------------|-------------------------|
| CHH35050 | 610310-OP | \$ 22,673 | \$ 22,673 | 62060 | 06/27/16 | 1287888 | \$ 22,673 |

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 \$73,111 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, 2016

Finding No.: 2016-027, 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: X02MC26337, X02MC27412 and X02MC28239
Area: Procurement and Suspension and Debarment
Questioned Costs: \$73,111

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response:

Condition 1 - Documentation was not provided.

Condition 2 - Documentation was not provided.

Condition 3 - Documentation was not provided.

Condition 4 - There was no written justification provided.

Condition 5 - There was no written justification why the proprietary cribs were selected over any other available cribs.

Condition 6 - The justification in the Corrective Action Plan was not documented in the procurement file.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-028
 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 Number: X02MC26337
 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 September 30, 2015, we noted the following variances:

| Report Details | Business Unit H25050 | | |
|--------------------------------------|-----------------------------|-----------------------|-----------------|
| | <u>SF-425</u> | <u>General Ledger</u> | <u>Variance</u> |
| Federal Cash | | | |
| 10a. Cash Receipts | \$ - | \$ 697,275 | \$ 697,275 |
| 10b. Cash Disbursements | <u>-</u> | <u>697,275</u> | <u>697,275</u> |
| 10c. Cash on Hand | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |
| Recipient Share | | | |
| 10j. Recipient Share of Expenditures | \$ 379,784 | \$ - | \$ 379,784 |

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.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-029
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.982 Mental Health Disaster Assistance and Emergency
 Mental Health
 Award Number: 1H07SM000369-01
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$50,913

Criteria: In accordance with applicable allowable costs/cost principles requirements, in order for costs to be allowable under Federal awards, costs must be necessary and reasonable for the performance of the Federal award and must conform to any limitations set forth in the Federal award as to types or amount of cost items. Furthermore, recipients are required to report deviations from the budget or project scope or objective and to request prior approvals from Federal awarding agencies for budget and program plan revisions.

Condition: Actual program costs exceeded the grantor-approved budget, and no evidence of written prior approvals was provided for the following:

| | <u>Supplies</u> | <u>Supplies- Outreach Resources</u> | <u>Totals</u> |
|--|------------------|---|------------------|
| FY 2016 expenditures | \$ 70,773 | \$ 47,373 | \$ 118,146 |
| Liquidations in FY 2016 | <u>3,657</u> | <u>3,227</u> | <u>6,884</u> |
| Total program expenditures | 74,430 | 50,600 | 125,030 |
| Per federal award budget | <u>55,600</u> | <u>8,000</u> | <u>63,600</u> |
| Excess expenditures | \$ <u>18,830</u> | \$ <u>42,600</u> | 61,430 |
| Less questioned costs reported at: | | | |
| Finding 2016-031 (document no. 241249) | | | (8,155) |
| Finding 2016-030 (document no. 242203) | | | <u>(2,362)</u> |
| | | | \$ <u>50,913</u> |

Furthermore, of the \$50,600 in costs incurred for outreach resources, at least \$39,000 was expended for promotional items that do not appear necessary and reasonable to achieve crisis counseling program goals and that were given away at an event open to the general public to celebrate the one-year anniversary of Typhoon Soudelor. Such promotional items included ceramic coffee mugs, tee shirts, dog-style USB flash drives, mini flashlights, automatic umbrellas, embroidered caps, embroidered sun visors, regular water bottles, foldable car sun shades, foldable fans, bottled water (330 ml), reusable eco bags, and 125 Hydro Flask brand water bottles.

Cause: The responsible personnel did not ask for grantor approval to support program expenditures in excess of approved budget and for promotional items given away that seem unnecessary.

Effect: CHCC is in noncompliance with applicable allowable costs/cost principles requirements, and questioned costs of \$61,430 exist. However, as \$10,517 in questioned costs are reported in other findings, this finding presents questioned costs of \$50,913.

Recommendation: Expenditures in excess of approved budget amounts should be approved by the grantor agency. Approval should also be sought for those items that do not appear to be necessary and reasonable for the program.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-029, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.982 Mental Health Disaster Assistance and Emergency
Mental Health
Award Number: 1H07SM000369-01
Area: Allowable Costs/Cost Principles
Questioned Costs: \$50,913

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response: Actual program costs exceeded the grantor-approved budget. Furthermore, the anniversary ceremony was open to the public, including visitors in 2016 who were not victims of the typhoon.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-030
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.982 Mental Health Disaster Assistance and Emergency
 Mental Health
 Award Number: 1H07SM000369-01
 Area: Period of Performance
 Questioned Costs: \$7,033

Criteria: In accordance with applicable period of performance requirements, the grantee should incur costs within the period of performance and should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Of two (or 100%) subsequent expenditures tested, aggregating \$7,033 of a total population of \$34,270, liquidation occurred beyond 90 days from the budget end date of 08/22/16. Further, the obligation date for document no. 9939 was on 11/12/16. Grant extension documentation was not provided.

| Business Unit | Document No. | General Ledger Date | Check No. | Check Date or Cleared Date | Liquidation End Date | Days Lapsed | Questioned Costs |
|---------------|--------------|---------------------|-----------|----------------------------|----------------------|-------------|------------------|
| CHH69820 | 9939 | 11/12/16 | Various | 11/23/16 | 11/20/16 | 3 | \$ 4,671 |
| CHH69820 | 242203 | 11/18/16 | 6651 | 08/28/17 | 11/20/16 | 281 | <u>2,362</u> |
| | | | | | | | \$ <u>7,033</u> |

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

Effect: CHCC is in noncompliance with applicable period of performance requirements, and questioned costs of \$7,033 exist as the projected questioned costs exceed \$25,000.

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. Documentation that demonstrates compliance with applicable period of performance requirements should be maintained.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response: The grantor-approved extension document was not provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-031
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.982 Mental Health Disaster Assistance and Emergency
 Mental Health
 Award Number: 1H07SM000369-01
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$29,720

Criteria: In accordance with applicable procurement requirements, States will use the same policies and procedures used for procurements from non-Federal Funds.

CHHC's procurement regulations state the following:

- Bidding is not required but is encouraged for procurement over \$5,000 and under \$25,000. The CEO, the official with expenditure authority, must obtain price quotations from at least three vendors and base the selection on competitive price and quality for procurement valued at \$5,000 to \$25,000. Any price quotations obtained must be written, documented, and submitted to the CHCC 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 thirty-one nonpayroll expenditures tested, totaling \$68,363 of a total population of \$335,577, we noted the following:

1. For two (or 6%), no procurement documents were provided.

| Business Unit | TA/ Contract No. | Object Account No. | General Ledger Date | Document No. | Amount Tested | Questioned Costs |
|---------------|---------------------|-----------------------|------------------------|--------------|------------------|---------------------|
| CHH69820 | Not available | 62420 | 05/18/16 | 1268114 | \$ 1,500 | \$ 1,500 |
| CHH69820 | Not available | 62420 | 05/18/16 | 1268115 | \$ 750 | 750 |
| | | | | | | \$ 2,250 |

2. For four (or 13%), the required minimum three price quotations were not obtained. It appears that sole source selection was applied; however, the required written justification for sole source procurement was not provided.

| Business Unit | TA/ Contract No. | PO/Contract Amount | Total FY16 Expenditures Charged | Object Account No. | General Ledger Date | Document No. | Questioned Costs |
|---------------|---------------------|-----------------------|---------------------------------------|-----------------------|---------------------------|--------------|---------------------|
| CHH69820 | 614621-OP | \$ 8,155 | \$ 8,155 | 63050 | 08/16/16 | 241249 | \$ 8,155 |
| CHH69820 | 318632-OT | \$ 8,076 | \$ 8,076 | 62500 | 02/17/16 | 1259523 | 8,076 |
| CHH69820 | 321399-OT | \$ 5,210 | \$ 5,210 | 62500 | 06/16/16 | 1285337 | 5,210 |
| CHH69820 | 322678-OT | \$ 6,029 | \$ 6,029 | 62500 | 07/27/16 | 1293068 | 6,029 |
| | | | | | | | \$ 27,470 |

Cause: CHCC did not enforce compliance with established procurement policies and procedures over retaining documentation to substantiate procurement decisions.

Effect: CHCC is in noncompliance with applicable procurement regulations, and questioned costs of \$29,720 exist.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-031, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.982 Mental Health Disaster Assistance and Emergency
Mental Health
Award Number: 1H07SM000369-01
Area: Procurement and Suspension and Debarment
Questioned Costs: \$29,720

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.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response:

Condition 2 - Documentation was not provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-032
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
93.224 Health Center Program (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
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 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, MSO 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 2016.
2. Property records maintained by MSO have missing information or did not include required information, such as manufacturer serial and model number or other specific identification, grant number or agreement number, method of procurement, percentage of U.S. participation in the project, location, use condition and the date the information was reported.
3. Property records maintained by MSO and the Program were not updated.
4. A reconciliation was not performed between the Program and MSO.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-032, 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
 93.224 Health Center Program (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
 Area: Equipment and Real Property Management
 Questioned Costs: \$-0-

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. A summary of total capital outlays for FY 2016 major programs that do not have zero balances is as follows:

| <u>CFDA Number</u> | <u>FY 2016</u> | <u>FY2015</u> | <u>FY2014</u> | <u>Total</u> |
|--------------------|----------------|---------------|---------------|--------------|
| 10.557 | \$ 166,514 | \$ - | \$ - | \$ 166,514 |
| 93.224 | \$ - | \$ - | \$ 36,919 | \$ 36,919 |
| 93.243 | \$ 44,512 | \$ - | \$ - | \$ 44,512 |
| 93.268 | \$ 35,001 | \$ 22,196 | \$ 37,001 | \$ 94,198 |

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.

Identification as a Repeat Finding: Finding No. 2015-048.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2016

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, 2016:

Questioned costs as previously reported:

| | |
|------------------|----------------|
| Fiscal year 2015 | \$ 1,216,156 |
| Fiscal year 2014 | <u>653,621</u> |

1,869,777

Less questioned resolved per USDHHS letter dated June 8, 2018:

| | |
|-------------------------------|------------------|
| Fiscal year 2015 Single Audit | <u>(146,024)</u> |
|-------------------------------|------------------|

1,723,753

Questioned costs of fiscal year 2016 Single Audit

717,563

Unresolved questioned costs at September 30, 2016

\$ 2,441,316



Commonwealth Healthcare Corporation

Commonwealth of the Northern Mariana Islands

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



Corrective Action Plan Year Ended September 30, 2016

Finding No. 2016-001

Name of Contact Persons: Comptroller and Chief Financial Officer

Corrective Action:

- (1) During the past five years, annual aggregate transactions posted to fund 1012 averaged less than \$100. These were from automatic accounting instructions in the financial management system (JDE) that posts some year-end inventory entries to this fund instead of 1075. We will cease to process transactions in Fund 1072. We concur with the audit adjustment to reverse all the balance sheet balances of this fund as these were prior to the creation of CHCC and we do not have the documentation or corroborating evidence to support the validity of these transactions.
- (2) CHCC adopted in April 2017 a policy for the preparation of manual journal entries.
- (3) The break in journal sequence is due to the following:
 - a. JDE provides a system generated journal entry number. The break in sequence is because the system generated number is a global number shared by all users, including the users for the CNMI Department of Finance. To mitigate this, we have initiated a manual journal entry number system that is manually logged by the general ledger accountant.
 - b. Even with the manual log, it is inevitable to process prior month journal entries, especially for bank reconciliation entries even after the current month transactions have been processed. We cannot delay the daily transactions, such as the journal entries to record collections while waiting for the bank statement and the reconciliation process to complete. It is at the Comptroller's discretion that bank reconciliation adjustments are entered in the accounting system using the reconciliation month end. This facilitates the subsequent reconciliations.
 - c. Journal entries are prepared by two accountants, the Local Account General Accountant (for fund 1075) and the Federal Accountant (for Fund 1076). We initiated, beginning in Fiscal year 2018, a separate log and manual numbering for each Fund.

For all journal entries CHCC requires the separation of responsibility of preparer, reviewer and poster. This is documented using a review routing stamp that is signed by each responsible individual.
- (4) Although we have not adopted a formal Financial Reporting Policy, this condition is corrected beginning June of fiscal year 2017 wherein we started the preparation of quarterly Financial Statements. Beginning Fiscal Year 2018, we are now preparing Monthly Financial Statements.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No. 2016-001, Continued

Corrective Action, Continued:

- (5) Budget-to-actual reports are provided to the Chief Financial Officer every month beginning Fiscal Year 2017. We also provide Directors and Program managers monthly Fund Status Reports that includes the Budget-to-actual comparison.

To document our corrective actions to address conditions 4 and 5, we will establish a written "Closing Procedure" that would address timeliness of General Ledger and Subsidiary Ledger reconciliations and the preparation of the financial statement and other reports regularly provided to management.

Proposed Completion Date: June 30, 2018

Finding No. 2016-002

Name of Contact Persons: Comptroller, Revenue Director and Chief Financial Officer

Corrective Action:

- (1) Healthcare revenues are not recorded when services are rendered given that we have not truly earned the revenue until it goes through review and adjustment for final settlement by payers. Therefore, it is CHCC's management decision to record revenue on fund basis. This is for prudent cash management and to aid readers of interim financial statements, who may have limited accounting knowledge, understand the financial position of the corporation. We however, have the technical knowledge to be able to convert that fund financial statement to modified accrual, which is the generally accepted accounting measurement/reporting for government agencies.
- (2) Billings are processed based on submission requirements and whether or not responsibility falls on the payer or patient. With insurances, we have 365 days from the Date of Service (DOS) to submit a claim, whereas, we have 6 years to bill a self-pay patient. Although these timeframes seem lengthy enough, we do strive to submit claims shortly after discharge. The Business Office will fill up vacant and new FTEs to enable timely processing of billings.
- (3) The condition did not specify whether it was journal vouchers *or* billings that were not supported. Journal Vouchers are found in the system. It may be possible that the request for billings were not made.

Proposed Completion Date: Ongoing

Finding No. 2016-003

Name of Contact Persons: Comptroller and Chief Financial Officer

Corrective Action:

- (1) We have significantly improved from prior years, wherein we were not able to account from the prepayment balance of \$792,297, to having a fully accounted balance of \$475,839. We have also identified the cause of the condition: a. the accountants were not aware on how to clear prepayment transaction in JDE, and b. the programs often times do not turn in the invoices to accounting upon receipt of the goods or services since no payment is required in the invoice.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No. 2016-003, Continued

Corrective Action, Continued:

Noting the cause of the condition enabled accounting to properly process prepayment transactions and also educate the Program Managers/Administrators to turn in invoices for goods and services received regardless of payment status. For transactions going forward, we will utilize the monthly open encumbrance report to remind Program Managers/Administrator of open prepayments.

Proposed Completion Date: Resolved by September 30, 2018

Name of Contact Persons: Comptroller, Chief Financial Officer and Procurement Director

Corrective Action:

(2) See below.

- a. CHCC Procurement and Medical Supply Office have established controls of Purchase Request by creating a reviewing, approving, and processing transmittal process to ensure that all supporting documents are attached and are in compliance with the CHCC Procurement Rules and Regulations. Without the proper supporting documents, MSO will not process the Purchase Request (PR) and will return the PR back to Accounting.

CHCC Procurement Regs adopted Sept. 2015

- b. CHCC disagrees. The highest bid was not selected. Justification memo was provided by the requesting unit.
- c. Justification memo was provided and prepared by requesting unit.
- d. See below.
 1. Sole Source memo stated vendor was the only laboratory services on island, therefore, sole source.
 2. Accept finding. MSO will ensure procurement regulations are followed.
 3. 609794 OP are not Purchase Orders, instead procured through contract, 609794 OC. Contract was a change order, therefore, no other vendors considered.
 4. Accept finding. MSO will ensure procurement regulations are followed.
 5. 609794 OP are not Purchase Orders, instead procured through contract, 609794 OC. Contract was a change order, therefore, no other vendors considered
- e. Our Procurement Regulation does not specifically disallow Confirming Purchase order. If the goods and services were used for the activities of CHCC and the actions were ratified, CHCC does allow confirming purchases. We record the expense upon presentation/discovery of the invoice and do not restate the prior year expenses if the amounts do not materially misstate our expenditures. To minimize Confirming purchases, our CFO has discussed in several meetings with management the importance of monitoring the balances of their Open Purchase orders to ensure that purchases are with approved purchase orders or contracts.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No. 2016-003, Continued

Corrective Action, Continued:

- f. Transactions with reference IA are for Inventory Adjustment and II are for Inventory Issuances. The cost documentations are with the payment voucher that recorded the purchases. We believe that the condition cited does not apply to these transactions.

JE 293043 pertains to cost transfer for inventory transfers from Local to Federal. This is transferred at cost. We believe that the condition cited does not apply to this transaction.

JE 295462 is for bank charges for check reorder. We believe that the condition cited does not apply to this transaction.

PV 1249592 is payment related to an inter-governmental agreement with University of Hawaii. We believe that the condition cited does not apply to this transaction.

PV 1256545, 1260603, 1264087, 1282586, 1287108 and 1292284 were prepayments to fund the Pharmacy Supply Agreement with McKesson. Invoices are not attached to the payment vouchers but are provided monthly by the Pharmacy Manager to Accounting. We could have provided the invoices should the auditor request. The Pharmacy Supply agreement, Agreement was executed in FY17

PV 1297081 is for travel liquidation of TA 322168. We believe that the condition cited does not apply to this transaction.

PV 1252283 (YK Corporation) 567737 OC - The Contract is available at MSO

PV 1261892 (PACIFIC BIOMEDICAL SERVICE, INC) 551877 OC - The Contract is available at MSO

PV 1295261 (G4S Nurse Call System) 616213 OC - The Contract is available at MSO

Finding No. 2016-004

Name of Contact Persons: Comptroller and Chief Financial Officer

Corrective Action:

- (1) Payroll. Except as explained hereafter, we agree with the finding and will improve filing of supporting documentation to support work hours, leave used and hourly rate used in calculating payroll.

- b. For 4 or 67% of the 6 items cited, the annual leave applied for were less than 8 hours. Although not documented, we believe that these are for emergency annual leave. Our policy states, *"In general, annual leave in excess of 24 hours should be approved 1 week in advance by the Supervisor or Manager. A denial by the Supervisor or Manager may be appealed to the Hospital Administrator or Division Director. If an employee needs to take annual leave for an emergency, he or she should inform the supervisor or manager as soon as is practicable. The more serious the emergency, the more leeway the supervisor or manager should give in consideration of the request."* Hence, there would be valid instances wherein the leave form would be signed after the leave were taken.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No. 2016-004, Continued

Corrective Action, Continued:

- h. JDE calculates the hourly rates based on inputted annual salary and payment frequencies. Often times the calculated three decimal places hourly rates varies from manually calculated hourly rates as indicated in the notice of personnel action. There is no option for the Human Resource personnel to manually input the hourly rates and the payroll accountant do not have access to override the hourly rates that is system generated.

Proposed Completion Date: Ongoing

Finding No. 2016-005

Name of Contact Persons: Comptroller, Chief Financial Officer and Procurement Director

Corrective Action:

- (1) We believe that having a stand-alone inventory monitoring for inpatient pharmacy is not a hindrance to proper accounting of inventory on hand and recording of actual expenditures.
- (2) Pursuant to the Supply Agreement between CHCC and the in-patient pharmacy supplier, CHCC prepays at least \$50,000 to McKesson for purchase of drugs. The Pharmacy Manager provides monthly to Accounting all invoices for purchases for each month. A log of prepayments and purchases applied to these prepayments are maintained by the Supplier and verified by our Pharmacy Manager. At any given time, we know the balance of the "prepayment".

Considering that pharmaceutical supplies are very fast moving and that we do not really maintain huge volume on hand, the effort of maintaining an inventory using the perpetual inventory method would outweigh the benefit. Hence, we account for pharmaceutical using the expense method.

We do acknowledge that although the method of accounting is acceptable, we failed to prepare the journal entries at year end to adjust ending inventory and the balance of the prepayment or liability to vendor. Beginning fiscal year 2018, we will prepare the analysis and journal entries to reconcile our general ledger pharmaceutical inventory balance to the stand-alone inventory monitoring and the prepayment log.

- (3) CHCC MSO has created a receiving report log sheet to ensure that receiving report numbers are in sequential order.

Established April 2017. A Receiving Report policy is routing approval.

- (4) See No. 2 above.
- (5) The Director of Procurement and Medical Supply shall be responsible for maintaining the master inventory record. CHCC MSO have identified dedicated personnel to authenticate the inventory control records such that all capitalized and non-capitalized items are identified by inventory control (tag) numbers and must be entered into the JD Edwards financial management system prior to distribution.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No. 2016-005, Continued

Corrective Action, Continued:

Shall the capitalized and/ or non- capitalized items be delivered to Tinian Health Center and Rota Health Center, the Resident Director must confirm that the items have been received and to reconcile the control numbers with MSO inventory control records.

Physical inventory will be conducted annually, no more than 3 months after the end each fiscal year. Thus, the Director of Procurement and Supply will communicate to all CHCC Corporate Officers to submit a listing of all physical inventories no later than the end of each fiscal year.

- (6) Since April 2017, MSO has an updated inventory Obsolescence file. Obsolescence file is updated at the end of each month.
- (7) Moving forward, CHCC MSO will do its due diligence to ensure that the valuation of inventory is not recorded more than once by transmitting a management review process prior to any entering and posting of inventory transactions into the financial management system. Hence, the inventory subledger will be reconciled and will create a management review of inventory valuation reports on a quarterly basis.
- (8) MSO has unit movement readily available. MSO can provide such data upon request.
- (9) During Physical Inventory count, there were no duplicates. MSO can provide information upon request.

Proposed Completion Date: Ongoing

Finding No. 2016-006

Name of Contact Persons: Comptroller, Chief Financial Officer and Procurement Director

Corrective Action: Prior to the end of each fiscal year, MSO will conduct a physical count of all buildings and equipment and properly record all assets. MSO will create a Capital Asset policy and route for review and approval. This policy shall address the needed areas of improvement for the proper recoding of all assets.

Proposed Completion Date: Ongoing

Finding No. 2016-007

Name of Contact Persons: Comptroller and Chief Financial Officer

Corrective Action:

- (1) See below.
 - a. We do acknowledge that locating documents have been a challenge with the turnover of accountants; between fiscal year 2016 and 2017, we have separated with six accountants. We have initiated changes in the filing system to facilitate document storage and retrieval. Paid invoices are filed by check number while unpaid recorded invoices are maintained by vendor by the Section Supervisors. We expect significant improvement in document retrieval for fiscal years 2017 and 2018 audits.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No. 2016-007, Continued

Corrective Action, Continued:

- b. We agree with the adjustment, although assessments for liabilities and penalties were received and paid by CHCC in Fiscal year 2017 and it is allowed by Generally Accepted Accounting Principles to record these as current year expense in 2017, since the 2016 audited financial statement have not been finalized as of the assessment date.
- (2) The Difference between actual accrued payroll and the liability balance in CHCC's general ledger appears to be a carry-forward since fiscal year 2012. The Comptroller will prepare a reconciliation of this account from inception to date to determine the nature of the discrepancy and to adjust the balance accordingly. We will make the adjustments to correct the balance in the 2017 audit.

To address the auditors concern on proper document cut-off and accrual of expenditures, we are limited in processing year-end transactions as the CNMI Government Department of Finance, which records transactions on a fund basis, performs the year-end close on JDE. After the year-end closing procedures, we are barred by the system in entering general ledger dates earlier than September 30. The majority of our Purchase orders have a 90-day validity and vendors do turn in invoices for the prior year during that period. Having the system restriction of entering for prior years, we have to enter the current date as the general ledger posting date for all invoices received after the year-end closing have been performed by the CNMI Government Department of Finance. To mitigate that, we could generate a report of invoices with general ledger dates after September 30 and prepare a journal entry to accrue the expenditures. We will make the adjustments to accrue expenditures in the 2017 Audit.

Proposed Completion Date: Ongoing

Finding No. 2016-008

Name of Contact Persons: Comptroller and Chief Financial Officer

Corrective Action:

- (1) The Settlement Order for federal District Court for the CNMI Case No. 09-00023, which states that the NMIRF shall assign to the CNMI government all rights to collect employer contributions deficient as of August 6, 2013 and related costs from the Autonomous Agencies, or any other CNMI instrumentalities. With this order, the previous obligation of CHCC to the NMI Retirement Fund became part of the CNMI Government obligation in form of Settlement Payments to the NMI Settlement Fund.

We acknowledge that we did not reconcile with the NMI Retirement Fund prior to the Settlement Order. However, we believe that such liability is no longer the obligation of CHCC. The unfunded pension obligation should be calculated based on a recent actuarial valuation and allocation of CHCC share should be included in the valuation. Without such information, CHCC has no basis to recognize the liability.

- (2) We agree with the condition, CHCC intends to reconcile with the Office of the Public Auditor and to negotiate a lower rate. We have been seeking abatement of this OPA fee as to assist CHCC in its deficit reduction. In fact, in the Appropriation Act of 2018, the CHCC OPA fee have been waived.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No. 2016-008, Continued

Proposed Completion Date: Unable to provide a target completion date as other parties outside of CHCC are involved,

Finding No. 2016-009

Name of Contact Persons: Comptroller and Chief Financial Officer

Corrective Action: Cash shortfall affects CHCC compliance with timely payments. We have started making significant efforts in making payments beginning tax year 2018. We have also strengthened our payroll accountant's utilization JDE to prepare timely reconciliations and reports. Significant improvements will be evident in Fiscal year 2018.

Proposed Completion Date: Unable to determine when prior year liability may be paid. Other findings should be resolved by close of tax year 2018.

Finding No. 2016-010

Name of Contact Persons: Comptroller and Chief Financial Officer

Corrective Action: CHCC enrolled in the Electronic Federal Tax Payment System in June 2017. Since then we have been timely in making deposits. Reconciliation of payments to the quarterly returns are also timely prepared beginning 3rd quarter of Tax year 2017. Furthermore, all arrears for calendar year 2016 and earlier have been paid and reconciled.

Proposed Completion Date: September 30, 2018

| | |
|---------------------|--|
| Finding No.: | 2016-011 |
| Federal Agency: | U.S. Department of Agriculture |
| CFDA Program: | 10.557 Special Supplemental Nutrition for Women, Infants, and Children |
| Award Number: | 2015 7NM700NM7 |
| Area: | Period of Availability of Federal Funds |
| Questioned Costs: | \$132,712 |
| Award Number: | 2016 7NM700NM7 |
| Area: | Period of Performance |
| Questioned Costs: | \$174,805 |

Name of Contact Person: WIC Administrator, Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action: We are respectfully differing on this finding and the related questioned costs cited, i.e. travel, generators, and spend forward of funds are based on the following:

FNS clarification - WIC State agencies are given 120-days to liquidate as opposed to 90 days. Therefore, CHCC is in compliance with the Period of Availability requirements.

FNS clarification - WIC State agencies are allowed to complete project activities within liquidation period, therefore the questioned costs fall within the allowable period.

The FY 2015 Closeout guidance indicates the 120-day liquidation deadline.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-011, Continued
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.557 Special Supplemental Nutrition for Women, Infants, and Children
 Award Number: 2015 7NM700NM7
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$132,712
 Award Number: 2016 7NM700NM7
 Area: Period of Performance
 Questioned Costs: \$174,805

Corrective Action, Continued:

This extended liquidation deadline of 06/27/16.

Proposed Completion Date: N/A

Finding No.: 2016-012
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
 Award Numbers: 6 H80CS28324-01-00 and 5 H80CS28324-02-00
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$5,301

Name of Contact Person: Comptroller, Grants Administrator, and Chief Financial Officer

Corrective Action: In 2016, CHCC developed and approved Policy# 7028 specifically to address the issue of period of performance.

- (1) CHCC concurs that the benefit registers were not provided to the auditor during audit fieldwork. JDE records the employee benefits using batch entries. We are unable to provide the benefit only register. Below is the breakdown of the transactions cited by the auditors.
- a. We would like request to dispute this questioned cost as the amounts charged to the program pertains to employer share of Social Security for pay period ending 10/3/15. Please note that the amounts cited pertains to the total benefit for that pay period and not for the individual employee cited by the auditor.

| <u>Employee No.</u> | <u>Gross</u> | <u>Social Security</u> |
|---------------------|---------------------|------------------------|
| 648752 | \$ 4,230.80 | \$ 262.31 |
| 163335 | 3,076.96 | 190.77 |
| 476585 | 961.52 | 59.61 |
| 558587 | 2,500.00 | 155.00 |
| 559396 | 961.52 | 59.61 |
| 773551 | 1,461.52 | 90.61 |
| 773553 | 730.81 | 45.31 |
| 795459 | 1,346.16 | 83.46 |
| 795891 | 634.64 | 39.35 |
| 795983 | 923.04 | 57.23 |
| 816198 | 884.64 | 54.85 |
| 838369 | <u>692.31</u> | <u>42.92</u> |
| | \$ <u>18,403.92</u> | \$ <u>1,141.03</u> |

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-012, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
Award Numbers: 6 H80CS28324-01-00 and 5 H80CS28324-02-00
Area: Allowable Costs/Cost Principles
Questioned Costs: \$5,301

Corrective Action, Continued:

- b. We would like to dispute the questioned costs. The CHCC offers health insurance coverage to all employees. Note that the amounts cited pertain to the total benefit for that pay period and not for the individual employee cited by the auditor.

Some employees opt out of the coverage. Below is the breakdown of the employees share of the health insurance:

| <u>Employee No.</u> | <u>Health Insurance</u> |
|---------------------|-------------------------|
| 163335 | \$ - |
| 558587 | 646.87 |
| 559396 | 202.15 |
| 773551 | 202.15 |
| 773553 | - |
| 795459 | - |
| 495891 | - |
| 816198 | - |
| 838369 | - |
| 858599 | - |
| 858987 | 646.87 |
| 859926 | - |
| | <u>\$ 1,698.04</u> |

- (2) We would like to dispute the auditors' findings as the costs incurred were reasonable and necessary for the program.
 - a. We do not concur with the finding. CHCC needed to ensure that the travel authorization was fully approved before airfare is booked. If the airfare was booked without an approved Travel Authorization, then the question cost would have been the full airfare.
 - b. We do not concur with this finding as these costs were associated with the KCHC Annual Board Meeting with family members. Although meals are generally not allowed pursuant to 45 CFR Part 75 (§75.438), if the cost is incurred to improve employee morale and employer-employee relationship, such cost may be allowed (§75.437).

A significant part of CHCC policy is the fund certification performed by the Federal Accountant who is knowledgeable to allowed/unallowed cost pursuant to the Uniform Guidance and the 45 CFR Part 75. We also review each procurement transactions against the approved budget. These enables CHCC to ensure that costs charged to the program are allowed cost; reasonable, necessary, and allocable.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-013
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
Award Number: 6H80CS28324-01-00
Area: Period of Availability of Federal Funds
Questioned Costs: \$1,348

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action: This program is under drawdown prior approval restriction. Our request for final drawdown for CHH5224A submitted on July 26, 2016 was only approved and credited to our Federal bank account on December 22, 2016, hence the obligation incurred during the period of performance of the grant was only paid on December 22, 2016. The Grantor had sent an approval for the drawdown of these funds to the Payment Management System, therefore an extension documentation is not required.

CHCC Policy 7028 gives programs and accounting advance deadlines to clear encumbrances and liquidate obligations within the period. Programs have 60 days to clear encumbrances, and Accounting will liquidate within 75 days. This gives CHCC 15 days to closeout and submit the final reports by the end of 90 days.

Proposed Completion Date: Ongoing

Finding No.: 2016-014
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
Award Number: 6H80CS28324-01-00
Area: Procurement and Suspension and Debarment
Questioned Costs: \$52,901

Name of Contact Persons: Comptroller, MSO, Travel and Chief Financial Officer

Corrective Action: CHH5244A.62500- 317008 OT- It has been CHCC's practice to obtain only two quotes for airfare as there are only two Airlines, that service the Northern Mariana Islands, that meet Fly America Act. Although our procurement regulations require three quotations for purchases above \$3,000, we believe given the limitation previously stated that two quotations for the most economical route provides reasonable basis for the lowest cost. Obtaining quote for the same route using a different travel agency will just be useless as the fare would be the same regardless of the agency used.

CHCC practices due diligence to reasonably allocate bookings to the travel agencies that provide service to CHCC. The \$8,080 was for airfare to bring a medical staff and family from Utah to the CNMI. These costs are reasonable and necessary to provide the medical services pursuant to the grant.

CHH5224A.62750-593089 OP- CHCC disagrees with this questioned cost as three (3) quotations were provided.

CHH5224A.63120- 610761 OP CHCC disagrees with this questioned cost as three (3) quotations were provided.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No.: 2016-014, Continued

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
Award Number: 6H80CS28324-01-00
Area: Procurement and Suspension and Debarment
Questioned Costs: \$52,901

Corrective Action, Continued:

CHH5224A.63120-611053 OP- CHCC accepts this finding. CHCC and MSO will ensure procurement regulations are followed.

CHH5224A.63210-611054 OP- CHCC disagrees with this questioned cost as 2 quotations were provided, and the 3rd vendor was nonresponsive.

Proposed Completion Date: Ongoing

Finding No.: 2016-015

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
Award Number: 5H80CS28324-02-00
Area: Reporting
Questioned Costs: \$-0-

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action:

- (1) New CHCC Policy 7030. This policy addresses the Federal Financial reporting requirements. The GMO works closely with Accounting to review the accuracy and monitor the submission of SF-425's to the correct reporting site and that they reconcile with the Payment Management System.
- (2) CHCC acknowledges the variances. The values reported on the UDS reports represents the actual values as there are billing backlogs on the RPMS. As CHCC continues its efforts to improve on the timeliness of billing, such difference should be easily reconciled.

Proposed Completion Date: Ongoing

Finding No.: 2016-016

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: 1U79SP020710-01 and 5U79SP020710-02
Area: Activities Allowed or Unallowed
Questioned Costs: \$-0-

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-016, 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: 1U79SP020710-01 and 5U79SP020710-02
Area: Activities Allowed or Unallowed
Questioned Costs: \$-0-

Corrective Action: CHCC believes that the cost of the improvements on the CGC building is allowed cost pursuant to §75.452 Maintenance and repair costs, which states, "repair, or upkeep of buildings and equipment (including Federal property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable."

Furthermore, these costs were charged under object account 64520 under improvements and not under construction costs. No new structures, extensions, or building modifications were conducted. The repairs and improvements were to allow programs to utilize the building office space as submitted in the program's initial budget request which was approved by the grantor agency. The program budget submission approved for repairs is available upon request.

Proposed Completion Date: N/A

Finding No.: 2016-017

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: 1U79SP020710-01 and 5U79SP020710-02
Area: Allowable Costs/Cost Principles
Questioned Costs: \$33,869

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action:

(1) See below.

- a. The NOPA is available for employee no. 385978 for business unit no. CHH5243B to substantiate the employees' employment and wage rate at the CHCC Human Resources Office (HRO).
- b. CHCC Human Resources Office has implemented a resolution to route all Requests for Personnel Actions prior to the effective date. HRO will enter all pertinent information into the JDE System in a timely and efficient manner once the RFPA is approved, so that so that all accounts charged, employment dates, and all actions are accounted properly.

CHCC HRO shall designate one HR Personnel to commit to routing and distributing all personnel actions. The dissemination of NOPA's shall be communicated on a weekly basis to managers/department heads and employees within 1-2 weeks timeframe from the HR Manager's signature. Upon review, all employees were paid timely and there was no issues with any delays.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No.: 2016-017, 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: 1U79SP020710-01 and 5U79SP020710-02
Area: Allowable Costs/Cost Principles
Questioned Costs: \$33,869

Corrective Action, Continued:

- (2) The payments documented by PV 1263654 and PV 1299208 pertains to disbursements to subrecipient covered by a subrecipient agreement. This agreement is a contract between the Community Guidance Center (CGC) and the Community Organization. This does not require that the sub-recipient issue an invoice to CHCC, instead payments are made to subrecipient based on the terms of the agreement. Sub-recipients submit completed progress and data reports to CGC in order for funds to be disbursed in phases. These payments are for the continued implementation of the sub-grantee programs in the community. CGC conducts subrecipient monitoring of these programs throughout the award period.

Proposed Completion Date: Ongoing

Finding No.: 2016-018

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: 5U79SP020710-02 Revised
Area: Period of Performance
Questioned Costs: \$20,400

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action:

- (1) CHCC agrees with this finding, but not the questioned costs. The drawdown was approved and received on January 12, 2017, hence the payment was issued on that date. However, we believe that the costs should be an allowed cost as the services were performed during the period of performance of the grant.
- (2) As explained in Finding 2016-017, these payments were not for services, but they are allotments for subrecipients. CFR 200.502 included in the definition, Amounts passed-through to subrecipients is expensed when the disbursement is made to the subrecipient.

PV 1263654 was paid thru Check No. 4133 dated May 2, 2016 and PV 1299208 was paid thru Check 4807 dated September 27, 2017. Both payments to the subrecipient were within the September 30, 2017 period of performance of the grant.

CHCC Policy 7028 addresses this issue of period of performance. Furthermore, Accounting and GMO are monitoring expenditures and grant budget periods to ensure obligations are cleared during the period of liquidation. Monthly encumbrance reports and expenses versus budget reports are provided to all federal programs and locally funded units to monitor unliquidated obligations against grant funding periods to ensure compliance with period of availability and 90-day liquidation periods.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-019
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: 1U79SP020710-01 and 5U79SP020710-02
Area: Procurement and Suspension and Debarment
Questioned Costs: \$31,895

Name of Contact Persons: Procurement Director, Grants Administrator and Chief Financial Officer

Corrective Action:

Substance Abuse and Mental Health Services

- (1) CHCC disagrees with this finding as MSO has document nos. 240086 and 239097 readily available. CHCC was not requested to verify, however these documents can be provided for audit upon request.
- (2) CHCC disagrees with this finding as the program obtained at least three (3) quotations. CHCC was not given the opportunity to provide these documents, however they are available upon request.
- (3) CHCC requested quotations from at least 3 vendors. Two vendors responded with quotations, and the 3rd vendor responded stating a quotation will be forthcoming, however the vendor failed to submit a quote within the timeframe.
- (4) CHCC Procurement and Medical Supply Office have established controls of Purchase Request by creating a reviewing, approving, and processing transmittal process to ensure that all supporting documents are attached and are in compliance to the CHCC Procurement Rules and Regulations. Without the proper supporting documents, MSO will not process the Purchase Request (PR) and will return the PR back to Accounting.

CHCC Procurement Regs adopted Sept. 2015
- (5) CHCC disagrees with this finding. The justification indicated that the target group was for the Filipino Youth audience.
- (6) CHCC disagrees with this finding as the justification indicated Emergency procurements necessary as: "certain infrastructure repairs are vital to ensure that the safety of the staff, visitors, and our consumers are not in jeopardy."

The Procurement Director, as CHCC Contracting Officer has custody of the procurement documents. The Accountant processes the transaction based on approved purchase orders and contracts. The underlying procurement documents may or may not be attached to the payment voucher, but they are properly filed at our Procurement Office. Moving forward, we kindly recommend that the auditor submit a request for procurement documents from our Procurement Director.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-020

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: 5U79SP020710-02 Revised
Area: Special Tests and Provisions - Wage Rate Requirements
Questioned Costs: \$17,500

Name of Contact Persons: Procurement Director, Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action: CHCC concurs with the finding. We would like to take the following corrective actions and seek grantor concurrence for the removal of questioned costs.

1. We will request the certified payroll reports and the statement of compliance from the contractor for Contract No. 616351.
2. We will ensure that all contracts subject to Davis Bacon requirements will properly indicate the reporting requirements required from the contractor. No payments shall be made until required certifications are provided with the billings/invoices.

Proposed Completion Date: Ongoing

Finding No.: 2016-021

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Numbers: 5H23IP000736-03 and 5NH23IP000736-04-00
Area: Allowable Costs/Cost Principles
Questioned Costs: \$5,107

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action:

(1) Payroll Expenses

- a. CHCC concurs that the benefit registers were not provided to the auditor during audit fieldwork. The JDE records the employee benefits using batch entries. We are unable to provide the benefit only register. Below is the breakdown of the transactions cited by the auditor.

We would like to request to dispute these questioned costs as the amount charged to the program pertains to the employer share of Social Security for pay period ending 08/06/16. Please note that the amounts cited pertains to the total benefit for that pay period and not for the individual employee cited by the auditor.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-021, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Numbers: 5H23IP000736-03 and 5NH23IP000736-04-00
Area: Allowable Costs/Cost Principles
Questioned Costs: \$5,107

Corrective Action, Continued:

| <u>Employee No.</u> | <u>Gross</u> | <u>Social Security</u> |
|---------------------|---------------------|------------------------|
| 103037 | \$ 1,461.52 | \$ 90.61 |
| 103103 | 1,163.28 | 72.12 |
| 169107 | 923.04 | 57.23 |
| 172485 | 923.04 | 57.23 |
| 246303 | 1,230.80 | 76.31 |
| 253034 | 549.23 | 34.05 |
| 311268 | 1,230.81 | 76.31 |
| 402339 | 1,000.00 | 62.00 |
| 480421 | 1,915.66 | 118.77 |
| 547932 | 1,538.48 | 95.39 |
| 554525 | 923.04 | 57.23 |
| 711017 | 692.28 | 42.92 |
| 712629 | 1,000.49 | 62.03 |
| 713819 | 923.04 | 57.23 |
| 795540 | 769.20 | 47.69 |
| 679631 | 53.85 | 3.34 |
| | <u>\$ 16,297.76</u> | <u>\$ 1,010.46</u> |

The amount \$951 pertains to holiday pay from the following employees. This is included in the payroll register summary.

| <u>Employee No.</u> | <u>Hours Worked</u> | <u>Rate</u> | <u>Regular Pay</u> |
|---------------------|---------------------|-------------|--------------------|
| 103037 | 8 | \$ 16.031 | \$ 128.25 |
| 103103 | 8 | \$ 11.538 | 92.30 |
| 169107 | 8 | \$ 8.746 | 69.97 |
| 172485 | 8 | \$ 8.746 | 69.97 |
| 311268 | 8 | \$ 14.423 | 115.38 |
| 402339 | 8 | \$ 8.746 | 69.97 |
| 547932 | 8 | \$ 16.031 | 128.25 |
| 554525 | 8 | \$ 8.746 | 69.97 |
| 711017 | 8 | \$ 8.405 | 67.24 |
| 713819 | 8 | \$ 8.746 | 69.97 |
| 795540 | 8 | \$ 8.746 | 69.97 |
| | | | <u>\$ 951.24</u> |

- b. As of audit date, payroll section is unable to locate the signed leave form. CHCC is planning on implementing digital filing of document, current with the manual document filing, beginning fiscal year 2019.

(2) Nonpayroll

- a. It has been CHCC's practice to obtain only two quotes for airfare as there are only two Airlines, that service the Northern Mariana Islands, that meet Fly America Act. Although our procurement regulations require three quotations for purchases above \$3,000, we believe given the limitation previously stated that two quotations for the most economical route provides reasonable basis for the lowest cost. Obtaining quote for the same route using a different travel agency will be impractical as the fare would be the same regardless of the agency used.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-021, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Numbers: 5H23IP000736-03 and 5NH23IP000736-04-00
Area: Allowable Costs/Cost Principles
Questioned Costs: \$5,107

Corrective Action, Continued:

(2) Nonpayroll, Continued

CHCC practices due diligence to reasonably allocate bookings to the travel agencies that provide service to CHCC. The \$2,570 was for airfare to attend the 47th Annual Immunization Conference. We believe that such cost is reasonable and necessary to provide the medical services pursuant to the grant.

- b. CHCC agrees with the finding. Corrective actions and due diligence will be taken to ensure that all expenditures are recorded on the proper accounting period. To facilitate the timeliness of accounting transactions, monthly fund status reports and a listing of open obligations are provided to each program so that they may follow up with the vendors to ensure the timely delivery of goods and services. This will ensure the timely submission of invoices to Procurement and Supply Office and accounting for payment.
- c. We believe that the auditors determination, that the \$460.00 cost for executive chair was not reasonable in fulfilling the program's objectives, is subjective.

Proposed Completion Date: Ongoing

Finding No.: 2016-022
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Number: 5H23IP000736-03
Area: Period of Availability of Federal Funds
Questioned Costs: \$7,516

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action: Non-Federal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation). The Federal agency may extend this deadline upon request (2 CFR section 215.71).

The Immunization Grant has a funding period of 3 years ending on June 30, 2018, divided into annual budget period. We believe that the auditor may have erred in their determination that the 90 days liquidation is counted from the end of the budget period instead of the actual funding period, hence we would like to dispute these questioned costs.

Proposed Completion Date: N/A

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No: 2016-023

Federal Agency: U.S. Department of Health & Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Numbers: 5H23IP000736-03 and 5H23IP000736-03 Revised
Area: Procurement and Suspension and Debarment
Questioned Costs: \$28,421

Name of Contact Persons: Procurement Director, Grants Administrator and Chief Financial Officer

Corrective Action: CHH52681-604507 OP; 607571 OP, & 604572 OP, CHCC Procurement and Medical Supply Office have established controls of Purchase Request by creating a reviewing, approving, and processing transmittal process to ensure that all supporting documents are attached and are in compliance to the CHCC Procurement Rules and Regulations. Without the proper supporting documents, MSO will not process the Purchase Request (PR) and will return the PR back to Accounting. CHH52681- 595948 OP, CHCC disagrees with this finding as supporting docs were provided to indicate that 2 other vendors failed to submit quotations.

Proposed Completion Date: Ongoing

Finding No.: 2016-024

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Numbers: 5H23IP000736-03, 5H23IP000736-03 Revised,
5NH23IP000736-04-00 and 6 NH23IP000736-04-02
Area: Program Income
Questioned Costs: \$32,139

Name of Contact Persons: Grants Administrator and Chief Financial Officer

Corrective Action: CHCC does not agree with the finding. The finding states Program Income not being used for Immunization Program. However, the Program Income remains unexpended. The program will be submitting a budget plan for the expenditure of these funds for the benefit of the program.

CHCC Policy 7005 addresses this issue of program income processing and reporting.

Together with Policy 7030, CHCC shall ensure the timely and accurate reporting of Program Income with FFR submissions.

Proposed Completion Date: Ongoing

Finding No.: 2016-025

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.268 Immunization Cooperative Agreements
Award Number: 5NH23IP000736-04-00
Area: Other Information - Reporting
Questioned Costs: \$-0-

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action: CHCC agrees with the findings. CHCC will require the Immunization program to provide accounting the supporting documentation of the cost of Vaccines received from CDC. A journal entry shall be entered to record the in-kind Federal revenue and the supplies expenditure.

Proposed Completion Date: September 30, 2018

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No.: 2016-026

Federal Agency: U.S. Department of Health and Human Services
CFDA Programs: 93.505 Affordable Care Act (ACA) Maternal, Infant, and Early
Childhood Home Visiting Program
Award Numbers: X02MC26337 and X02MC27412
Area: Period of Availability of Federal Funds
Questioned Costs: \$12,781
Award Number: X02MC28239 (BU CHH45050)
Area: Period of Performance
Questioned Costs: \$91

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action:

(1) Period of Availability

The account charged should be CHH35050 instead of H25050 cited by the auditor. Receiving document 240602 was processed on May 27, 2016 within the period of availability of CHH35050.

CHCC does not agree with the finding. Payment voucher 1258348 dated February 8, 2016 was cancelled. Check no 8990 dated February 12, 2016 is for payment voucher 1259029 pertaining to the FY 2016 Affiliation Fee for Prevent Child Abuse America charged to CHH35050, with liquidation deadline of December 31, 2016.

(2) Subsequent expenditures

- a. Transaction 1307437 for \$91 for invoice dated November 16, 2016 is an FY 2017 expenditure, properly recorded as FY 2017 expenditure and is outside the scope of the FY2016 audit and should not be reported as a questioned cost in FY 2016.

To address the auditors concern for late liquidation, please note that the last drawdown for CHH35050 for December 31, 2016, which has a prior authorization drawdown restriction, was only received on February 21, 2017, hence check written on February 22, 2017. The Grantor had approved the drawdown of these funds and sent the approval to the Payment Management System for processing after closeout.

- b. Transaction 242584 for \$9,706 was prepaid using CHCC General Funds on February 29, 2016 and March 23, 2016 for check no 9103 for \$5,200 and check no 9213 for \$4,505.60 respectively. The transfer from prepayment to expense was not entered timely, but the Training was conducted from March 28, 2016 to April 1, 2016, which is within the period of availability of the funds.

CHCC Policy 7028 gives programs and accounting advance deadlines to clear encumbrances and liquidate obligations within the period. Programs have 60 days to clear encumbrances, and Accounting will liquidate within 75 days. This gives CHCC 15 days to closeout and submit the final reports by the end of 90 days.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No.: 2016-027

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: X02MC26337, X02MC27412 and X02MC28239
Area: Procurement and Suspension and Debarment
Questioned Costs: \$73,111

Name of Contact Persons: Procurement Director. Comptroller, Grants Administrator and Chief Financial Officer, DPH-MCHB

Corrective Action:

- (1) CHH35050.62500 - The Program requests to dispute this finding. After reviewing TA no. 316173 with the travel department, the required travel authorization documents were submitted and completed by traveler.

CHH45050.63040 open account for National Office Supply, no receiving report is prepared. The Program requests to dispute this finding. After reviewing the provided information, the program found that the correct business unit associated with the document number 1254916 for \$336 is H25050 for office supplies (open account), therefore a receiving report is not generated for this cost.

(2), (3), (4), (5) and (6) - CHCC Procurement and Medical Supply Office have established controls of Purchase Request by creating a reviewing, approving, and processing transmittal process to ensure that all supporting documents are attached and are in compliance to the CHCC Procurement Rules and Regulations. Without the proper supporting documents, MSO will not process the Purchase Request (PR) and will return the PR back to Accounting. CHCC Procurement Regs were adopted Sept. 2015

- (2) The Program requests to dispute this finding. An email to two other vendors were sent on November 24, 2014. One did not respond to program request until January 9, 2015 and the other responded to contact the US Chapter which led us back to the MAC Training and Consulting vendor.
- (3) The Program disputes this finding. A total of three (3) vendors were emailed requesting price quotations. Two vendors (Saipan Computer Services and MegaByte) were non responsive. The only vendor that submitted a proposal, which was White Coconut, was selected.
- (4) The program did not select the lowest bidder due to the requirement of a 50% down payment.
- (5) The Program requests to dispute this finding. A sole source justification was provided explaining why the cribs selected over other options. In line with the program's efforts to promote "Safe Sleep" in the CNMI, the vendor, Cribs for Kids, is the sole source for purchasing infant safe sleep products. A sole source letter from vendor indicating they are the only vendor who provides "Safe Sleep" products.
- (6) The Program requests to dispute this finding. A sole source justification was provided to the effect of the following:

The specific unique capabilities of the contractor selected and the specific reasons why such unique capabilities are required for the particular procurement is due to the following reasons.

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No.: 2016-027, 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: X02MC26337, X02MC27412 and X02MC28239
Area: Procurement and Suspension and Debarment
Questioned Costs: \$73,111

Corrective Action, Continued:

Great Kids Inc., has worked closely with numerous Healthy Families America (which is the implemented evidence-based model here in the CNMI since 2012) sites in the US mainland and internationally. With over 3 decades of experience in results-driven program implementation and management, program planning and evidence-based curricula development and training tailored to meet program needs. H.O.M.E Visiting Program targets prenatal to children ages zero to five and GKI's curriculum covers prenatal and children zero to five years of age. GKI was selected also due to its flexibility in tailoring the curriculum to the needs of our specific community. This program curriculum allows HFA affiliated sites to alter to be culturally sensitive. GKI provides technical assistance for the curriculum development, training and strategic planning. This includes curriculum training, core training for Parent Visitors and Home Visitors/Family Support Workers and Supervisors. The training objectives comprise of understanding the critical elements for effective home visitation services and the planning process of conducting outreach and advocacy. Alongside its curriculum, like HFA, there will be assistance offered for their recommended "wrap-around" training modules within the first six to twelve months of hire.

No specific efforts were made to obtain competition with other contractors due to the reason that at the time of choosing a curriculum specific model back in 2013, Great Kids Inc. was the most appropriate agency who provided a curriculum that focused on our targeted group, Prenatal and children zero to five years of age.

The following specifically-named contractors and other sources, both on-island and off-island, have been considered back in 2013 but not selected include:

1. Parents as Teachers - it was not selected for reasons that it was previously used by the Head Start Program, but the Head Start Program did not have a continuous usage of this model to review its strength and weaknesses and there was no demonstrated program outcome as required under the six mandated bench marks.
2. Early Head Start - Upon review of the model, the focus of the model was on low income pregnant women and children from birth to three years. The demonstrated outcome only covered 3 out of the six which are child development and readiness, positive parenting practices, and family economic self-sufficiency.
3. Zero to three - only targets children ages zero to three and the H.O.M.E Visiting Program targets Prenatal and children ages zero to five.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No.: 2016-028

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: X02MC26337
Area: Reporting
Questioned Costs: \$-0-

Name of Contact Persons: Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action: New CHCC Policy 7030. This policy addresses the Federal Financial reporting requirements. The GMO works closely with Accounting to review the accuracy and monitor the submission of SF-425's to the correct reporting site and that they reconcile with the Payment Management System.

Proposed Completion Date: Ongoing

Finding No.: 2016-029

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.982 Mental Health Disaster Assistance and Emergency Mental
Health
Award Number: 1H07SM000369-01
Area: Allowable Costs/Cost Principles
Questioned Costs: \$50,913

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action: CHCC is unable to agree and reconcile the amounts and details of this findings with the Fund Status Report for CHH69820.

The finding states that the items do not appear necessary, however the program had an approved budget for promotional items and supplies for the Crisis Counseling program as part of its community outreach, education and awareness campaign. These items were utilized for the SouFest Typhoon Soudelor Anniversary ceremony held at the Capitol Hill Softball Field. These items were distributed to Typhoon victims to which was the targeted population of the Crisis Counseling Program.

Proposed Completion Date: Ongoing

Finding No.: 2016-030

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.982 Mental Health Disaster Assistance and Emergency Mental
Health
Award Number: 1H07SM000369-01
Area: Period of Performance
Questioned Costs: \$7,033

Name of Contact Persons: Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action: Liquidation Beyond 90Days. CHCC requests to dispute these findings as the Grantor had granted an extension for closeout from August 22, 2016 to November 30, 2016.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No.: 2016-031

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.982 Mental Health Disaster Assistance and Emergency Mental Health
Award Number: 1H07SM000369-01
Area: Procurement and Suspension and Debarment
Questioned Costs: \$29,720

Name of Contact Persons: Comptroller, Grants Administrator and Chief Financial Officer

Corrective Action:

- (1) Procurement and Medical Supply Office have established controls of Purchase Request by creating a reviewing, approving, and processing transmittal process to ensure that all supporting documents are attached and are in compliance to the CHCC Procurement Rules and Regulations. Without the proper supporting documents, MSO will not process the Purchase Request(PR) and will return the PR back to Accounting.

CHCC Procurement Regs adopted Sept. 2015

- (2) CHH69820-614621 OP- CHCC disagrees with this finding as quotations were provided as well as email documents to support the sole source justification memo stating that two (2) vendors indicated they are unable to meet requirements.

318632 OT, 321399 OT and 322678 OT pertains to travel and professional fees paid for a Crisis Counseling Program (CCP). This program emerged immediately after the Emergency Disaster Declaration was made for the CNMI by the President following Typhoon Soudelor. The Substance Abuse and Mental Health Services Administration (SAMHSA), was informed of the situation to which led to the introduction of the CCP. It was through the guidance from the SAMHSA, that was key in providing the overview of the CCP as well providing guidance on what resources was available within the region.

One key aspect was assistance from the grantor to identify, Mr. Wayne Law, a former Mental Health Services Administrator from Hawaii, who holds a wealth of knowledge and experience with trauma and emergency services. Additionally, Mr. Law comes equipped to train front line responders as well as our in-house providers, providing core competencies needed to assist, refer, console and consult victims of Typhoon Soudelor.

Through all phases of the grant, funds were allocated for Mr. Law's consultancy. The budget, and budget narrative, which is made part of the application process, was reviewed and concurred by the Project Officer, Dr. Bellamy. This substantiates the emergency expenditures of these costs during this time of crisis.

Proposed Completion Date: Ongoing

COMMONWEALTH HEALTHCARE CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-032

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
93.224 Health Center Program (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
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Name of Contact Persons: Procurement Director. Comptroller, Grants Administrator
and Chief Financial Officer

Corrective Action:

- (1) CHCC MSO has started the physical inventory assessment on March 31, 2017 and the proposed ending physical inventory count will be on May 15, 2017.
- (2) The Director of P&S will assign two dedicated personnel who will be responsible for updating the fixed asset listings and provide copies to Accounting and Units of their respective fixed asset listings quarterly.
- (3) The Director of P&S will work with Accounting in updating the fixed asset listings and provide copies to Accounting and Units of their respective fixed asset listings.
- (4) The Director of P&S will ensure that reconciliation of applicable equipment and real property management records are reconciled before the end of each fiscal year.

Proposed Completion Date: Ongoing