

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, 2017

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, 2017, 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 October 25, 2019. Our report was qualified due to our inability to determine the effects of the lack of adoption 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 and related 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 through 2017-005, 2017-024 and 2017-026 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 and 2017-006 to be significant deficiencies.

## **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 2017-001, 2017-004 through 2017-006, 2017-024 and 2017-026.

## **CHCC's Response to Findings**

CHCC's response to the 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 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an 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*

October 25, 2019

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, 2017. 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 qualified opinion on compliance for major federal programs. 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 2017-007 through 2017-009, 2017-011 through 2017-014, and 2017-016 through 2017-026 in the accompanying Schedule of Findings and Questioned Costs, CHCC did not comply with requirements regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program Name</b>	<b>Compliance Requirement</b>
2017-026	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Equipment and Real Property Management
2017-007	93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	Allowable Costs/Cost Principles
2017-008	93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	Matching, Level of Effort, Earmarking
2017-009	93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	Procurement and Suspension and Debarment
2017-026	93.224	Health Center Program	Equipment and Real Property Management
2017-011	93.224	Health Center Program	Procurement and Suspension and Debarment
2017-012	93.224	Health Center Program	Reporting
2017-013	93.243	SAMHS Projects of Regional and National Significance	Activities Allowed or Unallowed
2017-014	93.243	SAMHS Projects of Regional and National Significance	Allowable Costs/Cost Principles
2017-016	93.243	SAMHS Projects of Regional and National Significance	Period of Performance
2017-017	93.243	SAMHS Projects of Regional and National Significance	Procurement and Suspension and Debarment
2017-018	93.243	SAMHS Projects of Regional and National Significance	Subrecipient Monitoring
2017-019	93.243	SAMHS Projects of Regional and National Significance	Special Tests and Provisions - Wage Rate Requirements
2017-020	93.268	Immunization Cooperative Agreements	Allowable Costs/Cost Principles
2017-026	93.268	Immunization Cooperative Agreements	Equipment and Real Property Management
2017-021	93.268	Immunization Cooperative Agreements	Period of Performance
2017-022	93.268	Immunization Cooperative Agreements	Procurement and Suspension and Debarment
2017-023	93.268	Immunization Cooperative Agreements	Reporting
2017-024	93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Matching, Level of Effort, Earmarking
2017-025	93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	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, 2017.

**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 2017-010 and 2017-015. 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 have not been identified. However, as discussed below, we did identify 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 a combination of deficiencies, in internal control over compliance, such that there is a 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 2017-007 through 2017-009, 2017-011 through 2017-014, and 2017-016 through 2017-026 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 2017-010 and 2017-015 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, 2017, and have issued our report thereon dated October 25, 2019, which contained a qualified opinion due to our inability to determine the effects of the lack of adoption 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 and related 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*

October 25, 2019

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE DIRECT PROGRAM</b>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ -	\$ 4,451,234
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES DIRECT PROGRAMS</b>			
Public Health Emergency Preparedness	93.069	-	178,043
Birth Defects and Developmental Disabilities - Prevention and Surveillance	93.073	-	346,597
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	-	649,794
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	-	859,774
Maternal and Child Health Federal Consolidated Programs	93.110	-	52,258
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	-	609,430
Projects for Assistance in Transition from Homelessness (PATH)	93.150	-	36,742
Family Planning Services	93.217	-	182,554
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	-	860,341
Total Health Center Program Cluster		-	860,341
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	198,655	981,497
Universal Newborn Hearing Screening	93.251	-	239,022
Immunization Cooperative Agreements	93.268	-	3,710,787
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	-	313,826
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	-	88,426
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	-	98,511
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	-	934,018
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	-	149,784
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	93.539	-	48,287
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	-	110,986
Adult Medicaid Quality: Improving Maternal and Infant Health Outcomes in Medicaid and CHIP	93.644	-	31,699
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.815	-	193,303
Maternal, Infant and Early Childhood Home Visiting Grant	93.870	-	29,708
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	-	62,717
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	-	209,610
HIV Care Formula Grants	93.917	-	41,707
Assistance Programs for Chronic Disease Prevention and Control	93.945	-	152,811
Block Grants for Community Mental Health Services	93.958	-	88,598
Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	319,665
Mental Health Disaster Assistance and Emergency Mental Health	93.982	-	34,270
Preventive Health and Health Services Block Grant	93.991	-	56,313
Maternal and Child Health Services Block Grant to the States	93.994	-	414,189
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		<u>198,655</u>	<u>12,085,267</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY DIRECT PROGRAM:</b>			
Crisis Counseling	97.032	-	597,414
<b>TOTAL FEDERAL AWARDS</b>		<u>\$ 198,655</u>	<u>\$ 17,133,915</u>
Reconciliation:			
Federal grant expenditures			\$ 16,885,881
Add:			
Expenditures capitalized during the year			253,490
Unreconciled differences			<u>(5,456)</u>
			<u>\$ 17,133,915</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, 2017

#### (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, 2017. 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 elected to use the de minimis indirect cost rate allowed under the Uniform Guidance.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2017

**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?  | Yes       |
| 4. | Noncompliance material to the financial statements noted?  | Yes       |

*Federal Awards*

- |                     | Internal control over major federal programs:   |                     |   |        |   |        |   |        |   |        |   |        |                                     |        |   |  |
|---------------------|---|---------------------|---|--------|---|--------|---|--------|---|--------|---|--------|-------------------------------------|--------|---|--|
| 5.                  | Material weakness(es) identified?   | Yes                 |   |        |   |        |   |        |   |        |   |        |                                     |        |   |  |
| 6.                  | Significant deficiency(ies) identified?   | Yes                 |   |        |   |        |   |        |   |        |   |        |                                     |        |   |  |
| 7.                  | Type of auditors' report issued on compliance for major federal programs:   | Qualified           |   |        |   |        |   |        |   |        |   |        |                                     |        |   |  |
| 8.                  | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  | Yes                 |   |        |   |        |   |        |   |        |   |        |                                     |        |   |  |
| 9.                  | Identification of major federal programs:   |                     |   |        |   |        |   |        |   |        |   |        |                                     |        |   |  |
|                     | <table border="0" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;"><u>CFDA Numbers</u></th> <th style="text-align: left;"><u>Name of Federal Program or Cluster</u></th> </tr> </thead> <tbody> <tr> <td>10.557</td> <td>Special Supplemental Nutrition Program for Women, Infants, and Children</td> </tr> <tr> <td>93.104</td> <td>Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)</td> </tr> <tr> <td>93.224</td> <td>Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)</td> </tr> <tr> <td>93.243</td> <td>Substance Abuse and Mental Health Services Projects of Regional and National Significance</td> </tr> <tr> <td>93.268</td> <td>Immunization Cooperative Agreements</td> </tr> <tr> <td>93.505</td> <td>Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program</td> </tr> </tbody> </table> | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | 93.104 | Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) | 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 |  |
| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u>   |                     |   |        |   |        |   |        |   |        |   |        |                                     |        |   |  |
| 10.557              | Special Supplemental Nutrition Program for Women, Infants, and Children   |                     |   |        |   |        |   |        |   |        |   |        |                                     |        |   |  |
| 93.104              | Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)   |                     |   |        |   |        |   |        |   |        |   |        |                                     |        |   |  |
| 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   |                     |   |        |   |        |   |        |   |        |   |        |                                     |        |   |  |
| 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, 2017

**Section II - Financial Statement Findings**

Reference Number	Finding
2017-001	Local Procurement/Non-payroll Expenditures
2017-002	Payroll/Employee Benefits
2017-003	Inventory
2017-004	Capital Assets
2017-005	Due to Related Parties
2017-006	Withholding Taxes Payable
2017-024	Financial Reporting
2017-026	Equipment and Real Property Management

**Section III - Federal Award Findings and Questioned Costs**

Reference Number	CFDA Numbers	Finding	Questioned Costs
2017-026	10.557	Equipment and Real Property Management	\$ -
2017-007	93.104	Allowable Costs/Cost Principles	47,418
2017-008	93.104	Matching, Level of Effort, Earmarking	340,669
2017-009	93.104	Procurement and Suspension and Debarment	8,783
2017-010	93.224	Allowable Costs/Cost Principles	27,490
2017-026	93.224	Equipment and Real Property Management	-
2017-011	93.224	Procurement and Suspension and Debarment	27,792
2017-012	93.224	Reporting	-
2017-013	93.243	Activities Allowed or Unallowed	35,000
2017-014	93.243	Allowable Costs/Cost Principles	71,282
2017-015	93.243	Matching, Level of Effort, Earmarking	47,500
2017-016	93.243	Period of Performance	23,135
2017-017	93.243	Procurement and Suspension and Debarment	11,785
2017-018	93.243	Subrecipient Monitoring	100,000
2017-019	93.243	Special Tests and Provisions - Wage Rate Requirements	-
2017-020	93.268	Allowable Costs/Cost Principles	75,710
2017-026	93.268	Equipment and Real Property Management	-
2017-021	93.268	Period of Performance	9,642
2017-022	93.268	Procurement and Suspension and Debarment	29,632
2017-023	93.268	Reporting	-
2017-024	93.505	Matching, Level of Effort, Earmarking	98,757
2017-025	93.505	Procurement and Suspension and Debarment	90,000
			<u>\$ 1,044,595</u>

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Local Procurement/Non-payroll Expenditures

Finding No. 2017-001

Criteria: CHCC 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 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.

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: Of twenty nonpayroll expenditures tested, totaling \$815,249, we noted the following:

- a. For four 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
05/11/17; 05/15/17	PV 1322749 PV 1323029 PV 1322751	612044 OC	\$ 34,315	\$ 34,315	Purchases and services for the repair and maintenance of various medical and dental equipment at CHC, THC and RHC
06/09/17 03/14/17	PV 1342687 PV 1316943	633080 OC 629400 OP	\$ 24,250 \$ 13,669	\$ 24,250 \$ 13,699	Remote web services for imaging Payment for procurement of blood and blood products to ensure standards of care for CMS lab services
05/22/17	OV 243769	629768 OP	\$ 94,328	\$ 23,164	Procurement for Alaris Infusion System from CareFusion

- b. For one small purchase, only two quotations were obtained, and evidence of the efforts made to obtain other vendor quotations, either on or off-island was not included.

General Ledger Date	Document No.	Contract/ Purchase Order (PO) No.	Contract/ PO Amount	Amount of Expenditure Tested	Description
12/20/16	PV 242428	617527 OP	\$ 20,540	\$ 20,540	Purchase of isolation air purifier parts, supplies and equipment

Cause: The cause of the above conditions is the lack of control over adherence to procurement rules and regulations and systematically filing of relevant documents.

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

Recommendation: We recommend that CHCC strengthen procedures to comply with procurement regulations and to establish and maintain efficient filing of relevant documents.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No. 2017-001, Continued

Identification as a Repeat Finding: Finding No. 2016-003.

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, 2017

Payroll/Employee Benefits

Finding No. 2017-002

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.

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

- a. Twenty-four NOPAs were not signed as approved by the Human Resources Officer at a reasonable time from the effective date.
- b. We were unable to determine that twenty-five allotments were authorized by the employee.
- c. One annual leave form was approved after the leave date.

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>
CHH7116B1	09/02/17	102652

In addition, the department head's signature was dated after the employee's signature date and we were unable to determine whether leave was approved or disapproved.

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>
1831A	10/29/16	103753

- d. Two timesheets with manual entries and justifications 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>
CHH6283N	04/15/17	311152
CHH7224A	07/08/17	816198

- d. Overtime for five employees was incurred prior to the approving officer's approval.

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>
1860A	08/05/17	102962
1851A	04/29/17	207026
1832A	11/26/16	860311
1832A	06/24/17	795542
1832A	06/10/17	836020

- e. Timecards for four employees were manually entered, without supporting justification.

<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

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No. 2017-002, Continued

Cause: The cause of the above conditions is a lack of controls over payroll, 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:

- The related payroll entries be reviewed;
- Employee deductions be properly authorized and supported;
- All payroll related transactions be reviewed and evidenced as approved before posting;
- Hours of employees be properly supported with signed timecards, approved leave/comp time forms and overtime authorization;
- Payroll expenses be recorded in the proper period.

Identification as a Repeat Finding: Finding No. 2016-004.

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, 2017

Inventory

Finding No. 2017-003

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, 2017.
- (3) Receiving report numbers are not in sequential order.
- (4) Changes to the inventory master file/database are not documented.
- (5) An assessment of inventory obsolescence was not provided.
- (6) Tests of the inventory subledger noted the following:

- a. As of September 30, 2017, 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:

	General Ledger Account No.	Physical Inventory Balance	General Ledger Balance	Variance
Medical Supply	14110	\$ 865,132	\$ 1,200,229	\$ (335,097)
Central Supply	14120	\$ 27,867	\$ 4,737	\$ 23,130
Pharmacy	14140	\$ 473,102	\$ 511,495	\$ (38,393)

The variances were corrected through proposed audit adjustments.

- b. CHCC's pharmacy does not maintain perpetual inventory records; therefore, the general ledger is not timely adjusted.
  - c. Fifteen inventory items (index nos. 031208, 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 \$16,922. One (index no. 025682) was included three times in the inventory valuation report resulting in an overstatement of \$217.
- (7) Of four medical supply items tested, we noted the following:
- a. An explanation of unit cost variances noted in the item ledger of four (item nos. 028576, 002089 and 030252) was not provided.

General Ledger Date	Document No.	Amount	Unit Cost Per System	Expected Unit Cost	Variance	Description
02/07/17	49610 II	\$ 1,056	\$ 24	\$ 41	\$ (17)	HEMO 0.9%NAACL INJ 1000ML 12/CS
05/12/17	50023 II	\$ 40	\$ 40	\$ 47	\$ (7)	GLOVE,EXAM MEDIUM NS 10BX/CS
09/26/27	4680 PI	\$ 3,638	\$ 5	\$ 6	\$ (1)	INFUSION SET 20DRP CHECK VALVE

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No. 2017-003, Continued

Condition, Continued:

- b. Item ledger for support on system calculation of unit cost for one was not provided.

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>	<u>Description</u>
11/22/16	49276 II	\$ 444	PACK,OBSTETRICAL 6PK/CS (Item No. 005223)

- (8) Of fourteen items physically counted at the Medical Supply office, seven 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>
30120	2,716	3,100	(384)
02895	148	150	(2)
13382	18	21	(3)
30147	1,299	1,300	(1)
08036	78	102	(24)
06661	3,530	3,551	(21)
06343	2,952	2,880	72

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. 2016-005.

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, 2017

Capital Assets

Finding No. 2017-004

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, 2017, CHCC incorrectly recorded capital asset acquisitions of machinery, equipment, office equipment, and improvements, totaling \$784,859, as vehicle expenses. As a result, related depreciation expense and accumulated depreciation were not recorded at year end. These conditions were corrected through proposed adjustments at September 30, 2017.

In addition, CHCC did not perform a capital asset physical inventory for fiscal year 2017.

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. 2016-006.

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, 2017

Due to Related Parties

Finding No. 2017-005

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, 2017, 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. 2016-008.

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, 2017

Withholding Taxes Payable

Finding No. 2017-006

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 2017.
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 2017.
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. 2016-009.

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, 2017

Finding No.: 2017-007  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)  
Award Number: 5U79SM062447-02  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$47,418

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

Condition:

1. For five (or 26%) of nineteen payroll expenditures tested aggregating \$178,766 of a population of \$450,715, the notice of personnel action (NOPA) was not timely signed as approved by the Human Resources Officer, ranging between three and seven months after the effective date. No questioned cost is presented as the approved NOPA was retroactive to the pay period tested.
2. No written indirect cost agreement was provided to substantiate the rate used and no approval was received from the grantor agency to charge indirect costs.

<u>Business Unit</u>	<u>Object No.</u>	<u>Amount Charged</u>
CHH61040	62790	\$ 47,418

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 \$47,418 exist.

Recommendation: The responsible personnel should timely approve NOPAs in accordance with applicable allowable costs/cost principles requirements and should obtain grantor approval for indirect cost charges in the absence of the grantor-required federally negotiated Indirect Cost Rate Agreement or Cost Allocation Plan in accordance with grant terms and conditions.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with the finding for specific reasons set forth in the Corrective Action Plan.

Condition 1: CHCC believes processing was timely based on the Request for Personnel Action (RFPA) dates.

Condition 2: CHCC believes that its election to use the de minimis rate was appropriate.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-007, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.104 Comprehensive Community Mental Health Services for  
Children with Serious Emotional Disturbances (SED)  
Award Number: 5U79SM062447-02  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$47,418

Auditor Response:

Condition 1: The authorizing document for each employee is the approved Notice of Personnel Action (NOPA). Therefore, the NOPA would be the more appropriate authority for approved pay rates and other personnel data.

Condition 2: Section IV - SM Special Terms and Conditions - 5U79SM062447-02 of the federal award states the following: "By October 30, 2016, the recipient must submit to the Grants Management Specialist a copy of either a federally negotiated Indirect Cost Rate Agreement or Cost Allocation Plan to support the indirect charge of \$47,438. The indirect cost of \$47,438 cannot be charged to this grant until the documentation has been submitted." Neither the federally negotiated documentation nor the grantor approval for the indirect cost was provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-008  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)  
 Award Numbers: 1U79SM061625-01, 1U79SM062447-01 and 5U79SM062447-02  
 Area: Matching, Level of Effort, Earmarking  
 Questioned Costs: \$340,669

Criteria: In accordance with applicable matching requirements, matching may be in the form of non-federal in-kind contributions (e.g., payroll, utilities, and office space) which are provided on an on-going basis and should be documented and valued to establish that the required match is made in accordance with the program requirements.

Further, the level of effort requirement for the CGC Director and Program Director are 25% and 100%, respectively.

Condition:

1. The required local match is deficient, as follows:

Required local match	\$ 286,591
Actual local match (payroll and utilities)	<u>(59,423)</u>
Deficient local match	\$ <u>227,168</u>

CHCC's schedule of local match transactions includes office space in the amount of \$228,875, which would be sufficient to address the local match deficiency; however, no evidence, such as written data analysis or certification from an independent appraisal, was provided to substantiate such costs.

2. Documentation was not provided to support compliance with level of effort requirements. Although the program director resigned, the program did not address a replacement, and there was no approval from the grantor for the lack of a replacement. The require level of effort is deficient, as follows:

Required level of effort:	
CGC Director (\$71,500 x 25%)	\$ 17,875
Program Director (\$110,000 x 100%)	<u>110,000</u>
Total required level of effort	127,875
Actual level of effort	<u>(14,374)</u>
Deficient local match	\$ <u>113,501</u>

Cause: CHCC did not enforce internal controls over recordkeeping and grantor communications to substantiate compliance with applicable matching and level of effort requirements.

Effect: CHCC is in noncompliance with applicable matching, level of effort, earmarking requirements, and questioned costs of \$340,669 exist.

Recommendation: CHCC should establish procedures to document and value in-kind, non-federal contributions. Further, the responsible personnel should periodically monitor the level of effort requirements. If tracking levels are deficient, the responsible personnel should consider requesting a waiver from the grantor in advance of the award period end date.



COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-008, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.104 Comprehensive Community Mental Health Services for  
Children with Serious Emotional Disturbances (SED)  
Award Numbers: 1U79SM061625-01, 1U79SM062447-01 and 5U79SM062447-02  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$340,669

Views of Auditee and Corrective Action Plan:

CHCC disagrees with the finding for specific reasons set forth in the Corrective Action Plan.

Condition 1: CHCC believes the in-kind donation for the land and building is reasonable and describes a rationale for a total of \$292,875.

Condition 2: CHCC believes the program was not overcharged for the required effort and that the requirement was satisfied by the Program Manager/Administrator instead of a "Project Director."

Auditor Response:

Condition 1: During fieldwork, no written justification was on file and none was provided.

Condition 2: The level of effort requirement is a floor, as opposed to a ceiling. Therefore, the concept of overcharging the program is not an issue. Per the federal award, "Only the GMO, SAMHSA may approve Key Staff Changes," and no such approval was provided.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-009  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)  
 Award Number: 5U79SM062447-02  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$8,783

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

CHCC's procurement regulations, pursuant to Commonwealth law, state the following:

- 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: For one (or 7%) of fifteen non-payroll expenditures tested, totaling \$18,205 of a total population of \$361,641, sole source procurement was used. The written justification stated that the vendor was the only consulting company contracted to conduct the training; however, there was no documentation was provided to support the assertion.

<u>Business Unit</u>	<u>TA/ Contract No.</u>	<u>PO/Contract Amount</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Total FY17 Expenditures and Questioned Costs</u>
CHH61040	634598-OA	\$ 8,783	62060	09/07/17	244766-OV	\$ 8,783

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

Effect: CHCC is in noncompliance with applicable procurement regulations, and questioned costs of \$8,783 exist, as the projected cost is greater than \$25,000.

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

Views of Auditee and Corrective Action Plan:

CHCC acknowledges the lack of documentation and describes corrective action in the Corrective Action Plan. However, CHCC disagrees with the questioned costs based on the belief that sole source procurement was reasonable and necessary, as further described in the Corrective Action Plan.

Auditor Response:

By definition per 2 CFR 200.84, a questioned cost can result when, at the time of the audit, costs are not supported by adequate documentation.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-010  
 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: 5 H80CS28324-02-00 and 5 H80CS28324-03-00  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$27,490

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

Condition: Of seventeen payroll expenditures, aggregating \$460,139 of a population of \$685,979, the following was noted:

1. For one (or 6%), the account chargeable per personnel action form for employee number 858987 is 1807A.61100, but CHH6224A.61100 was charged. We did not identify any subsequent reversal of expenditures or change in chargeable account per personnel action form. Total charges made to the grant award totaled \$27,385.
2. For one (or 6%), no leave form was provided for employee no. 795891 for the payroll period ended 05/27/17. Expenditures related to the leave totaled \$67.
3. For one (or 6%), a difference was noted between the rate per the payroll register and the personnel action form.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Rate Per Payroll Register</u>	<u>Rate Per Personnel Action Form</u>	<u>Variance</u>	<u>Questioned Costs</u>
CHH7224A	163335	08/19/17	\$ 20.192	\$ 19.23	\$ 0.96	\$ 38

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 \$27,490 exist.

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

Identification as a Repeat Finding: Finding No. 2016-012.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan. Also, CHCC disagrees with the finding for specific reasons set forth in the Corrective Action Plan.

1. All medical providers are hired with 1807A (Medical Staff) as the home business unit, and since the Physician Assistant was assigned to KCHC, his hours were charged to the grant.
2. CHCC provided all requested documents to the auditors.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-010, 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: 5 H80CS28324-02-00 and 5 H80CS28324-03-00  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$27,490

Auditor Response:

1. Other medical providers assigned to KCHC are assigned a business unit associated with CFDA 93.224. The same should be applied for all that are assigned to KCHC.
2. No leave form was provided for our review.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-011  
 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: Procurement and Suspension and Debarment  
 Questioned Costs: \$27,792

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 the following:

- Section 140-80.1-220 Small Purchases (a) Procurement requirements shall not be artificially divided so as to constitute a small purchase. (b) Bidding is not required for procurement under \$5,000. (c) 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 from at least three vendors and 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 obtained must be written, documented, and submitted to the CHCC P&S Director for approval.
- Section 140-80.1225 Sole Source Procurement (b) 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.
- Effective April 12, 2017, changes to CHCC procurement regulations state the following:
  - For procurements valued at \$3,000 or below, only one quote is needed for medical and non-medical procurement.
  - For single quote procurement, we must, to every extent practicable, distribute these purchases equitably amongst all qualified suppliers.

Condition: Of twelve non-payroll expenditures tested, totaling \$53,795, the following were noted:

1. For three (or 25%), fewer than three quotations were obtained for small purchases:

Business Unit	Object No.	General Ledger Date	Document Number	Obligating Document Number	Amount	FY 2017 Expenditures and Questioned Costs
CHH6224A	62250	01/20/17	1311992	612658-OP	\$ 1,272	\$ 4,180
CHH6224A	64540	06/27/17	244111	632690-OP	\$ 8,590	9,342
CHH7224A	62250	08/24/17	1354198	633972-OM	\$ 1,253	<u>4,270</u>
						\$ <u>17,792</u>



COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-011, 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: Procurement and Suspension and Debarment  
Questioned Costs: \$27,792

Condition, Continued:

2. For one (or 8%), no written justification was noted for sole source procurement prepared by the official with expenditure authority, CEO, for purchase order 629091-OP dated 03/07/17 totaling \$10,000. Further, the justification provided by the program manager did not contain the specific unique capabilities required; the specific unique capabilities of the contractor; the efforts made to obtain competition; or the specific considerations given to alternative sources and specific reasons why alternative sources were not selected.

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 \$27,792 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. 2016-014.

Views of Auditee and Corrective Action Plan:

CHCC acknowledges the lack of documentation, but disagrees with the finding for specific reasons set forth in the Corrective Action Plan.

Auditor Response:

The finding is reportable due to the lack of documentation.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-012  
 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 Number: 5H80CS28324-02-00  
 Area: Reporting  
 Questioned Costs: \$-0-

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

Condition:

1. Based on total expenditures reported to the grantor on SF-425 for the reporting period ended April 30, 2017, we noted the following variances:

Report Details - Business Unit CHH6224A	Per SF-425	Per General Ledger	Variance
Federal Expenditures and Unobligated Balance:			
10d. Total Federal Funds Authorized	\$ 1,931,995	\$ 1,041,072	\$ 890,923
10e. Federal Share of Expenditures	\$ 1,621,826	\$ 768,787	\$ 853,039
10g. Total Federal Share	\$ 1,621,826	\$ 768,787	\$ 853,039
10h. Unobligated balance of Federal Funds	\$ 310,169	\$ 272,285	\$ 37,884

2. Supporting underlying accounting records for reporting period ended 12/31/17 could not be provided.
3. Tests of reporting requirements noted differences in reporting for the UDS report as compared to the accounting system for reporting period ended 12/31/17:

**Table 5 - Staffing and Utilization**

Per UDS Report

<u>Line Item</u>	<u>(a) FTEs</u>	<u>(c) Patients</u>
Line 8 - Total Physicians	1.50	-
Line 15 - Total Medical Care Services	4.00	2,065
Line 29 - Total Enabling Services	1.70	-
Line 33 - Total Administration and Facility	6.50	-

Per RPMS Data

<u>Line Item</u>	<u>(a) FTEs</u>	<u>(c) Patients</u>
Line 8 - Total Physicians	-	-
Line 15 - Total Medical Care Services	-	-
Line 29 - Total Enabling Services	-	-
Line 33 - Total Administration and Facility	-	-

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-012, 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 Number: 5H80CS28324-02-00  
 Area: Reporting  
 Questioned Costs: \$-0-

Criteria, Continued:

Variance

<u>Line Item</u>	<u>(a) FTEs</u>	<u>(c) Patients</u>
Line 8 - Total Physicians	1.50	-
Line 15 - Total Medical Care Services	4.00	2,065
Line 29 - Total Enabling Services	1.70	-
Line 33 - Total Administration and Facility	6.50	-

**Table 8 Part A - Financial Costs**

Per UDS Report

<u>Line Item</u>	<u>(c) Total Cost after Allocation of Facility and Non-Clinical Support Services</u>
Line 4 (c) - Total Medical Care Services	\$ 998,337
Line 10 (c)- Total Other Clinical Services	\$ 11,013
Line 13 (c) - Total Enabling and Other Services	\$ 84,682
Line 16 - Total Overhead	\$ 371,822

Per JD Edwards Data

<u>Line Item</u>	<u>(c) Total Cost after Allocation of Facility and Non-Clinical Support Services</u>
Line 4 (c) - Total Medical Care Services	\$ -
Line 10 (c) - Total Other Clinical Services	\$ -
Line 13 (c) - Total Enabling and Other Services	\$ -
Line 16 - Total Overhead	\$ -

Variance

<u>Line Item</u>	<u>(c) Total Cost after Allocation of Facility and Non-Clinical Support Services</u>
Line 4 (c) - Total Medical Care Services	\$ 998,337
Line 10 (c)- Total Other Clinical Services	\$ 11,013
Line 13 (c) - Total Enabling and Other Services	\$ 84,682
Line 16 - Total Overhead	\$ 371,822

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-012, 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 Number: 5H80CS28324-02-00  
 Area: Reporting  
 Questioned Costs: \$-0-

Criteria, Continued:

**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	\$ 151,778	\$ 128,082	\$ -	\$ 2,639	\$ -
Line 10 - Private Non-Managed Care	\$ 71,639	\$ 20,935	\$ -	\$ 21,207	\$ -
Line 13 - Self Pay	\$ 10,300	\$ 20,606	\$ -	\$ -	\$ 21,207

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	\$ -	\$ -	\$ -	\$ -	\$ -

Variance

<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	\$ 151,778	\$ 128,082	\$ -	\$ 2,639	\$ -
Line 10 - Private Non-Managed Care	\$ 71,639	\$ 20,935	\$ -	\$ 21,207	\$ -
Line 13 - Self Pay	\$ 10,300	\$ 20,606	\$ -	\$ -	\$ 21,207

Cause: CHCC lacks controls over compliance with applicable reporting requirements. 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 are based on expenditures that are recorded in the general ledger. Therefore, no questioned costs result.

Recommendation: CHCC should take steps to determine that information reported to the grantor is based on underlying accounting records and data. The responsible personnel should review the SF-425 and UDS reports prior to submission to the grantor to verify that amounts are supported by underlying accounting records. Such accounting records should be maintained on file to substantiate reported amounts and to facilitate reconciliation processes with the grantor.

Identification as Repeat Finding: Finding No. 2016-015

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-012, 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 Number: 5H80CS28324-02-00  
Area: Reporting  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

CHCC does not dispute the finding and provides a response in the Corrective Action Plan.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-013  
 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: Activities Allowed or Unallowed  
 Questioned Costs: \$35,000

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

Condition: For one (or 4%) of twenty-two non-payroll expenditures tested, aggregating \$324,562 of a population of \$712,357, construction costs were 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	64520	11/15/16	1306712	616351-OC	\$ 35,000

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.

Recommendation: The responsible personnel should monitor transactions for activities allowed or unallowed prior to approving program expenditures. For transactions that are not clearly allowable, the responsible personnel should consider seeking guidance from the grantor, and such written guidance should be retained on file.

Identification as a Repeat Finding: Finding No. 2016-016.

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, 2017

Finding No.: 2017-014  
 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: 5U79SP020710-02 and 5U79SP020710-03  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$71,282

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

Condition:

- For three (or 30%) of ten payroll expenditures tested, aggregating \$54,676 of a population of \$257,859, the notice of personnel action (NOPA) was not timely signed as approved by the Human Resources Officer, ranging between one and seven months after the effective date. No questioned cost is presented as the approved NOPA was retroactive to the pay period tested.

Of twenty-two non-payroll expenditures tested, aggregating \$324,563 of a population of \$712,357, we noted the following:

- For one (or 4%), subrecipient expenditures were recorded, but the check was voided and a reversal of the charges was not made, as follows:

<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	12/15/16	1309097	608455-OC	\$ 30,000

- For two (or 9%), prior year expenditures were recorded in the current fiscal year.

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Document Number</u>	<u>Obligating Document No.</u>	<u>Amount</u>
CHH6243B	62060	10/21/16	1304576	608456-OC	\$ 14,000
CHH6243B	62300	11/14/16	1306627	612066-OP	<u>2,500</u>
					\$ <u>16,500</u>

No questioned cost is presented as the recorded expenditures are for allowable costs within the obligation period.

- No written indirect cost agreement was provided to substantiate the rate used and no approval was received from the grantor agency to charge indirect costs.

<u>Business Unit</u>	<u>Object Account No.</u>	<u>Questioned Costs</u>
CHH7243B	62790	\$ 41,282

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 \$71,282 exist.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-014, 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: 5U79SP020710-02 and 5U79SP020710-03  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$71,282

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. 2016-017.

Views of Auditee and Corrective Action Plan:

For Conditions 1 through 4, CHCC describes corrective action in the Corrective Action Plan. However, for Condition 5, CHCC believes that its election to use the de minimis rate was appropriate.

Auditor Response:

Condition 5: Section IV - SP Special Terms and Conditions - 5U79SP020710-02 of the federal award states the following: "\$61,874 Budgeted for "Indirect Costs" is restricted and may not be used for any other purpose until a current negotiated indirect cost rate agreement is finalized and submitted to the Division of Grants Management, SAMHSA." No finalized agreement was provided.



COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-015  
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: 5U79SP020710-03 Revised  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$47,500

Criteria: The level of effort requirement for the Project Director is 100%.

Condition: No documentation was provided to substantiate that the Project Director dedicated 100% of his time to the program. The Project Director's salary for FY 2017 was \$47,500.

Cause: CHCC did not enforce compliance with applicable level of effort requirements.

Effect: CHCC is in noncompliance with applicable level of effort requirements, and questioned costs of \$47,500 exist.

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

Views of Auditee and Corrective Action Plan:

CHCC disagrees with the finding for specific reasons set forth in the Corrective Action Plan. CHCC does not agree with the auditors' interpretation of the level of effort (LOE) requirement and believes that LOE documentation would be required only pursuant to 200.403 (vii) wherein support for the distribution of an employee's salary among specific activities or cost objectives is required if the employee does not work solely for one Federal award.

Auditor Response:

The citation of 2 CFR 200.403 applies to documentation of personnel expenses charged to a Federal award under cost principles in general and does not preclude the requirement under 2 CFR 403 (iii) wherein records must "Reasonably reflect the total activity for which the employee is compensated..." Furthermore, the Federal award for this program specifies terms and conditions that require documentation to substantiate compliance with level of effort requirements.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-016  
 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 Revised  
 Area: Period of Performance  
 Questioned Costs: \$23,135

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: For three (or 13%) of twenty-two non-payroll expenditures tested, aggregating \$324,563 of a total population of \$712,357, liquidation occurred beyond 90 days from the budget end date of 9/29/16. Grant extension documentation was not provided.

Business Unit	Document No.	General Ledger Date	Check No.	Cleared Date	Liquidation End Date	Days Lapsed	Questioned Costs
CHH6243B	1309118	12/15/16	5375	02/03/17	12/29/16	36	\$ 20,400
CHH6243B	1309066	12/14/16	5364	01/19/17	12/29/16	21	235
CHH6243B	1306627	11/14/16	5169	01/10/17	12/29/16	12	<u>2,500</u>
							\$ <u>23,135</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 \$23,135 exist since 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.

Identification as a Repeat Finding: Finding No. 2016-018.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with the finding for specific reasons set forth in the Corrective Action Plan. However, CHCC also acknowledges that the checks 5375 and 5364 were written as of January 12, 2017 and provides a rationale for such action after the liquidation end date.

Auditor Response:

The finding is reportable due to the late liquidation.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-017  
 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 Number: 5U79SP020710-02  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$11,785

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

CHCC's procurement regulations state the following:

- Bidding is not required but is encouraged for procurement \$3,000 and under \$10,000. 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 \$3,000 to \$10,000. Any price quotations obtained must be written, documented, and submitted to the CHCC Procurement and Supply (P&S) Director for approval.

Condition: Of twenty-two non-payroll expenditures tested, totaling \$324,563 of a total population of \$712,357, we noted the following:

- For one (or 4%), emergency procurement was used for the renovation of the main office building due to meeting the grant's expiration date; however, this does not appear to be a justifiable reason for emergency procurement.

Business Unit	TA/ Contract No.	Contract Amount	Total FY17 Expenditures Charged	Object	General Ledger Date	Document No.	Questioned Costs
CHH6243B	616351-OC	\$ 70,000	\$ 35,000	64520	11/15/16	1306712	\$ 35,000

No questioned cost is presented as the cost is questioned at Finding No. 2017-013.

- For two (or 9%), evidence of competition was not documented for printing services and travel routes.

Business Unit	TA/ Contract No.	Contract Amount	Total FY17 Expenditures Charged	Object	General Ledger Date	Document No.	Questioned Costs
CHH7243B	638396-OP	\$ 6,866	\$ 6,866	62300	09/25/17	1358056	\$ 6,866
CHH6243B	324730-OT	\$ 4,918	\$ 4,919	62500	10/12/16	1303332	<u>4,919</u>
							\$ <u>11,785</u>

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 \$46,785 exist, of which \$11,785 is presented at this finding for Condition 2.

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, 2017

Finding No.: 2017-017, 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 Number: 5U79SP020710-02  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$11,785

Identification as a Repeat Finding: Finding No. 2016-019.

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, 2017

Finding No.: 2017-018  
 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: Subrecipient Monitoring  
 Questioned Costs: \$100,000

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

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

Condition: For one (or 50%) of two subrecipient expenditures tested, aggregating \$75,000 of a total population of \$228,655, no evidence of subrecipient monitoring activities was provided. The total FY 2017 expenditures under the subrecipient agreement was \$100,000, which is a questioned cost.

<u>Business Unit</u>	<u>TA/ Contract No.</u>	<u>Amount</u>	<u>Contract Amount</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>FY 2017 Expenditures And Questioned Costs</u>
CHH7243B	608387-OC	\$ 25,000	\$ 100,000	62060	03/03/17	1315617	\$ 100,000

Cause: CHCC did not enforce recordkeeping and monitoring controls over applicable subrecipient monitoring requirements.

Effect: CHCC is in noncompliance with applicable subrecipient monitoring requirements, and questioned costs of \$100,000 exist.

Recommendation: CHCC should establish a record keeping system whereby underlying support for each transaction is processed timely and filed accordingly for easy retrieval to substantiate costs.

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, 2017

Finding No.: 2017-019  
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 Number: 5U79SP020710-02 Revised  
Area: Special Tests and Provisions - Wage Rate Requirements  
Questioned Costs: \$-0-

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: Of one construction expenditure tested (or 100%), totaling \$35,000 of a total contract amount of \$70,000, weekly certified payroll reports and a statement of compliance from the contractor were not provided.

Cause: Management was not aware of the Wage Rate requirements.

Effect: CHCC is in noncompliance with applicable Wage Rate requirements. No questioned costs are presented at this finding because the costs are questioned at Finding No. 2017-013.

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

Identification as a Repeat Finding: Finding No. 2016-020.

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, 2017

Finding No.: 2017-020  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.268 Immunization Cooperative Agreements  
Award Numbers: 5 NH23IP000736-04-00 and 5 NH23IP000736-05-00  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$75,710

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

Condition:

1. Of twenty-five payroll expenditures, aggregating \$258,953 of a population of \$613,250, the leave form was not provided for employee number 554525 for the payroll period ended 04/15/17 for 0.25 hours. Questioned costs of \$3 exist as a result.
2. Of seven non-payroll expenditures, aggregating \$12,505, of a population of \$165,456, costs were incurred on 07/01/17 before they were obligated by purchase order 638187-OP dated 07/28/17 for \$1,462. No questioned cost is presented as the cost was subsequently approved.
3. No written indirect cost agreement was provided to substantiate the rate used, and no approval was received from the grantor agency to charge indirect costs. Indirect costs charged in FY2017 totaled \$75,707.

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 \$75,710 exist for Conditions 1 and 3.

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. 2016-021.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan. Also, CHCC disagrees with certain conditions for specific reasons set forth in the Corrective Action Plan.

Condition 1: CHCC believes all requested documents were provided to the auditors and also describes corrective action.

Condition 3: CHCC believes that its election to use the de minimis rate was appropriate.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-020, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.268 Immunization Cooperative Agreements  
Award Numbers: 5 NH23IP000736-04-00 and 5 NH23IP000736-05-00  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$75,710

Auditor Response:

Condition 1: The requested leave form was not provided.

Condition 3: Funding Restrictions and Limitations of the federal award states the following: "Indirect costs are not approved for this award, because an approved Indirect Cost Rate Agreement has not been established. To have indirect costs approved for this grant, submit an approved, current indirect cost rate agreement to the grants management specialist." The required agreement was not provided.



COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-021  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Programs: 93.268 Immunization Cooperative Agreements Award  
 Award Numbers: 5 NH23IP000736-04-00 and 5 NH23IP000736-05-00  
 Area: Period of Performance  
 Questioned Costs: \$9,642

**Criteria:** In accordance with applicable period of performance 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:**

1. For one (or 14%) of seven non-payroll expenditures tested, aggregating \$12,505 of a total population of \$165,456, the obligation occurred prior to the budget start date of 04/01/17. Grantor approval of pre-award costs was not provided.

Business Unit	Document No.	General Ledger Date	Budget End Date	TA/Check No.	TA/Check Date	Liquidation End Date	Days Lapsed	Questioned Costs
CHH72687	1319546	04/07/17	06/30/18	329258-OT	02/14/17	09/28/18	46	\$ 575

2. For two (or 29%) of seven non-payroll expenditures tested, aggregating \$12,505 of a total population of \$165,456, the liquidation occurred after 90 days from the budget end date. The grant extension documentation was not provided.

Business Unit	Document No.	General Ledger Date	Budget End Date	TA/Check No.	TA/Check Date	Liquidation End Date	Days Lapsed	Questioned Costs
CHH62681	243612	05/09/17	03/31/17	12978	07/31/17	06/29/17	32	\$ 6,360
CHH62681	1317794	03/21/17	03/31/17	14243	08/02/17	06/29/17	34	\$ 604
								\$ <u>6,964</u>

3. For one (or 8%) of twelve expenditures tested, aggregating \$110,363 of a total population of \$521,214, the obligation occurred beyond the budget end date, and liquidation occurred after 90 days from the budget end date. The grant extension documentation was not provided.

Business Unit	Document No.	General Ledger Date	Budget End Date	Obligating Document/Check No.	Obligating Document/Check Date	Liquidation End Date	Days Lapsed	Questioned Costs
CHH62681	244035	06/19/17	03/31/17	6622	08/18/17	06/29/17	83	\$ <u>1,698</u>

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

**Effect:** CHCC is in noncompliance with period of performance requirements, and questioned costs of \$9,642 exist as the projected questioned cost exceeds \$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.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-021, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Programs: 93.268 Immunization Cooperative Agreements Award  
Award Numbers: 5 NH23IP000736-04-00 and 5 NH23IP000736-05-00  
Area: Period of Performance  
Questioned Costs: \$9,642

Identification as a Repeat Finding: Finding No. 2016-022.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with the finding for specific reasons set forth in the Corrective Action Plan and believes transactions are within the performance period.

Auditor Response:

1. Expenditures obligated to a grant award should be within its period of performance. The expenditure was obligated in February 2017, before the grant award's availability in April 2017.
2. Per 45 CFR 75.309(b), "A non-Federal entity must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period..." The federal award provides a "project" period and a "budget" period. The "funding" period is synonymous with the "budget" period, which is the appropriate date for testing.
3. Check no. 6622 was cleared beyond its allowable liquidation period. The 90-day liquidation period starts at the end of each budget year.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No: 2017-022  
 Federal Agency: U.S. Department of Health & Human Services  
 CFDA Program: 93.268 Immunization Cooperative Agreements  
 Award Numbers: 5 NH23IP000736-04-00 and 5 NH23IP000736-05-00  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$29,632

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 the following:

- Section 140-80.1-220 Small Purchases (a) Procurement requirements shall not be artificially divided so as to constitute a small purchase. (b) Bidding is not required for procurement under \$5,000. (c) 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 from at least three vendors and 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 obtained must be written, documented, and submitted to the CHCC P&S Director for approval.
- Section 140-80.1225 Sole Source Procurement (b) 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.
- Effective April 12, 2017, changes to CHCC procurement regulations state the following:
  - For procurement valued at \$3,000 or below, only one quote is needed for medical and non-medical procurement.
  - For single quote procurement, we must, to every extent practicable, distribute these purchases equitably amongst all qualified suppliers.

Condition: Of fourteen non-payroll expenditures tested, totaling \$33,950, the following were noted:

1. For two (or 14%), the micro-purchase procurement method was used; however, total expenditures charged to the awarded vendor qualify for the small purchase procurement method. The procurement appears to be artificially divided to circumvent small purchase procurement requirements.

Business Unit	Obligating Document No.	Object No.	General Ledger Date	Document No.	Contract Amount	Total Expenditures	Questioned Costs
CHH62681	629832-OP	63050	03/17/17	1317538	\$ 2,500	\$ 4,137	\$ 2,500
CHH72687	636554-OP	63120	09/05/17	244730	\$ 728	\$ 7,938	<u>728</u>
							\$ <u>3,228</u>

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No: 2017-022, Continued  
 Federal Agency: U.S. Department of Health & Human Services  
 CFDA Program: 93.268 Immunization Cooperative Agreements  
 Award Numbers: 5 NH23IP000736-04-00 and 5 NH23IP000736-05-00  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$29,632

Condition, Continued:

- For three (or 21%), no effort is documented to obtain competition or give consideration to alternative sources and why such were not selected for the following:

Business Unit	TA/ Contract No.	Object No.	General Ledger Date	Document No.	Contract Amount	FY 2017 Expenditures and Questioned Costs
CHH62681	612056-OP	62080	12/29/16	1310082	\$ 4,200	\$ 1,050
CHH62681	629632-OP	62250	03/21/17	1317966	3,217	10,875
CHH62681	630615-OA	63050	05/09/17	24312	\$ 6,586	<u>6,586</u>
						<u>\$ 18,511</u>

- For one (or 7%), the highest of three quotations (\$3,897) for shredder equipment was selected for purchase order 628966-OP dated 03/03/17.
- For one (or 7%), three quotations were solicited, but only one quotation was obtained for computer equipment for purchase order 630261-OP dated 03/21/17 for \$3,996.

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 \$29,632 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. 2016-023.

Views of Auditee and Corrective Action Plan:

CHCC disagrees with the finding for specific reasons set forth in the Corrective Action Plan.

Auditor Response:

- Total awards expended to a vendor under similar cost categories exceeded the micro-purchase thresholds. As a result, quotations should have been obtained in accordance with CHCC's small purchases method.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No: 2017-022, Continued  
Federal Agency: U.S. Department of Health & Human Services  
CFDA Program: 93.268 Immunization Cooperative Agreements  
Award Numbers: 5 NH23IP000736-04-00 and 5 NH23IP000736-05-00  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$29,632

Auditor Response, Continued:

2. For 612056-OP and 630615-OA, only one solicitation and quote was provided during fieldwork. There was no evidence that others were solicited.
3. The entity solicited three quotations for shredders and received three quotations. The most expensive quote was selected because it pertained to heavy-duty shredders although the solicitation did not specify "heavy-duty" shredders. The program should have either selected the lowest, most responsive quote for shredders or re-solicited quotations based on a revised specification for heavy-duty shredders. On another note, the machine did not live up to the expectations of the program and was returned and replaced with smaller machines similar to those in the solicitation. We do not suggest that CHCC always select the lowest quote regardless of specifications. The requirement is for CHCC to select the lowest quote that is responsive to the specifications documented in the same solicitation provided to all potential contractors.
4. Making three solicitations does not meet the requirement to obtain three quotations. In this case, only one quotation was obtained. The program should have either obtained a written "no-quote" from the other two vendors or solicited quotations from additional vendors until at least three quotations were obtained.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-023  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.268 Immunization Cooperative Agreements  
 Award Number: 5NH23IP000736-05-00  
 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. Furthermore, in accordance with the April 2017 OMB Compliance Supplement, the annual dollar value of federally funded vaccines 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:

1. Based on total expenditures reported to the grantor on SF-425 for the reporting period ended June 30, 2018, we noted the following variances:

<b>Report Details - Business Unit CHH72681-6</b>	<b>Per SF-425</b>	<b>Per General Ledger</b>	<b>Variance</b>
Federal Expenditures and Unobligated Balance:			
10d. Total Federal Funds Authorized	\$ 1,931,734	\$ 1,159,195	\$ 772,539
10e. Federal Share of Expenditures	\$ 1,757,043	\$ 484,147	\$ 1,272,896
10g. Total Federal Share	\$ 1,766,158	\$ 493,262	\$ 1,272,896
10h. Unobligated balance of Federal Funds	\$ 165,576	\$ 665,933	\$ 500,357

2. Supporting underlying accounting records for the reporting period ended 06/30/18 were not provided.
3. The value of federally funded vaccines is not treated by the grantee as expenditures in the Schedule of Expenditures of Federal Awards (SEFA). The total dollar value of vaccines received during FY2017 is \$2,856,373.

Cause: CHCC lacks controls over compliance with applicable reporting requirements.

Effect: CHCC is in noncompliance with applicable reporting requirements over SF-425 and over federally funded vaccines, and the SEFA was understated. No questioned costs are raised as the funds drawn are based on expenditures that are recorded in the general ledger, and CHCC adjusted the SEFA to include the required value of federally-funded vaccines.

Recommendation: CHCC should take steps to maintain underlying accounting records used in the preparation of SF-425, and should obtain an understanding of Federal requirements over federally funded vaccines, and should implement procedures to treat vaccines as expenditures for reporting in the Schedule of Expenditures of Federal Awards.

Identification as a Repeat Finding: Finding No. 2016-025.

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, 2017

Finding No.: 2017-024  
 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 Number: 6 X02MC28239-01-03  
 Area: Matching, Level of Effort, Earmarking  
 Questioned Costs: \$98,757

Criteria: In accordance with applicable matching, level of effort, earmarking requirements, not more than 10 percent of the award amount may be spent on costs associated with administering the award.

Condition: Tests of the program's accounting records noted that more than 10% was spent on administrative costs, computed as follows:

<u>Total Charged in FY 2017</u>	
Program Coordinator	\$ 37,693
Admin Assistant	579
Fiscal Specialist	22,501
Data Specialist	32,256
Communications	10,482
Printing & Photocopy	19,846
Supplies- Office	<u>16,150</u>
	139,507
Plus per general ledger	56,636
Plus PY 2016	<u>2,614</u>
Total admin charged	198,757
10% cost ceiling	<u>100,000</u>
Excess charged	\$ <u>98,757</u>

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

Effect: CHCC is in noncompliance with applicable earmarking requirements, and questioned costs of \$98,757 exist.

Recommendation: Responsible personnel should periodically monitor earmarking levels. If earmarking levels are excessive, responsible personnel should consider obtaining prior grantor approval for the additional costs.

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, 2017

Finding No: 2017-025  
 Federal Agency: U.S. Department of Health & Human Services  
 CFDA Program: 93.505 Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program  
 Award Number: 6 X02MC28239-01-03  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$90,000

**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, pursuant to Commonwealth law, state the following:

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 nineteen nonpayroll expenditures tested, totaling \$147,104 of a total population of \$504,738, we noted the following:

1. For two (or 11%), sole source was used. The written justification stated that the vendor was the only vendor to have implemented each of the seven evidence based models. However, since there were other contractors, a formal bidding method should have been considered.

Business Unit	TA/Contract No.	PO/Contract Amount	Total FY17 Expenditures Charged	Object	General Ledger Date	Document No.	Questioned Costs
CHH35050	606388-OC	\$ 46,305	\$ 46,305	62060	10/27/16	1305455	\$ 46,305
CHH35050	627340-OC	\$ 49,368	\$ 34,695	62060	05/03/17	1321965	<u>34,695</u>
							\$ <u>81,000</u>

2. For one (or 5%), the required minimum three price quotations were not obtained. Further, there was no evidence of efforts made to obtain quotations from alternative sources.

Business Unit	TA/Contract No.	PO/Contract Amount	Total FY17 Expenditures Charged	Object	General Ledger Date	Document No.	Questioned Costs
CHH45050	640136-OP	\$ 9,000	\$ 9,000	62060	09/30/17	1360825	\$ 9,000

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

**Effect:** CHCC is in noncompliance with applicable procurement regulations, and questioned costs of \$90,000 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. 2016-027.

**Views of Auditee and Corrective Action Plan:** CHCC has not provided a response.



COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-026  
CFDA Program: USDA 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
CFDA Program: HHS 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)  
CFDA Program: HHS 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 2017.
2. Property records maintained by MSO were not provided.
3. 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, whether title is vested with the CNMI or U.S. Government, grant number or agreement number, method of procurement, percentage of U.S. participation in the project, acquisition date and cost, location, use condition and the date the information was reported, and/or date of disposal and sale price method used to determine fair market value where the CNMI compensates the agency for its share.
4. Property records maintained by MSO and the Program were not updated.
5. A reconciliation was not performed between the Program and MSO.

COMMONWEALTH HEALTHCARE CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-026, Continued  
 CFDA Program: USDA 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
 CFDA Program: HHS 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)  
 CFDA Program: HHS 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 2017 major programs that do not have zero balances is as follows:

<u>CFDA Number</u>	<u>FY 2017</u>	<u>FY2016</u>	<u>FY2015</u>	<u>FY2014</u>	<u>FY2013</u>	<u>Total</u>
10.557	\$ 41,147	\$ 166,514	\$ -	\$ -	\$ 79,856	\$ 287,517
93.224	\$ 8,590	\$ -	\$ -	\$ 36,919	\$ -	\$ 45,509
93.268	\$ 3,996	\$ 35,001	\$ 22,196	\$ 37,001	\$ 37,949	\$ 136,143

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. 2016-032.

Views of Auditee and Corrective Action Plan:

CHCC describes corrective action in the Corrective Action Plan.



# 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, 2017

### Finding No. 2017-001 - Local Procurement/Non-payroll Expenditures

Contact Persons: Requesting Program Managers, Procurement Director, Comptroller and Chief Financial Officer

#### CHCC Comments:

For each of the findings noted, CHCC have the justification to warrant a sole source, however this justification may have not been properly documented.

612044 OC – The service provider has been CHCC's provider since 2012. The company is the sole medical equipment service provider on island. The only other provider is based in Guam which would not have been a better option considering the needs of CHCC in order to maintain CMS participation.

633080 OC – We maintained the contract for this imaging provider as we have invested in related software and hardware from the original contract. We also maintained a separate contract for the other Imaging Service provided. Although no formal solicitation was sought, the Radiology Manager have solicited quotation from other potential providers through telephone and email correspondences.

629400 OP – This is purchase of Blood Products from the American Red Cross. There is no other reliable source of blood products that would meet the hospital requirements. The price at based on listed price and are presumed to be reasonable.

629768 OP – This purchase was procured following CHCC procurement regulations § 140-80.1-201 (e) The purchase of any equipment or related services pursuant to a US General Services Administration (GSA) blanket contract which has been negotiated by the federal government, shall be presumptively concluded to be in compliance with the competitive procurement requirements of these Regulations. This presumption shall apply not only to commercially available products, but also to products which are designed, manufactured and/or assembled according to GSA specifications.

617527 OC – Solicitation was requested from other vendors, only two responded.

#### Corrective Action:

We acknowledge the weakness in documentation of the required element of a sole source procurement. We have communicated with requesting program managers the requirements of §140-80.1-225 of our Procurement Regulations. We have also obtained written documentation of the justifications for the sole sourced contracts referenced in this finding.

Proposed Completion Date: On-going improvement process

### Finding No. 2017-002 - Payroll/Employee Benefits

Contract Persons: Human Resources Officer, Comptroller and Chief Financial Officer

#### Corrective Action:

- a. The Human Resources Department have grown from 7 employees in 2017 to currently 10 employees. With this we aim to be timely in our preparation or contracts and notice of personnel action.

- b. Several of the employees selected for test of allotment certifications have been employees of the Corporation prior to our autonomy. The allotment data have been carried over automatically in the accounting and payroll system and original documents were not transfer. To address auditor's concern whether these allotments were authorized, we shall have all employees acknowledge on accounting copies of pay stubs for pay period ending September 14, 2019 that all the allotments are properly authorized by the employee and are correct.
- c. 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.
- d. 3 of the 5 employees whose overtime was approved after actual work was performed were from Medical Surgery Department. Schedules and overtime a pre-approved. However, there are instances where coverage is needed and certain employees have to stay back to over for emergency absences. Although not prior approved, CHCC has the obligation to pay non-exempt employees who work at the approval of their department heads.
- e. Payroll will ensure that all manual entries on timesheets are initial by appropriate supervisors.

Proposed Completion Date: On-going improvement process

Finding No. 2017-003 – Inventory

Contact Persons: Pharmacy Manager, Procurement Director, Comptroller and Chief Financial Officer.

- (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.

To address recurring findings for inventory and material management identified in conditions 3 to 8 and the financial statement qualification due to Inventory, the Chief Financial Officer have tasked Procurement Director and Comptroller to review current policies and procedures, including inventory costing method applied. CHCC would implement and document these changes

beginning with ending inventory in FY 2019 and all inventory transactions in FY 2020 going forward.

Furthermore, during a significant portion FY 2019, CHCC Chief Executive Officer have task CEO Special Assistant for Innovation and Sustainability as Interim Procurement Director. Under his leadership certain Procurement and Supply processes have been reviewed and streamlined.

Proposed Completion Date: FY 2020

Finding No. 2017-004 - Capital Assets

Contact Persons: Procurement Director, Comptroller and Chief Financial Officer.

Corrective Action:

CHCC Accounting maintains an excel listing of all capital assets and prepares the depreciation entries. We have not fully utilized the capabilities of the Accounting System to automatically calculate and post depreciation entries as our Procurement and Supply Office does not currently have the manpower trained to process such transaction. We believe that the excel file and the annual depreciation entries are sufficient to meet the reporting requirement of CHCC.

CHCC did conduct a physical count of capital assets in FY 2019. However, such count has not been reconciled with the recorded capital assets. With the new Procurement Director hired August 2019, CHCC aims to address this repeat finding.

Proposed Completion Date: FY 2020

Finding No. 2017-005 - Due to Related Parties

Contact Persons: Comptroller and Chief Financial Officer.

- (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.

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

Finding No. 2017-006 - Withholding Taxes Payable

Contact Persons: Comptroller and Chief Financial Officer.

Corrective Action:

CHCC will ensure timely reconciliation and filling of quarterly tax returns. CHCC did may timely remittance of withholding taxes beginning calendar year 2018, however when super typhoon Yutu hit the CNMI in October and remittances of appropriation from the CNMI government halted, CHCC was unable to make timely payment.

Planned corrective action to resolve prior year unpaid taxes is to request for an offset with the CNMI Government of unremitted FY 2018 appropriations with CHCC unpaid taxes.

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

Finding No.: 2017-007

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)  
Award Number: 5U79SM062447-02  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$47,418

Contact Persons: Human Resources Officer, Comptroller and Chief Financial Officer.

- (1) HR disputes the findings on Condition 1. The Notice of Award was officially received on July 28, 2016. The Advice of Allotment Action to establish a new account number CHH61040 was routed on September 21, 2016, by CGC approved on October 14, 2016, days lapsed from the time the NOA was received is 46 days. This was beyond HR's control, as HR needs to have a new account number to process the official Request for Personnel Action.

The Request for Personnel Action for Employee Number 372919, 858034, and 200059 were processed on October 18, 2016. HR diligently processed in a timely manner. The time from the Advice of Allotment Action the number of days lapsed was four (4) days. Note: 103142 no RFPA to support NOPA.

CGC submitted a revised Budget Narrative on November 14, 2016, and approved by the CEO on November 17, 2016. The Grants Management Office distributed officially on November 18, 2016.

To ensure proper documentation for the Request for Personnel Action, the revised Budget Narrative was issued to HR on November 18, 2016, The Interim CFO signed the RFPA on November 24, 2016, days lapsed 6 days. The HR Director signed on November 30, 2016; days lapsed 6 days. The CEO signed on December 20, 2016, officially approving the RFPA, days lapsed 10 days.

HR did not improperly pay and we dispute three to seven months after the effective date. The effective date of the Budget Period is, September 30, 2016 – September 29, 2017. The Request for Personnel Action is the official documentation to process a Notice of Personnel Action. Therefore, HRs position is processed the RFPA in a timely manner.

- (2) CHCC do not agree with the finding and the questioned cost. In accordance with 2 CFR 200.414(f), non-federal entity who have not received a negotiated indirect cost rate previously can now utilize the de minimis rate. CHCC have elected to use this di minimis rate.

Finding No.: 2017-008

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)

Award Numbers: 1U79SM061625-01, 1U79SM062447-01 and 5U79SM062447-02  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$340,669

Contact Persons: CGC Director, Program Manager, Grants Management Officer, Comptroller and Chief Financial Officer

- (1) CHCC do not agree with the finding. An appraisal is not the only allowed basis for determining the fair value of an in kind donation for property. Fair market value can be determined through an appraisal, the market rate on similar assets, or the net present value of the expected future cash flows generated by the asset.

We believe that the in-kind donation recorded for the land and building is reasonable. To illustrate, absent an appraisal, we believe a reasonable monthly rental we could get for that property is \$2,000 per month. Using 6.99% interest rate (which is the current borrowing rate for loans in the CNMI. the present value of monthly annuity due for 10 years is \$292,874.90, hence, CHCC met the require match.

- (2) The auditor calculated the level of effort based on the approved budget. Level of effort should be comparing charges to the program to the actual level of effort made and paid.

We did not overcharge the program for the required effort; we just did not hire at the budgeted rate as hiring a Program Director at \$100,000 would disrupt CHCC pay scale. Furthermore, we did not use "Program Director" title instead we used Program Manager/Administrator but all the required level of effort as per the duties and responsibilities and work hours placed into the program was 100% of the program managers time and effort pursuant to the grant requirement.

Furthermore, pursuant to 200.430 (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Finding No.: 2017-009

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)  
Award Number: 5U79SM062447-02  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$8,783

Contact Persons: Program Manager, Grants Management Officer, Procurement Director and Chief Financial Officer

Corrective Action:

We acknowledge he weakness in documentation of the required element of a sole source procurement but do not agree to the questioned costs.

Although not documented, the program believes that the Sole Source procurement was reasonable and necessary. With the absence of on-island Trainor's, the reasonableness of cost was determined by comparing the cost of professional serviced to the cost of sending wraparound key staff to off Island training with.

We have communicated with requesting program managers the requirements of §140-80.1-225 of our Procurement Regulations.

Finding No.: 2017-010

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: 5 H80CS28324-02-00 and 5 H80CS28324-03-00  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$27,490

Contact Persons: Grants Management Officer, Comptroller and Chief Financial Officer

We do not agree with the findings and the questioned costs.

1. Employee No. 858987 is a Physician Assistant (PA). All Medical providers are hired with 1807A (Medical Staff) as the home business unit. However, actual time charges and related benefits are recorded on the actual clinic where they were assigned and where they worked. This PA was assigned to KCHC; hence his hours were charged to this grant.
2. We provided all requested document to the auditors. To prevent the recurring findings of missing payroll documentation, CHCC Payroll section, beginning Calendar year 2019, is now maintaining scanned copies of all payroll documents.
3. The rate used in calculating the payroll is based on the hourly rate system generated by entering annual rate and the conversion factor of 2080 hours. The rate difference may have been due to manual calculation error on the Notice of Personnel Action.

Finding No.: 2017-011

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: Procurement and Suspension and Debarment  
Questioned Costs: \$27,792

Contact Persons: Grants Management Officer, Comptroller and Chief Financial Officer

We do not agree with the findings and the questioned costs.

1. PO 632690 is for purchase of Medical Equipment. Solicitation were obtained from know medical equipment vendor supplying on island, unfortunately less than three submitted a quotation.
2. We acknowledge the lack of documented sole source justification. This service provider is the only Medicare Reimbursement Contractor that have been working with the CNMI even prior to CHCC's creation as an autonomous agency. Hiring a separate contractor to do the same services for KCHC may not be as cost effective.

Finding No.: 2017-012

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 Number: 5H80CS28324-02-00  
Area: Reporting  
Questioned Costs: \$-0-

Contact Persons: Grants Management Officer, Comptroller and Chief Financial Officer



We are unable to reconcile the information nor provide corrective action to this reporting findings. As previously stated in the other findings, KCHC separated with CHCC beginning May 1, 2018 without proper turnover of data and documents.

Finding No.: 2017-013

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: Activities Allowed or Unallowed  
Questioned Costs: \$35,000

Contact Persons: Grants Management Officer, Comptroller and Chief Financial Officer

CHCC was not able to retrieve communication between the previous program manager and the grantor regarding the specific approval. Such communications should have been also maintained by our Grants Management Office. With the strengthening of CHCC Grants Management Office, all budget revision and reprogramming are reviewed by the Grants Management Officer and Chief Financial Officer and approved by Chief Executive Officer to ensure that such budget revisions are not only approved by the Grantor but also aligns with CHCCs overall mission.

Finding No.: 2017-014

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: 5U79SP020710-02 and 5U79SP020710-03  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$71,282

Contact Persons: Human Resources Officer, Grants Management Officer, Comptroller and Chief Financial Officer

1. The Human Resources Department have grown from 7 employees in 2017 to currently 10 employees. With this we aim to be timely in our preparation or contracts and notice of personnel action.
2. The transaction shall be properly voided.
3. We acknowledge that the liability and expenditure were not accrued on the proper fiscal year, but we do not agree to the questioned costs as the expenses paid were for valid expensed during the performance period and were paid during period of liquidation.
4. CHCC do not agree with the finding and the questioned cost. In accordance with 2 CFR 200.414(f), non-federal entity who have not received a negotiated indirect cost rate previously can now utilize the de minimis rate. CHCC have elected to use this de minimis rate.

Finding No.: 2017-015

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: 5U79SP020710-03 Revised  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$47,500

Contact Persons: Grants Management Officer, Comptroller and Chief Financial Officer

We do not agree with the finding and the auditor interpretation of the level of effort requirement. The cited employee worked only on this one federal program, hence charged 100% to this program.

We believe that Level of effort documentation would be required only pursuant to 200.430 (vii) "Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity."

Finding No.: 2017-016

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 Revised  
Area: Period of Performance  
Questioned Costs: \$23,135

Contact Persons: Grants Management Officer, Comptroller and Chief Financial Officer

1. We do not agree with the finding and the questioned costs. The auditor is looking at check cleared date which is beyond the control of CHCC as the measure of late liquidation. We do acknowledge that the selected checks were written of January 12, 2017. The final drawdown for December 31, 2016 for the grant was only received by CHCC on January 12, 2017 and immediately after the receipt of the of the drawdown all vendors were issued payment on that day.

Finding No.: 2017-017

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 Number: 5U79SP020710-02  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$11,785

Contact Persons: Grants Management Officer, Procurement Director and Chief Financial Officer

1. CHCC Procurement Director will ensure that documentation of the justifications for procurement pursuant to § 140-80.1-230 (Emergency Procurement)
2. CHCC Procurement Director will ensure that in the event that less than three solicitation is obtained for purchase of goods and services, a justification documenting sole source procurement shall be attached to the Purchase Request.

Finding No.: 2017-018

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: Subrecipient Monitoring  
Questioned Costs: \$100,000

Contact Persons: Program Manager, Grants Management Officer and Chief Financial Officer

The program manager initiated in FY 2019 several improvements in the subrecipient monitoring. Terms and conditions to Subrecipients agreement have been amended to include more specific reporting and monitoring activities.

Finding No.: 2017-019

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 Number: 5U79SP020710-02 Revised  
Area: Special Tests and Provisions - Wage Rate Requirements  
Questioned Costs: \$-0-

Contact Persons: Grants Management Officer, Procurement Director and Chief Financial Officer

CHCC will ensure that all contractors and vendors for contracts and purchase orders requiring compliance to the Special Wage Rate are aware of the Davis Bacon requirement and include compliance to such requirements in the terms of the contract.

Finding No.: 2017-020

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.268 Immunization Cooperative Agreements  
Award Numbers: 5 NH23IP000736-04-00 and 5 NH23IP000736-05-00  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$75,710

Contact Persons: Grants Management Officer, Procurement Director, Comptroller and Chief Financial Officer

We do not agree with the findings and questioned costs.

1. We provided all requested document to the auditors. To prevent the recurring findings of missing payroll documentation, CHCC Payroll section, beginning Calendar year 2019, is now maintaining scanned copies of all payroll documents.
2. CHCC have strengthened required documentation of ratification of confirming purchases.
3. CHCC do not agree with the finding and the questioned cost. In accordance with 2 CFR 200.414(f), non-federal entity who have not received a negotiated indirect cost rate previously can now utilize the de minimis rate. CHCC have elected to use this di minimis rate.

Finding No.: 2017-021

Federal Agency: U.S. Department of Health and Human Services  
CFDA Programs: 93.268 Immunization Cooperative Agreements Award  
Award Numbers: 5 NH23IP000736-04-00 and 5 NH23IP000736-05-00  
Area: Period of Performance  
Questioned Costs: \$9,642

Contact Persons: Program Administrator, Grants Management Officer, Procurement Director, Comptroller and Chief Financial Officer

We do not agree with the findings and questioned costs.

1. CHCC Travel policies requires traveler to submit travel authorization (TA) request at least 3 weeks prior to actual travel date, hence the TA was approved prior to the beginning of the grant budget period but with in the performance period. Actual travel was on April 9 to 14, 2017.
2. Check No. 12978 is a check drawn from CHCC General fund on as prepayment for Onset Computer Corp April 17, 2017 for a Purchase Order during period of performance. Actual goods were received during liquidation, receiving document 243612 OV was entered into

the system on May 9, 2017. We believe that such expenditure is reasonable and necessary and is within the performance period of the immunization program.

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.

3. We believe that all expenditures cited in this finding are allowed costs as 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.

Finding No: 2017-022

Federal Agency: U.S. Department of Health & Human Services  
CFDA Program: 93.268 Immunization Cooperative Agreements  
Award Numbers: 5 NH23IP000736-04-00 and 5 NH23IP000736-05-00  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$29,632

Contact Persons: Program Administrator, Grants Management Officer, Procurement Director, Comptroller and Chief Financial Officer

1. This finding again appears to be invalid and without merit. \$2500 PO in question was an open account for office and operational supplies and NO EFFORTS were made to circumvent any small purchase requirements. Currently all open accounts are no longer being approved and instead itemized POs indicating the office and operational supplies needed are listed.
2. \$4200 PO in question was for advertisements in TAGA magazine, one of only TWO magazines being published in the CNMI. As it was clearly relayed to the auditor, the IZ Program publishes ads in BOTH magazines so finding that no efforts were made to obtain completion is invalid. Second PO in question for \$6,586 was for vaccine storage temperature data loggers. Several vendors were solicited but only InTemp responded with desired specifications and were therefore selected.
3. The highest quote for shredders was selected because the highest quote was the ONLY one that met program specifications. Auditor is suggesting that we always select the lowest quote but if specifications are not met then automatically selecting lowest quote is not fiscally responsible.
4. The auditor acknowledges that three solicitations were made for quotes but only one vendor responded. The lack of a response from the two vendors is equivalent to obtaining a quote as they were solicited but vendors were unresponsive.

Finding No.: 2017-023

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.268 Immunization Cooperative Agreements  
Award Number: 5NH23IP000736-05-00  
Area: Reporting  
Questioned Costs: \$-0-

Contact Persons: Program Administrator, Grants Management Officer, Procurement Director, Comptroller and Chief Financial Officer

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.

Finding No.: 2017-024

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 Number: 6 X02MC28239-01-03  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$98,757

Contact Persons: Program Administrator

As part of the grant application, the program submitted a budget, which included funds to support administrative costs, that was approved. The exemption on the 10% administrative cost limitation was made due to the program serving as both the grantee and Local Implementing Agency (LIA). During this performance period noted on the FY 2017 audit, the program was not required to formally request to exceed the 10% administrative costs. However, on the grant application beginning 09/30/2017, the program started formally requesting an exemption on the 10% administrative cost limitation. Along with this formal request, a cost break-down was provided. All requests have been approved

Finding No.: 2017-025

Federal Agency: U.S. Department of Health & Human Services  
CFDA Program: 93.505 Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program  
Award Number: 6 X02MC28239-01-03  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$90,000

Contact Persons:

Finding No.: 2017-026

CFDA Program: USDA 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
CFDA Program: HHS 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)  
CFDA Program: HHS 93.268 Immunization Cooperative Agreements  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

CHCC Accounting maintains an excel listing of all capital assets and prepares the depreciation entries. We have not fully utilized the capabilities of the Accounting System to automatically calculate and post depreciation entries as our Procurement and Supply Office does not currently have the manpower trained to process such transaction. We believe that the excel file and the annual depreciation entries are sufficient to meet the reporting requirement of CHCC.

CHCC did conduct a physical count of capital assets in FY 2019. However, such count has not been reconciled with the recorded capital assets. With the new Procurement Director hired August 2019, CHCC aims to address this repeat finding.

Proposed Completion Date: FY 2020