



Office of the Public Auditor
Commonwealth of the Northern Mariana Islands

**Commonwealth Utilities Corporation
Audit of Travel of the Board of Directors,
Key Management, and Other CNMI Government Officials
October 1999 through March 2001**



Letter Report
LT-01-07

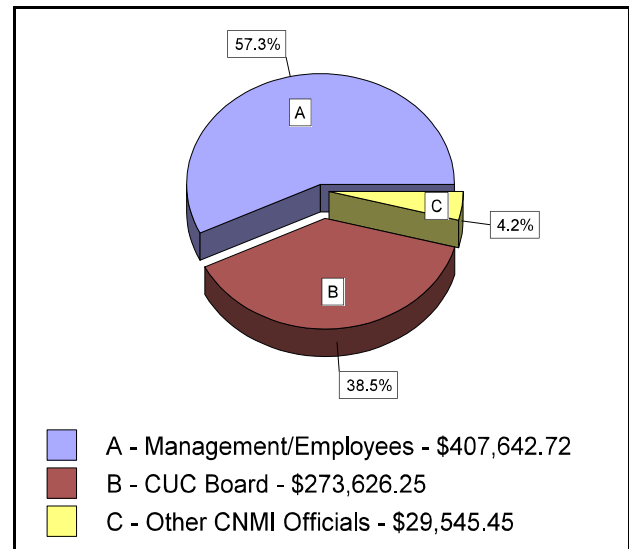
EXECUTIVE SUMMARY

Commonwealth Utilities Corporation - Audit of Travel

Report No. LT-01-07, November 23, 2001

Summary

This report presents the results of our audit of the Commonwealth Utilities Corporation (CUC) travel of the Board of Directors¹, key management and other Commonwealth of the Northern Mariana Islands (CNMI) government travelers at CUC expense for the period October 1999 through March 2001. The objectives of this audit were to: (1) determine whether CUC adopted travel policies consistent with applicable laws, (2) determine whether management and its Board members complied with applicable travel policies, and (3) describe the purpose and nature of travel conducted by CUC. This audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.



CUC Travel Expenditures

CUC incurred total expenditures of \$710,000 for travel conducted by CUC personnel, Board members, and by other CNMI officials for the 18-month period ending March 31, 2001:

	Total	Percent
Training/Conferences	\$332,997.07	47%
Power Plant Negotiations	147,459.68	21%
Meetings, including other CNMI Officials	36,882.70	5%
CUC Operations	130,372.91	18%
Foreign Visits/Other Events	63,102.06	9%
Total	\$710,814.42	100%

Our audit shows that CUC did not comply with the statutory requirements that Board members adopt travel policies similar to those of the CNMI government. Further, management had not adopted a written and comprehensive travel policy manual to guide its Board members and personnel. As a result, inconsistency now exists in the application of CUC's in-house travel policies. The Executive Director stated that CUC is now standardizing its policies and procedures to conform with those adopted by the CNMI government.

Our audit shows that Board members, key management personnel and other CNMI government officials did not always comply with the CNMI government policies on

¹ In accordance with statutory restrictions in the Auditing and Ethics Acts, names of individuals and corporations are not disclosed in this report.



economy class air travel, granting and liquidating travel advances, or providing supporting documentation. Some instances of non-compliance occurred because CUC failed to formally adopt all CNMI government travel policies that it is required to follow. Others occurred because management did not rigidly enforce its policies and procedures on travel. As a result, travel funds were held longer than allowable, travel expenses were not recorded in the proper period because of delays in the liquidation of advances, and unneeded costs were incurred for first class or business class airline tickets as well as for per diem, car rental, and other travel costs which were not always supported with proper documentation.

Examples of management and Board non-compliance with applicable travel policies and procedures follow:

- Management and Board members were granted business and first class airline tickets costing \$175,553 rather than economy class fares, resulting in excess payments of about \$87,800.
- Management and Board members were given travel advances when they still had unliquidated travel advances of \$53,485 outstanding.
- Board members were advanced 100 percent of allowable travel costs when only 80 percent was allowable, resulting in excess cash advances of \$18,283.
- Of the 337 travel advances, 131 were not liquidated within the required number of days.
- For 75 trips, Board members did not prepare detailed trip reports as required.

Recommendations and Response

We recommended that: (1) the Board immediately adopt rules on travel and per diem rates that are the same as CNMI travel policies for all travel made by Board members; (2) the Chairman of the Board issue a directive to enforce CUC's policies on economy class air travel, the granting and liquidation of travel advances, and payment of per diem; (3) the Chairman of the Board issue a directive to ensure adherence to CNMI travel policies on the 80 percent ceiling for travel advances, immediate return of any outstanding travel advances for cancelled trips, and submission of detailed trip reports; (4) the Chairman of the Board and the Executive Director initiate recovery of any overpayments mentioned in this report; and (5) the Executive Director continue the effort to standardize CUC's travel policies and procedures.

In its letter response dated October 29, 2001, CUC agreed with most of our recommendations. Based on CUC's letter response, we consider Recommendations 1, 2, 3 and 5 resolved pending adoption of a new travel policy by the Board of Directors. Part of Recommendation 4 was closed. We commend the CUC Board and Executive Director for their prompt action in addressing our recommendations. The planned adoption of a new travel policy will be a significant achievement in improving control and accountability over travel performed by CUC Board members, key management, and employees.



A copy of this report is available at the Office of the Public Auditor

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November 23, 2001

Mr. Edward C. Sablan
Chairman, Board of Directors
Commonwealth Utilities Corporation
Saipan, MP 96950

Mr. Timothy P. Villagomez
Executive Director
Commonwealth Utilities Corporation
Saipan, MP 96950

Dear Messrs. Sablan and Villagomez:

Subject: Final Letter Report - Commonwealth Utilities Corporation - Audit of Travel of the Board of Directors, Key Management and Other CNMI Government Officials from October 1999 through March 2001 (Report No. LT-01-07)

This report presents the results of our audit of Commonwealth Utilities Corporation (CUC) travel by the Board of Directors¹ (Board), key management and other Commonwealth of the Northern Mariana Islands (CNMI) government officials. The objectives of this audit were to: (1) determine whether CUC adopted travel policies consistent with applicable laws, (2) determine whether CUC management and its Board members complied with applicable travel policies, and (3) describe the purpose and nature of travel conducted by CUC.

Our audit shows that CUC management failed to comply with the statutory requirements that Board members follow CNMI travel rules, and that CUC authorized travelers submit detailed trip reports. These occurred because previous and current Boards had not issued an official statement that CUC would adopt policies identical to those of the CNMI government. Further, CUC management had not adopted a written and comprehensive travel policy manual to guide its Board members and personnel. As a result, inconsistency now exists in the application of CUC's in-house travel policies. Some CUC personnel believe that two different sets of policies apply, one to the Board and the other to regular CUC employees. Others, including the Office of the Public Auditor (OPA), believe that only one set of uniform travel policies should apply to CUC as a whole. CUC is presently addressing this disparity. The CUC Executive Director began

¹ In accordance with statutory restrictions in the Auditing and Ethics Acts, names of individuals and corporations are not disclosed in this report.

the process of standardizing CUC's travel policies to conform with CNMI government travel policies, a draft of which is now under review by the Board.

Our audit shows that Board members did not always comply with the CNMI government policies on economy class air travel, the granting and liquidation of travel advances, submission of detailed trip reports, or in providing supporting documentation. Some instances of non-compliance occurred because CUC failed to formally adopt travel policies identical to those of the CNMI government. Although CUC has adopted some policies similar to those of the CNMI government, CUC management has not always enforced those travel policies. As a result, Board members held excess travel funds longer than necessary, travel expenses were not recorded in the proper period because of delays in the liquidation of advances, and unneeded costs were incurred for first class or business class airline tickets, as well as for per diem, car rental, and other travel costs.

Our audit shows that CUC's key management personnel and other CNMI government officials also did not always comply with CUC policies on economy class air travel, the granting and liquidation of travel advances, or in providing supporting documentation. These deficiencies occurred because CUC management did not rigidly enforce its policies and procedures on travel. As a result, travel funds were held by CUC officials and employees longer than allowable, travel expenses were not recorded in the proper period because of delays in the liquidation of advances, and higher costs were unnecessarily incurred when CUC purchased first class or business class airline tickets, and paid unsupported per diem and other travel costs.

We recommended that: (1) the Board immediately adopt rules on travel and per diem rates identical to CNMI travel policies for all Board members' travel; (2) the Chairman of the Board issue a directive to enforce CUC's policies on economy class air travel, the granting and liquidation of travel advances, and the granting of per diem; (3) the Chairman of the Board issue a directive that CUC follow CNMI travel policies on the 80 percent ceiling for travel advances, the immediate return of any outstanding travel advance for cancelled trips, and the submission of detailed trip reports; (4) the Chairman of the Board and the Executive Director initiate recovery of any overpayments mentioned in this report; and (5) the Executive Director continue the effort to standardize CUC's travel policies and procedures.

In its letter response dated October 29, 2001 (**Appendix E**), CUC agreed with most of our recommendations. Based on the letter response from CUC, we consider Recommendations 1, 2, 3 and 5 resolved pending adoption of a new travel policy by the Board of Directors. Part of Recommendation 4 was: (1) closed since CUC provided adequate information to support the validity of the travel costs, (2) resolved pending submission of supporting documentation since CUC has either agreed to collect the overpayments or provided adequate justification for the questioned costs, and (3) open in that CUC disagreed but has not provided adequate justification for the pertinent costs. The additional information or action required to close the recommendations is presented in **Appendix F**.

BACKGROUND

Earlier this year, OPA began planning an audit of CUC. After surveying selected CUC operations, OPA decided to conduct three separate audits addressing CUC travel, personnel hiring, and procurement practices, respectively. This audit covers CUC travel expenditures during the period October 1999 through March 2001 under travel authorizations (TAs) issued to the members of the Board, key CUC management personnel, as well as other CNMI government officials. Although this audit did not cover travel expenditures of CUC's non-management employees, this report describes the nature of travel conducted by these employees.

Commonwealth Utilities Corporation

The Commonwealth Utilities Corporation, a component unit of the Government of the CNMI, was established as a public corporation by CNMI Public Law 4-47 (4 CMC § 8111 et seq.) on October 1, 1985. CUC is responsible for supervising the construction, maintenance, operation and regulation of all CNMI utility services, including power, sewage, refuse collection, telephone, cable television, and water. Since it began operations on October 1, 1987, it has been governed by an eight member Board appointed by the Governor, with the advice and consent of the CNMI Senate. The Board appoints an Executive Director who administers CUC operations on behalf of the Board.

CUC issues TAs to Board members, management personnel, non-management employees, as well as other CNMI government officials who travel at CUC's expense. Travelers are usually given cash advances to cover travel expenditures such as per diem (daily allowance for lodging, meals and incidentals) and ground transportation. Travel advances are liquidated once the travelers submit to CUC management the required forms and supporting documents showing that travel expenditures were incurred.

From October 1999 through March 2001, CUC issued 751 TAs for about \$710,000. CUC operations² spent 57 percent of this \$710,000, while the Board spent another 39 percent. The remaining 4 percent represents \$29,545 that CUC paid for the travel of six CNMI Legislators and two officials from other government agencies. Of these TAs, 138 were issued to Board members, 191 to key management personnel, and 8 to other CNMI government officials. The 337 TAs issued to these three groups covered travel costs of about \$465,000.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to: (1) determine whether CUC adopted travel policies consistent with applicable laws, (2) determine whether CUC management and its Board members complied with applicable travel policies, and (3) describe the purpose and nature of travel conducted by CUC.

² For purposes of this report, CUC operations include the Executive Director and those employees under him.

Our audit covered 337 TAs issued to 7 CUC Board members, 15 key management personnel, and 8 other CNMI government officials (6 legislators and 2 officials of another government agency) from October 1999 through March 2001. The audit covered the following key management personnel: the Executive Director, the deputy directors for Rota and Tinian, the former controller, the deputy controller, the division managers and acting division managers, and the legal counsel. As stated previously, non-management employees were excluded from the audit. A section of this report, however, shows the nature of travel conducted by these and other CUC travelers.

OPA conducted this audit at CUC's main office in Saipan from May to June 2001. To accomplish our objectives, we: (1) reviewed applicable laws and travel policies; (2) obtained a list showing all trips conducted, and examined TAs, travel vouchers, trip reports and other supporting documents; (3) obtained from CUC a list of outstanding travel advances as of March 31, 2001, as well as other travel-related summaries; (4) interviewed knowledgeable CUC employees; and (5) summarized all travel within and outside of the CNMI to determine the nature of such travel. As part of our audit, we reviewed CUC's management control over processing of travel documents. The result of these procedures is discussed in the Findings and Recommendations Section of this report.

This audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we conducted such tests of records and other auditing procedures as considered necessary.

PRIOR AUDIT COVERAGE

During the past five years, OPA issued one report covering CUC travel. The report, LT-00-01 issued on February 16, 2000, addressed travel during Fiscal Year 1997, and highlighted trips that raised questions about the propriety of travel costs. It was intended to provide information that government officials could use in implementing government austerity measures and in rationalizing the implementation of a standard travel policy.

FINDINGS AND RECOMMENDATIONS

A. Adoption of Written and Uniform Travel Policies

Two CNMI Public Laws provide the fundamental rules that CUC should follow if it adopts its own travel policy.

1. The CUC Act (4 CMC § 8131(e)) provides that "Appointed members shall be reimbursed for reasonable and necessary expenses at established Commonwealth government rates for meetings actually attended. Rules on travel and per diem rates shall be the same as those established for the executive branch."

2. The Planning and Budgeting Act (1 CMC § 7407) places restrictions on travel outside the Commonwealth by public corporations, such as CUC. More specifically,
 - § 7407(a) mandates that “(E)very government travel authorization shall contain a statement under penalty of perjury that the travel is for official business purposes and undertaken to benefit the people of the Commonwealth.”
 - § 7407(b) requires in part that “Within 15 days after completion of government travel, the traveler shall submit a *detailed* trip report and documented travel expenditures to the approving authority.... A person who has failed to make a timely submission shall not receive travel advances until his untimely submission is remedied.” (Emphasis added.)

Our audit shows that CUC has been operating under in-house travel policies not yet compiled into an official travel policy manual. They are, however, set forth in the following internal documents: (1) an operating manual that contains a section on travel, (2) memoranda/directives issued by the Executive Director and other CUC officers, and (3) a personnel manual that contains a brief section on travel.

OPA also noted differences between the official CNMI Government travel policies and the CUC in-house travel policies being followed by the Board. To illustrate:

- Although the CUC in-house travel policies require the submission of trip reports, it is not required that the trip reports be *detailed*. Consequently, CUC trip reports generally provide little information about the actual activities covered by the trips. In most cases, the descriptive language in these reports was limited to the phrase, “attended meetings/conferences as scheduled.”
- CNMI travel policies prescribe advances of 80 percent of allowable travel costs, whereas CUC travel policies prescribe advances of 100 percent.
- CNMI travel policies prescribe that travel advances be returned upon cancellation of a trip, but CUC’s policies are silent on this matter.
- CNMI travel policies require that travel advances be liquidated within 15 days, whereas CUC’s policies prescribe only 10 days.

The absence of a comprehensive travel policy manual may have been one of the reasons why CUC failed to enforce compliance with the statutory requirements that: (a) the Board follow CNMI travel rules, and (b) all CUC authorized travelers submit detailed trip reports. It may have also been a reason why accounting personnel are unclear on how and which specific policies should be followed when processing CUC travel documents.

CUC records show that its personnel have relied on various directives, i.e., travel policies and procedures from CUC officials rather than a comprehensive travel manual. To illustrate, its two-page travel manual has not been updated since its issuance in 1995. Since there is no single reference document for CUC's travel policies and procedures, and since some of their policies have not been updated, confusion may exist.

Additionally, it is not clear whether directives and policies issued by the Executive Branch are applicable to CUC employees. For instance, a CUC official questioned whether CUC employees are required to follow CNMI travel policies. In line with our recommendation in the recent audit of travel of the Northern Mariana Islands Retirement Fund, a proper resolution of this particular issue should properly rest with the Attorney General's Office.

Consequently, there may be a need for an updated CUC travel manual to reflect currently effective policies and procedures. In responding to OPA's previous report on government-paid travel (LT-00-01), the Executive Director stated that CUC was in the process of reviewing its policies and procedures on official travel so as to standardize them with policies and procedures adopted by the CNMI government. The Board is now reviewing a draft of such policies and procedures.

B. Board's Compliance with CNMI Travel Policies

As previously stated, the CUC Act (4 CMC § 8131(e)) provides that CUC's "... Rules on travel and per diem rates shall be the same as those established for the executive branch." Executive Branch travel policies, commonly known as the CNMI government travel policies, provide the following rules addressing airline accommodation, travel advances, and supporting documentation for government travel:

On Air Travel

- All off-island air travel must be by economy class as provided in Governor's Directive No. 197, dated February 12, 1998.

On Travel Advances

- A traveler must not have any outstanding travel advances before approval of a new TA, unless he or she: (a) has submitted a travel voucher clearing all previous travel advances, or (b) was required to travel within two weeks or less from the last travel.
- When a TA is approved, the traveler is entitled to a cash advance of up to 80 percent of the total estimated per diem and other expenses shown on the TA.

- Per diem is allowed when travel covers more than a 10 hour period, or exceeds 6 hours when travel begins before 6:00 a.m. or ends after 8:00 p.m. Otherwise, the traveler is entitled to a subsistence allowance which is paid only when actually earned.
- After the conclusion of travel, the related cash advance must be liquidated within *15 days*. Otherwise, payroll deductions or withholding of any funds due the traveler will be made upon the traveler's failure to submit a travel voucher within 10 days after the *15 day* grace period.
- If travel is cancelled for any reason, the traveler is required to prepare a travel voucher and return any related travel advance received within 15 days after the original travel date.

On Supporting Documentation

- Travel vouchers should be submitted together with a *detailed* trip report.
- The computation of reimbursable travel expenses must be properly supported with documentation.

Non-compliance With CNMI Travel Policies

Our audit of about \$273,626 in travel expenditures incurred under 138 TAs issued to Board members from October 1999 through March 2001 shows that Board members did not always comply with the above CNMI travel policies.

- *Business Class or First Class Airline Ticket Fares.* Records show that CUC Board members were granted 41 business class or first class airline tickets costing \$130,365 rather than economy class tickets as required by Governor's Directive no. 197. This occurred because management approved tickets for business class and first class even though CNMI travel policies prescribed economy class. This failure to abide by the CNMI travel policy cost CUC an additional \$65,200 over the cost of flying economy class.
- *Travel Advances Given Without Liquidating Existing Advances.* Our review of the travel history of the members of the Board showed many instances of travel being approved despite the failure to liquidate previous travel advances. For instance, from October 1999 through March 2001, CUC approved the payment of \$24,013 in travel advances for 31 trips of a Board member despite previously unliquidated travel advances. Board members were still allowed to travel although they had unliquidated travel advances totaling \$43,489.
- *Travel Advance Limit was Exceeded.* Records indicate that Board members were advanced 100 percent of allowable travel cost in 88 instances, for a total of \$91,413, in violation of the 80 percent ceiling on cash advances. As a result, these travelers received excess cash advances of \$18,283 which should not have been paid pursuant to CNMI travel policies.

- *Per Diem Paid When Only Subsistence Allowance was Authorized.* Records indicate that CUC granted per diem totaling \$3,475 to 4 Board members for trips of less than 10 hours to Saipan, Tinian, and Rota during regular government working hours, even though they were only entitled to a subsistence allowance of \$15 per trip or a total of \$330 for the cost of meals on inter-island CNMI travel. Accordingly, these Board members were overpaid \$3,145 in per diem as overnight travel was not involved. This occurred because management approved the payment of per diem when only subsistence allowance was authorized.

CUC also paid subsistence allowance in advance of travel on 16 TAs, contrary to CNMI travel policies which provide that subsistence allowance may be paid only after it is earned.

- *Untimely Submission of Travel Vouchers.* CUC paid \$116,242 in travel advances for 138 TAs issued to Board members. The status of the travel advances as of July 2001 follows:

Not liquidated within the required 15 days ³	64
Still unliquidated	1
Liquidated within 15 days	<u>73</u>
Total	<u>138</u>

Travelers did not liquidate 64 travel advances totalling \$68,726 within 15 days after travel as required. Instead they submitted travel vouchers an average of one and one-half months after completion of travel.

- *Failure to Return Travel Advance After Cancellation of Trip.* Two Board members failed to return \$4,715 in advances after their trips scheduled for August and October 2000 were cancelled. CUC had recovered almost 50 percent of the amounts advanced by withholding funds owed to the Board members for other trips. As of March 2001, over half of the \$4,715 remained unpaid.
- *Detailed Trip Reports Not Filed as Required.* Our review shows that 75 trip reports submitted by Board members provided little information about trip activities. Instead, in most cases, the language “attended meetings/conferences as scheduled” was the only information provided. This resulted because CUC guidelines suggest that trip reports be both “concise and brief.”
- *Questionable Payments.* Questionable payments totaling \$2,016 were made to 3 Board members. Payments were made to Board members even though their travel vouchers lacked needed documentation, or expenses were inconsistent with travel documents. Additionally, claimed expenses such as per diem, ground transportation, and other travel costs either exceeded the allowed travel or the expenses did not pertain to the traveler’s official activities (**Appendix A**). This occurred because CUC management did not ensure that payments were adequately supported, correctly computed, or appropriate.

³ CUC travel policies provide for liquidation within 10 days of travel (more restrictive than CNMI travel policies).

Inconsistent Travel Policies and Lack of Enforcement

The CUC Board applied travel policies that did not always mirror those of the CNMI Executive Branch. Also, travel policies identical to CNMI travel policies were not adopted by the Board. Finally, CUC management did not always enforce travel policies as regards business class travel, liquidation of travel advances, daily subsistence allowance, submission of detailed trip reports, and timely submission of vouchers.

Some of the CNMI travel policies stated above are measures developed to minimize the government's exposure on unliquidated travel advances and unnecessary travel costs. Implementing these policies would minimize the accumulation of unliquidated travel advances and unnecessary travel costs. Additionally, accurate computation of per diem, subsistence allowance, and other travel costs would be enhanced by establishing written procedures for verifying amounts claimed as travel expenses.

Restricted Resources, Unnecessary Travel Costs, and Inaccurate Travel Record

As a result, excess travel funds were held by Board members longer than necessary. Resources that could have been used for CUC operations were instead tied-up as receivables from Board members. Also, travel expenses were not recorded in the proper period because of delays in the liquidation of advances.

The CUC Board unnecessarily incurred higher costs for first class or business class airline tickets, and overpaid per diem, ground transportation, and other travel costs. The practice of traveling business or first class significantly contributed to CUC's travel costs because the cost of traveling in business class is about twice the cost of economy class. Of the \$130,365 paid for business and first class tickets, CUC Board members could have saved about \$65,200 by flying in economy class.

C. Key Management Compliance with Applicable Travel Policies and Procedures

CUC followed management-promulgated (in-house) travel policies and procedures in administering travels of CUC operations personnel. These in-house policies are contained in various documents including a 1995 operating manual, directives/memoranda from the Executive Director and other CUC officers, and a personnel manual. Certain requirements among these in-house travel policies are identical to CNMI travel policies. We limited our compliance tests of CUC travel costs to those incurred from October 1999 through March 2001 for key CUC management officials as well as other CNMI Government officials. We did not include non-management CUC employees in our tests.

On Air Travel

- In a memorandum dated May 1, 1996, the former Assistant Comptroller directed that travel by CUC employees be booked on economy class. Similarly, air travel for all off-island trips must be by economy class as mandated by Governor's Directive No. 197, dated February 12, 1998.

On Travel Advances

- In a memorandum dated November 8, 1995, the Executive Director stated that employees should not be allowed to travel until their travel advances are fully settled. This is similar to the CNMI policy that a traveler cannot have any outstanding travel advances before approval of a new TA unless he or she: (a) has submitted a travel voucher clearing all previous travel advances or, (b) was required to travel within two weeks or less from the last travel performed.
- In a memorandum dated April 29, 1994 issued by the former Chief of Administrative Services and approved by the Executive Director, CUC directed that its employees traveling on official business within the CNMI be given a daily \$30 subsistence allowance. This requirement is similar to CNMI travel policies, except that the rate used by the Executive Branch is \$15 per day.
- In the same November 8, 1995 memorandum above, CUC required that travelers submit travel vouchers, boarding passes and other supporting documents to the Accounting Section within *10 days* after completion of travel, and that any failure to do so will result in an automatic payroll deduction. This is similar to CNMI travel policies, except that the latter allows for a liquidation period of *15 days* after completion of travel.

On Supporting Documentation

- The 1995 operating manual requires that travelers submit documents to support payment of reimbursable travel expenses. Similarly, CNMI travel policies require that the computation of reimbursable travel expenses be properly supported with documentation.

Non-compliance With Applicable Travel Policies and Procedures

Our audit of about \$210,695 in travel expenditures covered by 199 TAs issued from October 1999 through March 2001 showed that travel conducted by a few key CUC management officials, as well as other CNMI Government officials, did not always comply with the above travel policies.

- *Business Class Travel.* Records show that instead of paying for economy class, CUC paid \$45,188 for 17 business class tickets of key management personnel and other CNMI government officials.

- *Travel Advances Made Without Liquidating Existing Advances.* Records show 30 instances of additional TAs granted to CUC’s key management personnel and other CNMI government officials despite the travelers’ failure to liquidate previous travel advances. These resulted in \$9,996 being temporarily unavailable for other agency use.
- *Payment of Per Diem Instead of Subsistence Allowance.* When an inter-island traveler does not stay overnight, the traveler is entitled to a \$30 subsistence allowance in lieu of the normal per diem rate. However, for five different inter-island trips made during normal government working hours, CUC paid a traveler per diem totaling \$675 instead of a subsistence allowance of only \$150 (\$30 daily rate multiplied by 5). This resulted in a \$525 overpayment.
- *Untimely Submission of Travel Vouchers.* CUC paid \$86,889 for 199 TAs issued to key management personnel and other CNMI government officials. The status of these travel advances as of July 2001 is as follows:

Not liquidated within the required 10 days	67
Date of liquidation not indicated	21
Still unliquidated	4
Liquidated within 10 days	<u>107</u>
Total	<u>199</u>

Sixty-seven advances, totaling \$32,046, were not liquidated within 10 days as required by CUC policy. For these advances, travel vouchers were submitted an average of one and one-half months after completion of travel. Some advances, particularly those given to other CNMI government officials, have been outstanding for over a year.

Both CUC and CNMI travel policies require automatic payroll deductions after a traveler fails to submit a travel voucher within a certain period. Our audit showed that CUC did not institute automatic payroll deductions when travelers failed to liquidate advances within 10 days of trip completion. Currently, CUC waits for the submission of travel vouchers before initiating any collection against a traveler. We believe that implementing an automatic payroll deduction policy would encourage travelers to promptly liquidate their travel advances.

- *Proper Support.* We found that travel expenditures totaling \$1,016 (**Appendix A**) paid to three key management personnel were not supported by proper documentation as required by CUC policies.

Strict Implementation of Travel Policies and Procedures

These deficiencies occurred because CUC management did not consistently enforce uniform policies and procedures on travel. CUC policies are found in many different documents. To illustrate, travel policies addressing business class travel, liquidation of advances, daily subsistence allowance, and timely submission of vouchers are contained in four different memoranda. Additionally, inaccurate computation or improper payment of per diem and other travel costs

might have been prevented if CUC had written procedures to verify amounts claimed as travel expenses. To facilitate review, a checklist of applicable policies and requirements might help ensure compliance by CUC employees involved in processing and reviewing travel documents.

Restricted Resources, Unnecessary Travel Costs, and Inaccurate Travel Record

As a result, \$32,046 in travel funds were held by CUC officials and employees longer than allowable, with the result that resources otherwise available for CUC operations were tied-up as receivables from employees. Also, travel expenses were not always recorded in the proper period because of delays in the liquidation of advances. Finally, CUC incurred higher costs than necessary when it purchased first class or business class airline tickets, and also paid unsupported per diem and other travel costs. Because business class travel normally costs about twice as much as economy class travel, CUC could have saved about \$22,600 had it instead purchased economy class tickets.

D. Other Matters for Consideration

The following summary illustrates the nature of travel conducted by CUC employees from October 1999 through March 2001. This information is followed by questions on page 14 which we suggest CUC consider when it adopts or amends travel policies.

1. Purposes of Travel

Over the 18-month period from October 1999 through March 2001, CUC spent about \$710,000 for trips within and outside of the CNMI as shown below:

	Oct 1999 to Sept 2000	Oct 2000 to Mar 2001	Total	Percent
Training/Conferences	\$251,250.40	\$81,746.67	\$332,997.07	47%
Power Plant Negotiations	54,041.91	93,417.77	147,459.68	21%
Meetings, including other CNMI Officials	29,387.70	7,495.00	36,882.70	5%
CUC Operations	68,285.16	62,087.75	130,372.91	18%
Foreign Visits/Other Events	44,737.04	18,365.02	63,102.06	9%
Total	\$447,702.21	\$263,112.21	\$710,814.42	100%

The largest category of travel was for attendance at off-island training and conferences (47 percent), most of which was on the U.S. mainland. **Appendix B** shows the individual training and conferences attended by Board members, key management and other employees of CUC. The second largest travel category was for off-island negotiations for the procurement of a 60MW power plant (21 percent), most of which was by Board members.

Included under the category of “Foreign Visits/Other Events” are trips to desalination or filtration plants in foreign countries such as Australia, Japan, and the Philippines. This category also includes travel to attend CUC Christmas parties, labor day festivities, and a

funeral, costing a total of \$7,974 **Appendix C** shows the details of travel made under this category.

2. *Travel by Other CNMI Officials Shouldered by CUC*

About 57 percent of CUC’s \$710,000 travel expenditures from October 1999 through March 2001 was incurred by CUC operations, while the Board spent another 39 percent. The remaining 4 percent represents \$29,545 that CUC paid for the travel of six CNMI Legislators and two officials from other government agencies. The table below shows the breakdown of the \$29,545 paid to non-CUC employees:

	Amount	Percent
Legislator 1	\$4,859.60	17%
Legislator 2	4,563.14	15%
Legislator 3	4,373.20	15%
Legislator 4	3,279.50	11%
Legislator 5	3,029.60	10%
Legislator 6	2,128.00	7%
Assistant Attorney General	7,144.41	24%
Official of Another Government Agency	168.00	1%
Total	\$29,545.45	100%

3. *Number of Participants Involved in Group Travel*

During the period from October 1999 through March 2001, CUC sent several groups of travelers, once with as many as 10 persons, to attend off-island conferences, plant visits, meetings, and training. Our summary shows that CUC spent a total of \$326,519, or 46 percent of CUC’s travel costs (**Appendix D**), on group travel involving five or more travelers.

4. *Rate of Subsistence Allowance*

The CNMI government uses a maximum subsistence allowance rate of \$15 per day for travel within the CNMI, and including Guam, to cover the cost of meals on trips where a traveler does not stay overnight. CUC, on the other hand, allows travelers a \$30 subsistence allowance for such travel.

5. *Suggested Questions to Consider when Adopting or Amending Travel Policy*

- Which off-island training, conferences, visits and meetings are essential to meeting CUC's objectives? Should off-island training, conferences, visits and meetings be limited to only those considered essential?
- Should CUC implement a policy that specifies, where possible, that business partners, vendors, bidders, proposers, consultants, and contractors should travel to the CNMI in lieu of CUC sending large groups of its officials off-island? Could negotiation or performance of such services be conducted more efficiently in the CNMI?
- Should CUC end the practice of subsidizing the cost of travel to attend what appears to be CUC social activities such as Christmas parties or funerals?
- Should CUC refrain from paying the cost of travel conducted by non-CUC employees?
- Could CUC achieve its travel objectives by limiting the size of delegations to those individuals considered necessary who could later share the information learned with other CUC employees upon their return to the CNMI?
- Is a \$15 subsistence allowance for travel not involving an overnight stay reasonable?

Conclusion and Recommendations

CUC does not have an updated travel manual, and CUC Board and management have not complied with applicable travel policies. Despite the statutory requirement to adopt policies identical to CNMI travel policies, the Board used travel policies which did not always mirror those of the CNMI Executive Branch. Also, CUC management did not consistently enforce the implementation of travel policies. Accordingly, we recommend that:

1. The Board immediately adopt rules on travel and per diem rates that are identical to CNMI travel policies for all travel made by Board members.
2. The Chairman of the Board issue a directive that serves to enforce the following specific policies concerning processing of Board member travel:
 - Off-island travel should be conducted using only economy class fares.
 - Travel advances should be approved only after determining that there are no previous travel advances outstanding for over two weeks to the traveler, unless an emergency situation exists.
 - Travel advances may be issued only for per diem and ground transportation.
 - Per diem or subsistence allowance may be paid only after the conditions specified under CNMI travel policies have been met.

- Travel advances must be liquidated within 15 days after completion of travel.
 - Immediate payroll deduction should be initiated if travelers fail to liquidate travel advances within 25 days of trip completion.
3. The Chairman of the Board issue a directive that ensures that Board members adhere to the following CNMI travel policies when processing Board travel:
 - Travel advances shall not exceed the 80 percent ceiling.
 - Any outstanding travel advance for cancelled trips shall immediately be returned to CUC.
 - Travelers shall submit detailed trip reports.
 4. The Chairman of the Board and the Executive Director should initiate recovery of any overpayments mentioned in this report.
 5. The Executive Director should continue the effort to standardize CUC's travel policies and procedures with 1 CMC § 7407 of the Planning and Budgeting Act which requires submission of a detailed trip report and documented travel expenditures after completion of government travel. Also, policies should include written procedures and a checklist to assist in verifying the validity and accuracy of amounts claimed as travel expenses. As concerns the liquidation of travel advances, CUC may continue with its 10-day liquidation period policy as it is more stringent than the CNMI travel policy of 15 days.

Commonwealth Utilities Corporation Response

In its letter response dated October 29, 2001 (**Appendix E**), CUC agreed with most of the recommendations in the draft report. The response addressed each recommendation as follows:

Recommendation 1 - CUC agreed with the recommendation to adopt a travel policy and stated that it will adopt a policy at its next general board meeting. The travel policy to be adopted will in all material respects be identical to the Executive Branch policies, subject to amendments as it deems fit for the purpose of meeting the mandates of CUC's enabling act. CUC stated that the Board is not required by law to adopt CNMI travel rules but it is required to use and follow the same travel rules as the Executive Branch.

Recommendation 2 - CUC generally agreed with this recommendation by stating that it will adopt a travel policy that will be identical to Executive Branch policies. CUC, however, clarified that it is arranging with the individuals concerned to return erroneous payments made.

Recommendation 3 - CUC agreed with this recommendation by stating that it will incorporate the requirements for an 80 percent ceiling on travel advances and for submission of detailed trip report into its proposed travel policy .

Recommendation 4 - CUC agreed with the recommendation regarding the immediate return of travel advances on cancelled trips. With regard to the questionable payments made to Board members and key management, CUC submitted documentation. The documents submitted consisted of notarized affidavits, travel vouchers, trip reports and written responses from the traveler to justify the validity of the questioned costs for TA nos. 00-410, 00-353, 00-355, 00-398, 00-275, 00-363, 00-411 and 01-104 shown in **Appendix A**.

Recommendation 5 - CUC agreed with this recommendation and stated that it had drafted a travel policy consistent with the CNMI Executive Branch policy applicable to both Board members and employees.

OPA Comments

We commend the CUC Board and Executive Director for their prompt action in addressing our recommendations. The planned adoption of a new travel policy will be a significant achievement in improving control and accountability over travel performed by CUC Board members, key management, and employees.

Based on the letter response from CUC, we consider Recommendations 1, 2, 3 and 5 resolved pending adoption of a new travel policy by the Board. Part of Recommendation 4 was: (1) closed since CUC provided adequate information to support the validity of the travel costs (TA nos. 00-410, 00-353, 00-355, 00-398, 00-275, 00-363, 00-411 and 01-104), (2) resolved since CUC has either agreed to collect the overpayments or provided adequate justification for the questioned costs pending submission of supporting documentation (TA nos. 01-270, 01-104, 00-375, and 00-254), and (3) open in that CUC disagreed but has not provided adequate justification for the pertinent costs (TA nos. 00-238 and 00-404). Attachments received with the response were not included in **Appendix E** because although they were more detailed, they duplicated information already provided.

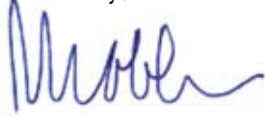
The additional information or action required to close Recommendations 1, 2, 3, 4 and 5 is presented in **Appendix F**.

★ ★ ★

Our office has implemented an audit recommendation tracking system. All audit recommendations will be included in the tracking system as open or resolved until we have received evidence that the recommendations have been implemented. An *open* recommendation is one where no action or plan of action has been made by the client (department or agency). A *resolved* recommendation is one in which OPA is satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame of action. A *closed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation, or the recommendation has been withdrawn.

Please provide us with the status of recommendation implementation within 30 days along with documentation showing the specific action that was taken. If corrective action will take longer than 30 days, please provide us with additional information every 60 days until you are notified that the recommendations have been closed.

Sincerely,

A handwritten signature in blue ink, appearing to read "MS Sablan", written in a cursive style.

Michael S. Sablan
Public Auditor

cc: Governor
Lt. Governor
Twelfth CNMI Legislature (27 copies)
Comptroller, Commonwealth Utilities Corporation (CUC)
Secretary of Finance
Special Assistant for Management and Budget
Attorney General
Press Secretary

**Commonwealth Utilities Corporation
Schedule of Questionable Payments
October 1999 through March 2001**

TA No.	Amount Involved	Details of Findings
Board Members		
00-410	\$445.48	Additional per diem in the amount of \$400 and ground transportation of \$45.48 due to extension of travel for a meeting with an unidentified party. No supporting official receipts were provided that will substantiate the actual cost of transportation. TA amendment was only prepared when the traveler submitted the travel voucher.
01-270	175.00	The hearing was postponed until further notice. However, the traveler still traveled to Saipan and received 2 days per diem.
00-238	200.00	The traveler was paid excess travel advance amounting to \$243 because the traveler returned one day earlier than scheduled. On 8/29/00, 3 months after the travel, CUC removed this receivable from its records based on the employee's request.
00-353	200.00	Amount of per diem should only be $\$200 \times 3.75 = \750 . The traveler was given \$950. Hence, an overpayment of \$200.
00-355	350.00	Per diem should only be $\$200 \times 4 = \800 . Amount paid was \$1,150, for a difference of \$350.
00-398	56.00	Car rental should only be for 2 days. The traveler was reimbursed for 3 days car rental amounting to \$168. Correct amount should only be \$112, or an overpayment of \$56.
00-404	46.00	Car rental should only be for 1 day, but traveler was reimbursed for 2 days car rental (\$92), or an overpayment of \$46.
01-104	175.00	The traveler was already given \$512.50 per diem, but received another 1 day subsistence allowance of \$175.
00-275	41.00	Additional departure tax was incurred due to a stop over in Seattle where the traveler spent more than one month vacation before proceeding to an official conference in Orlando.
00-375	328.00	Airfare for a personal trip to Oakland after attending an official conference in Orlando. (\$5,545.80-\$5,074.80).
Sub-total	\$2,016.48	
Key Management		
00-254	250.00	Trip report revealed that the seminar lasted up to May 9, 2000. Audit showed that the traveler left Honolulu May 11 and arrived Saipan May 12. The traveler was paid per diem on May 11 despite no official business. The traveler could have left Honolulu right after the seminar to save cost.
00-363	687.50	The traveler was paid per diem for 2 3/4 days in Honolulu after attending a seminar in American Samoa. Although, the travel authorization specified Hawaii, the trip report submitted did not indicate the conduct of any official business in Honolulu.
00-411	78.56	No official receipt for ground transportation was available and the traveler requested that taxi fare be multiplied by the no. of days stayed in Manila as the basis for computation of ground transportation expense.
Sub-total	\$1,016.06	
Grand Total	\$3,032.54	

**Commonwealth Utilities Corporation
Conferences/Training Attended by CUC
October 1999 through March 2001**

Date	No. of Participants	Destination	Purpose of Travel	Travel Cost
A. American Public Power Association (APPA) Conference				
6/10-26/00	6	Orlando, FL	Attend APPA national conference 2000/ Environmental Protection Agency 19 th Annual Pacific Island Conference	\$38,834.02
8/17-28/00	10	Brisbane, AUS	9 th APPA conference, and to meet with representative of consultant and tour facilities.	39,714.53
9/15-20/00	5	Phoenix, AZ	APPA workshop for utility managers, advisor, and Board member.	19,406.39
10/21-28/00	5	San Diego, CA	APPA Utility Education Course on public utility accounting.	14,969.14
3/13-30/01	1	Denver, CO	Attend APPA Utility Education Course policymakers workshop	1,346.00
10/28-11/04/00	4	Palm Spring, CA	Attend APPA Customer Connection workshop.	13,451.72
Total- APPA Conference				\$127,721.80
B. Others				
10/14-21/99	1	Bozeman, MT	National Coordinator's Council and partially Advisory Water Conservation and Environmental Education Training	3,330.45
10/20-22/99	3	Guam	Attend Human Resources Management conference.	1,500.58
12/7/99	1	Saipan	Attend seminar on environmental, health and safety issues above ground, storage tank and other related issues.	139.30
12/26-30/99	1	New York/Denver	Attend CPA license training.	1,821.23
1/4-5/00	2	Saipan	Attend drug-free workshop seminar.	551.26
1/16-21/00	5	Saipan	Attend American Samoa underground cable splicing training.	2,935.45
1/16-21/00	1	Saipan	Orientation training at P&S warehouse.	560.15
2/13-16/00	2	Yap	Attend PPA executive committee meeting.	2,772.50
1/30-2/5/00	4	Honolulu	Attend Pacific Telecommunication Council 2000 annual conference.	17,710.18
2/29-3/01	1	Guam	Attend tax and asset protection conference 2000.	528.28
3/20-31/00	2	Sydney/Canberra	Attend 7 th Annual Itron Users' Group/MV-90 conference, and attend technical training on disassembling and repairing the Itron FS-3 meter reading devices	8,363.48
3/25-4/7/00	7	Cincinnati	Attend Electric Power 2000 conference and exhibition.	35,610.91

**Commonwealth Utilities Corporation
Conferences/Training Attended by CUC
October 1999 through March 2001**

Date	No. of Participants	Destination	Purpose of Travel	Travel Cost
4/5-9/00	1	Honolulu	To represent Chairman and Executive Director at meeting with Honolulu Water Supply.	4,629.80
5/1-11/00	7	Honolulu	Attend drinking water distribution system operator training and Mayor's Pacific Island Environment Symposium	27,275.60
4/17-20/00	3	Saipan	Attend electrical panel instrumentation, automatic control valves and pump repair and installation training.	1,557.54
5/27-6/30/00	1	Portland/Maine	5 Days "Water Education (WET) Course" for Region 7 and 19 th Annual Pacific Conference entitled Protecting our Environment.	5,875.60
6/1-8/00	2	Singapore	Asia 2000 Exhibition and Conference	6,656.26
6/23-30/00	2	Las Vegas	52 nd Annual Conference and Exposition for Society of Human Resources Management.	7,393.51
6/18-28/00	2	Honolulu/A Samoa	Environmental Protection Agency 19 th Annual Pacific Island Conference and visit Honolulu-DRMO.	9,599.89
6/20/00	6	Saipan	Attend customer service training.	540.00
6/14-15/00	5	Saipan	Attend credit and collection/customer service training	1,209.26
6/20/00	5	Saipan	Attend a safety seminar.	728.00
8/4-14/00	2	Chicago	Attend Rydlyme Application Workshop	7,628.10
7/27/00	1	Saipan	Attend a seminar for CNMI Chapter of the Society for Human Resources Management.	87.00
8/1-10/00	1	Bozeman	Project WET grant, Pacific Region.	3,903.87
8/2-4/00	1	Saipan	Attend 14 th Annual Pacific Basin Association Conservation Conference	387.26
10/10-13/00	1	Guam	Attend South Pacific Regional Environmental Program	1,102.37
10/15-22/00	2	San Francisco	IGIA conference on grants management and financial accounting	7,899.42
10/21-29/00	2	Manila	Attend CEPSI 2000 Annual Conference and Exhibition.	5,467.07
10/20/00	2	Guam	Attend Society for Human Resources Management Conference	817.72
10/23-24/00	2	Guam	Training from GPA, use of Alpha Metering Software	1,156.72
10/23-11/3/00	1	Santa Fe/ Phoenix	Attend Government Competitive Market Workshop for Board Council	5,538.24
1/7-12/01	3	Saipan	Attend Underground Cable Splicing and Termination Training	2,729.00

**Commonwealth Utilities Corporation
Conferences/Training Attended by CUC
October 1999 through March 2001**

Date	No. of Participants	Destination	Purpose of Travel	Travel Cost
1/13-19/01	4	Honolulu	Attend 23 rd Annual Pacific Telecom Council Conference	18,661.28
1/28-29/01	4	Guam	Attend seminar by Herrick Co. & Schweitger	1,812.80
1/15/01	1	Saipan	Participate in completion of training ceremony	82.00
3/26-4/2/01	1	Las Vegas	Attend Mobile Communication at Work Conference .	3,062.18
3/25-30/01	4	Saipan	Attend Water Leak Detection Training	3,651.01
			Total - Others	\$205,275.27
			Grand Total	\$332,997.07

**Commonwealth Utilities Corporation
Foreign Visits and Other Events Attended by CUC
October 1999 through March 2001**

Date	No. of Participants	Destination	Purpose of Travel	Travel Cost
12/17/99	8	Tinian	Attend 1999 annual Christmas party	\$350.00
12/23/99	10	Rota	Attend 1999 annual Christmas party	1,394.85
12/7-8/00	2	Saipan	Attend annual Christmas party	536.31
12/15-16/00	6	Tinian	Attend annual Christmas party	1,228.20
12/21-22/00	8	Rota	Attend annual Christmas party	2,523.85
4/10-11/00	2	Saipan	Attend funeral of a CUC employee	396.73
9/1/00	2	Tinian	Attend Labor Day 2000 festivities in Tinian	184.95
9/1/00	1	Tinian	Attend CUC-Tinian labor day activity	152.00
9/3/00	2	Saipan	Attend 2000 labor day celebration	213.00
5/4/00	1	Saipan	Participate in signing proclamation for Employee of the Year	138.00
5/8/00	7	Saipan	Attend public service recognition for Employee of the Year 1998-2000	856.00
			Total - Christmas Party and other events	\$7,973.89
7/11-15/00	5	Manila	Tour facilities and meet with officials of consultant in Pasig City concerning sea water desalination	11,033.48
10/29-11/4/99	3	Okinawa/Osaka	Tour and meet with officials of Okinawa Chatan Filtration Plant	8,387.45
8/27-27/00	4	Sydney	Tour water desalination facility/plants of consultant.	14,697.44
10/18-11/2/00	3	San Francisco	Observe and tour facilities of Glendale Water Reclamation System	14,076.66
			Total - Foreign Visits	\$48,195.03
4/23/00	2	Manila	Repatriation, completion of employment contract with CUC	832.00
6/17/00	1	Portland	Repatriation, completion of employment contract with CUC	6,101.14
			Total - Repatriation	\$6,933.14
			Grand Total	\$63,102.06

**Commonwealth Utilities Corporation
Travel Involving Five or More Participants
October 1999 through March 2001**

Date	No. of Participants	Destination	Purpose of Travel	Travel Cost
1/16-21/00	5	Saipan	Attend American Samoa Underground Cable Splicing Training.	\$2,935.45
3/25-4/7/00	7	Cincinnati	Attend Electric Power 2000 Conference & Exhibition	35,610.91
5/1-11/00	7	Honolulu	Attend Drinking Water Dist. System Operator Training, Mayor's Pacific Island Environment Symposium	27,275.60
6/10-26/00	6	Orlando	Attend American Public Power Association National Conference 2000/ Environmental Protection Agency 19 th Annual Pacific Annual Conference	38,834.02
6/20/00	6	Saipan	Attend customer service training.	540.00
6/14-15/00	5	Saipan	Attend credit & collection/ customer service training	1,209.26
6/20/00	5	Saipan	Attend a safety seminar.	728.00
8/17-28/00	10	Sydney/Brisbane	9 th American Public Power Association Conference, and meet with representatives of vendor and tour facilities.	39,714.53
9/15-20/00	5	Phoenix	American Public Power Association's workshop for utility managers, board advisor, member.	19,406.39
9/16-10/01/00	7	Houston/Las Vegas	Meet with legal counsel and consultant regarding new power plant	39,140.02
5/6/00	7	Tinian	Meet with Tinian legislative delegation and CUC customer, Board meeting, Tinian Mayor	1,534.51
5/18/00	15	Rota	Attend regular Board meeting.	3,314.14
5/17/00	6	Tinian	Meet with Tinian legislative delegation and CUC customer.	492.00
8/2/00	10	Rota	Operations meeting to discuss strategic planning.	3,039.64
8/4/00	5	Rota	Attend a special committee on water desalination meeting.	1,191.23
3/27/00	7	Tinian	Meet with Tinian Mayor and Tinian delegation regarding CUC matters, continue joint finance & budget and operations committee meeting, and meet with Tinian management and staff.	1,255.65
4/13-14/00	5	Guam	Source selection committee meeting for Rota power plant overhaul.	2,235.80
4/28-29/00	7	Rota	Assist to determine and verify proper adjustment on sub station relays and high voltage conductors.	1,602.30
7/11-15/00	5	Manila	Tour facilities and meet with officials of vendor in Pasig City concerning sea water desalination.	11,033.48
12/17/99	8	Tinian	Attend 1999 annual Christmas Party.	350.00

**Commonwealth Utilities Corporation
Travel Involving Five or More Participants
October 1999 through March 2001**

Date	No. of Participants	Destination	Purpose of Travel	Travel Cost
12/23/99	10	Rota	Attend 1999 annual Christmas Party.	1,394.85
5/8/00	7	Saipan	Attend public service recognition for Employee of the Year 1998-2000.	856.00
10/21-28/00	5	San Diego	APPA utility education course on public utility accounting.	14,969.14
10/17-11/1/00	5	San Francisco	Conduct technical review meeting for power plant contract draft, meeting with legal counsel and vendor.	33,579.19
2/6-19/01	6	Los Angeles	Continue negotiation with vendor and work with Construction Transfer Agreement.	40,525.11
12/16/00	6	Tinian	Attend annual Christmas Party.	1,228.20
12/21-22/00	8	Rota	Attend annual Christmas Party.	2,523.85
			Total	\$326,519.27

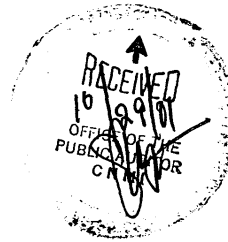


Commonwealth Utilities Corporation



October 29, 2001

Mr. Michael S. Sablan
 CNMI Public Auditor
 2nd Floor, J.E. Tenorio Building
 Saipan, MP 96950



Dear Mr. Sablan:

Subject: Draft audit report on Travel

We are responding to the draft audit report on travel, which was forwarded to the Board of Directors and the Executive Director on September 25, 2001.

Before responding, we would like to take this opportunity to thank you and your staff for the audit conducted on Travel. While we may not agree with some of the findings, the audit did allow CUC to reanalyze and reassess its travel procedures and cost associated to travel. As this audit was divided into four categories – 1) Adoption of Travel Policies; 2) Board Compliance with CNMI Travel Policies; 3) Key Management Compliance with Applicable Travel Policies and Procedures; 4) Other Matters for Consideration - we are responding accordingly.

Adoption of Travel Policies

The CUC management and Board of Directors understand that the Board's travel is governed by 4CMC 8131 (e) which states "rules on travel and per diem rates shall be the same as those established in the executive branch." In addition we are required to follow the statutory provisions which relate to travel by 1CMC 8247 and the 1CMC 8407.

Management and the Board are prepared to adopt a travel policy in its next general board meeting. The travel policy to be adopted will in all material respect be similar to the Executive Branch policies but is subject to amendment or changes by the Board of Directors as it deems fit for the purpose of meeting the mandates of CUC's enabling act.

We would like to point out that the draft audit report criticizes CUC for its lack of the "comprehensive travel manual." However, the executive branch to our knowledge does not have a comprehensive travel policy or rules, so that the CUC Board could be clearly guided as to how to comply with its statutory mandate in 4CMC 8131 (e) requiring the Board to follow rules established by the executive branch.

Furthermore, contrary to the language of the draft report, CUC Board is not "required by law" to adopt CNMI travel rules. It is only required to use or follow the same rules as the

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 Saipan, MP 96950-1220
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executive branch. We do agree that CUC is required by law to comply with the statutes regarding trip reports.

Board's Compliance with CNMI Travel Policies

- **Business Class or First Class Airline Ticket Fares**

CUC does not accept the OPA position that the governor's directive regarding class of travel is a rule "establish for the executive branch." We understand the directive to be a temporary cost cutting measures implemented by the Administration to deal with the executive branch's immediate budget constraints. The directive does not state that it is a permanent "rule". Furthermore, CUC understands that the issue of the applicability of this directive to autonomous agencies has been referred to the Attorney General's Office by the Office of the Public Auditor as a result of the travel audit done on the Northern Marianas Retirement Fund.

Nevertheless, the Chairman of the Board has instructed management to strictly limit the class of travel to economy class. Our proposed travel policy requires this class of travel on all official CUC trips.

- **Travel Advances Given Without Liquidating Existing Advances**

We agree that travel by a Board member or employee should not be approved without the liquidation of any outstanding travel advances. Again, the rules on liquidation and applicable repayment penalties are incorporated into our proposed travel policy.

- **Travel Advance Limit was Exceeded**

While we agree that travel advances should have been limited to eighty percent of the allowable travel cost, we take exception to the following statement:

"As a result, these travelers received excess cash advances of \$18,282.50 which should not have been paid pursuant to CNMI travel policies."

The amount mentioned above is to be paid upon the liquidation of the Boards' travel. We agree that if we had followed the eighty- percent rule of the Executive Branch, CUC would have not been required to pay \$18,282.50 until a liquidation of the travel is completed (15 days after travel return). Again, the eighty-percent rule is incorporated into our proposed travel policy, which is awaiting adoption by the Board.

- **Per Diem Paid When Only Subsistence Allowance was Authorized**

The decision to pay per diem rather than subsistence allowance for Board members and the Executive Director's travels within CNMI was a consensus arrived at by both parties at one of the committee meetings. It was in recognition that travel within the commonwealth by the management requires attending to the concerns of the corporation and the public on the other islands for an entire day most of the time. In addition, they were often in meetings with island officials and frequently paid for ensuing luncheons. However, this action to pay per diems instead of subsistence allowance was not documented although after that committee meeting, travel section started receiving travel requests with subsistence allowance at the rates mentioned.

The Chairman and the Executive Director have revisited this matter and have determined that such policy should not have occurred and the return of such monies should be made. We are arranging with the individuals concerned to return these erroneous payments.

- **Untimely Submission of Travel Vouchers**

The corporation is consistently challenged to require the timely submission of liquidation of both the travels for the board and employees. Management believes that with the implementation and enforcement of the eighty percent rule, as incorporated into our proposed travel policy, travelers are more likely to timely submit their liquidation. Given that the Board members are not employees of the corporation and are not salaried by the corporation, management will strictly enforce the eighty- percent rule and deduct any dues Board members have from the corporation.

- **Failure to Return Travel Advance After Cancellation of Trip.**

We agree with this finding. Management was continuously following up the return of these funds from the two Board members. As of this date, the entire amount advance has been returned to CUC.

- **Detailed Trip Report Not Filed as Required**

In some cases, the travelers opted to provide brief reports concerning their travel for reason of confidentiality. Travelers believed that the outcome of trips regarding negotiation for the proposed power plant could be better documented on reports submitted by the concerned committee to the Board and management at a proper time and venue. Similarly, for attendance at training and conferences, the travelers shared

knowledge gained through written and verbal reports to their fellow members of the Board.

Nevertheless, we agree with this finding and CUC has rescinded the guideline suggesting that the trip report be concise and brief. Our proposed policy addresses this finding by establishing the required detailed information to be submitted by the traveler.

- Questionable Payments

Board Members

TA-410 - \$445.48

The original travel period was extended for one day because the traveler had to meet with the regional manager of a multinational company based in Manila that had expertise on desalination technology. Being the chairman of the Board's Desalination Committee, the traveler, with the approval of the Board Chairman, visited the facilities of said company and met with their other key officials to gain more insights on the desalination process.

Because taxi drivers in Manila do not normally provide receipts, the traveler submitted a notarized affidavit affirming the amount spent on ground transportation. Moreover, for a visitor not used to Manila's chaotic traffic and unreliable public transportation system, taxis appeared to be the only economical and fast alternative while conducting business there.

The CNMI Travel Policy states that an amended TA is not needed if authorized travel began or ended five days of the dates listed on the original TA, provided, however, that the additional expenses incurred did not exceed \$200.00. In the case of the subject traveler, his one-day extension was still within the "five-day day before or after period" although he incurred an additional \$445.48. However, because actual expenses can be determined only upon submission of a travel voucher and supporting documents, the amending TA was prepared and approved only on said submission date.

(Enclosed is a notarized affidavit of the amount spent for taxi fares for the duration of the trip and a certification that the traveler was allowed to extend his trip for the reason cited.)

TA-01-270 - \$175.00

Said hearing was convened as scheduled on March 12, 2001 but was shortly disrupted by an official from Coastal Resources Management. The meeting was postponed to 1:00 p.m. on the same day but then later cancelled altogether. Following this incident, the traveler, together with the other members of the negotiation committee, was directed by the Board Chairman to attend a meeting on March 13, 2001 to discuss matters regarding the ongoing 60-MW power plant negotiation.

(Enclosed is a written response by the traveler for all matters excepted to by the auditor regarding her trips.)

TA-00-238 - \$200.00

The per diem given to the traveler covered the period April 1-7, 2000 with the conference officially ended on April 6. It is our procedure to have travelers depart a day after the end of the conference to give them ample time to prepare for a long trip back to Saipan. In the case of subject traveler, his departure date on April 7 could not be confirmed by the airline. Because the next available confirmed sit was still on April 9, he opted to take the flight back home on April 6. Had he stayed for two additional days waiting for his available flight, CUC would have paid additional per diem and ground transportation expenses covering this extension.

(We are awaiting certification from our travel agent to support traveler's claim that his original departure date on April 7 could not be confirmed by the airline.)

TA 00353 - \$200.00

We stand by our computation of per diem. The segment of the trip covering the traveler's departure from Singapore on June 8 to her arrival on Saipan on June 9 totaled to one-day travel using the Per Diem Conversion Timetable. This included 10 hours layover in Manila (no direct connecting flight from Singapore to Saipan) and three hours layover on Guam.

(Enclosed is the corresponding travel voucher showing our computation for per diem. Let us know if you need further explanation.)

TA 00-355 - \$350.00

Similar to the foregoing case, our computation of travel time using the Per Diem Conversion Timetable showed 5.75 days for subject traveler. Because of the absence of direct connecting flight and the need to change airline for the Singapore-Manila-Guam portion, the traveler spent 10 hours layover in Manila and three hours on Guam.

(Enclosed is the corresponding travel voucher showing our computation for per diem. Let us know if you need further explanation.)

TA 00-398 - \$56.00

It should be recognized that whenever the traveler starts travel during the morning of any given day and ends said travel during the period of any following day, car rental will be calculated for two complete days regardless. In this instance, the traveler believed that her travel period started on the morning of the first day and ended at the end of the third day, hence reimbursement for two days per diem and three days car rental was requested as the rented car was used for three days and as receipts should prove to be the case.

(Enclosed is a written response by the traveler for all matters excepted to by the auditor regarding her trips.)

TA 00-404 - \$46.00

The car was rented for official business on July 2. For the traveler to be charged one-day rental, the car should have been returned by noon on the following day. Otherwise, two days rental would be charged by the company. However, the Board meeting on July 3 adjourned at 3:35 p.m. and the traveler still had to attend to various committees' businesses. Justifiably, the traveler was charged for two-day rental.

(Enclosed is a copy of the applicable page of the minutes of Board meeting on July 3 showing the adjournment time.)

TA 01-104 - \$175.00

Because she was directed by the Chairman to remain on Saipan on December 17 to discuss progress of negotiation for the proposed power plant, the traveler believed that she was entitled to the \$175.00 allowance.

(Enclosed is a written response by the traveler for all matters excepted to by the auditor regarding her trips.)

TA 00-275 - \$41.00

According to our travel agent, the departure tax for subject trip was only \$3.00. Please let us know how you arrived at \$41.00. Nevertheless, the traveler is willing to reimburse the corporation for the actual amount of departure tax.

TA 00-375 - \$328.00

According to our records, the fare to the location where the traveler was on a personal trip was only \$262.00.

The traveler inadvertently failed to inform staff to adjust this cost at the appropriate time and was willing to adjust it accordingly. The traveler would therefore make prompt arrangements for reimbursement to the corporation of the cost of this personal trip.

Inconsistent Travel Policies and Lack of Enforcement

As stated earlier, contrary to the language of the draft report, CUC Board is not "required by law" to adopt CNMI travel rules. It is only required to use or follow the rules as the executive branch.

Restricted Resources, Unnecessary Travel Costs, and Inaccurate Travel Record

We disagree with your determination that resources would have been available for CUC operations if it properly complied with its liquidation requirement. The transaction is classified as a receivable but it does not necessarily mean that the travel did not occur. Your audit report only cited two instances when the intended travel did not take place. For these two travels, we do agree that the resources could have been used for its operation but instead was tied up a receivable. For the others, we agree that had CUC adopted the 80% travel advance rule, the 20% would be available for operation. The 20%, however, is only available temporarily as CUC is obligated to pay upon the liquidation of the travel.

* * * * *

We believe the above response addresses properly the findings made by your auditors. As stated in each of the bulleted items, the Board of Directors will adopt CUC travel policy in its next general board meeting.

Key Management Compliance with Applicable Travel Policies and Procedures

- Business Class Travel

(Please see the response on Board's Compliance with CNMI Travel Policies)

- Travel Advances Made Without Liquidating Existing Advances

We agree with this finding. The proposed travel policies address this finding by ensuring that no travel is approved for employees who have existing unliquidated advances. To date, all travel advances have been liquidated and management will ensure that no employee be allowed to travel if there exist outstanding travel advances. In addition, I have instructed the travel section of our office to timely forward all outstanding receivable attributed to travel to payroll for deduction should employees fail to comply with the timely liquidation requirement.

- Payment of Per Diem Instead of Subsistence Allowance

As stated previously, the decision to pay per diem rather than subsistence allowance to members of the Board and the Executive Director was in recognition of them being away from their duty station for the whole day while attending to the concerns of the corporation and the public on other islands.

- Untimely Submission of Travel Vouchers

As mentioned in earlier responses, we have instructed travel section to be vigilant in its enforcement of the payroll deduction requirement of outstanding travels. Along with the 80% travel advance rule, we believe the enforcement of payroll deduction will ensure that untimely submission does not occur.

With respect to the travel of the legislators and other agency officials, CUC does not have control over their payroll and is unable to force timely submission. CUC will, however, consider forwarding any outstanding travels for collection action once the allotted time allowed for liquidation has expired. In addition, CUC's 80% travel advance rule will aid in assuring that these travelers timely submit their vouchers. To date, only one travel remains unliquidated.

- **Proper Support**

We have reviewed these findings in detail and we disagree with the conclusion that they were not supported. Please refer to the following explanation:

TA 00-254 - \$250.00

As mentioned previously, it is our procedures to have travelers depart a day after the end of the conference to give them ample time to prepare for a long trip back to Saipan. In the case of subject traveler, the airline could not give him a confirmed reservation for his departure on May 10. He was able to leave only on May 11; hence, he was still given per diem on that day.

(We are awaiting certification from our travel agent to support traveler's claim that his original departure date on May 10 could not be confirmed by the airline.)

TA 00-363 - \$687.50

The traveler submitted a separate trip report covering his official business in Hawaii from June 24 to 26, 2000.

(Please see the attached report.)

TA 00-411 - \$78.56

As mentioned previously, seldom do taxi drivers in Manila provide official receipts. With the traveler's hotel located in Manila's tourist belt while the place of official business was in another city, taxi was the most convenient mode of transportation to a visitor not used to gridlock traffic and unreliable public transportation. It should be considered also that taxi drivers seemed to use contract rate rather than meter if they knew that the passenger was from another country. Nevertheless, we believed that the amount spent for taxi for the duration of the traveler's stay was reasonable.

(Enclosed is the traveler's written explanation for his ground transportation costs in said trip.)

Strict Implementation of Travel Policies and Procedures

We have drafted our travel policy consistent with the CNMI executive branch policy and applicable to both Board members and employees.

Restricted Resources, Unnecessary Travel Cost, and Inaccurate Travel Record

Again, we believe it is unfair to state that resources would have been available when it is a known fact that the resources were used for the purpose of the travel. The fact that CUC records these advances as receivables does not necessarily entail that these funds should have been available. It is recorded as a receivable from the employee until such time that the employee properly files his or her liquidation. The resources were used for CUC's business.

CUC has implemented its own austerity measure and has ceased all business class travels and instructed the Travel section to limit the class of travel to economy for both the Board and the Executive Director.

Other Matters for Consideration

1. *Purpose of Travel*

Being in a highly technical and fast-changing utility industry, CUC had to send some its staff for conferences or training abroad to maintain and upgrade their skills. Unfortunately, most of these training were held mostly in the US mainland.

However, whenever feasible, CUC brings training programs at its facility. Last year, we conducted credit and collection and customer service training by inviting resource person recognized in the utility industry. In attendance were employees from the Saipan, Tinian, and Rota under credit and collection and customer service sections. In coordination with Guam Power Authority, we also held underground cable splicing and termination training offered to concerned staff of the three CUC locations. These in-house training programs had given us savings on time and money.

We had new members appointed to the Board for the period under review. To equip them with the knowledge necessary in meeting their responsibilities and undertaking processes of utility board work and policy setting, we made them attend applicable training programs. As in most cases, these are mostly held in the US mainland. We understand also that for them to get a first hand look of the industry and the challenges it faces, they need to attend conferences or visit other utility organizations.

In agreement with your recommendations, we incorporated into our proposed travel policy the need for business partners, prospective contractors, consultants, and contractors to travel to CNMI in lieu of CUC sending representatives off-island before a travel request is approved and processed. In addition, CUC will limit its representation to conference/training to the minimum number of attendees to be determined by a senior official necessary to accomplish CUC missions.

2. Travel by Other CNMI Officials Shouldered by CUC

We disagree with your assessment of the impropriety and imprudence in CUC's absorbing the cost of travel of employees of other government agencies. At the onset, CUC was a direct beneficiary of the objectives of these excepted travels.

The trips by the Assistant Attorney General were coordinated with and had the approval of the Attorney General's Office (AGO). These were in line with the policy of AGO to timely process and review contracts. The participation of said office in the contract drafting process was to provide on sight legal review for sufficiency and form and to advise as to clauses, duties, obligations and requirements which may be required for approval by the AGO. By providing such review and counsel the decisions that would be reached would be in accordance with the law and assist in smooth processing of contractual documentation.

The trip by an employee from CNMI's Land Registration Office-Rota was requested by our legal counsel to assist CUC in the research and investigation of a case involving title and existing right of way access in which CUC is a party.

CUC absorbed the travel costs of certain members of the Legislature primarily to give them insights on the desalination and waste water technologies in actual settings. These lawmakers had been facing mounting clamor from their constituents for a more reliable water supply and disposal. With the insights gained, they could properly evaluate the viability, funding requirements, and timing for said projects.

Because they were also members of committees with oversight authorities on CUC operations, we believe that they should also acquire knowledge about the fast changing utility industry and establish contact with their counterparts abroad.

3. Number of Participants involved in Group Travel

In accordance with the By-laws of the CUC Board of Directors, at least one regular meeting shall be held on Rota and Tinian. With the full attendance of the Board, the Executive Director, and the division heads, it is expected that the Saipan delegation will involve five or more participants. We need to bring division heads and other key officers to these islands so that they can properly and immediately address the concerns raised by CUC employees on these islands and the public in general.

In some cases, the respective committee under the Board would meet on the other islands because the specific agenda were pertinent to those islands. Aside from the committee members, some key officers would be included in the trips.

There were occasions when CUC offered in-house training programs by inviting resource persons from abroad. For CUC employees from other islands to benefit from

these training, we had them travel to Saipan. Thus, it can be expected that five or more representatives from Rota or Tinian will be present. This was true for the credit and collection/customer service training and safety seminars.

We also would like to correct your impression that attendance at Christmas parties on Rota or Tinian was merely a social activity. Prior to the party, concerned Board members and key officers met with officials of CUC Rota/Tinian and even public officials of these islands to address issues they raised.

In addition, it is not our practice to subsidize attendance at funerals. Our records disclosed that we allowed official travel for by the deputy directors for Tinian and Rota for this purpose only in one occasion and the deceased was a long-time CUC officer who succumbed to a lingering illness.

4. Rate of Subsistence Allowance

While we believe that CUC may establish subsistence allowances for employees at rates higher than provided by the CNMI executive branch policies, we nevertheless included in our proposed travel policy a provision limiting these allowances to only \$15.00. This will be applicable to both Board members and employees.

Conclusions and Recommendations

In regards to recommendation number one, CUC agrees with the recommendations and have initiated the steps to comply with such recommendation. In addition, the proposed travel policies will also require that CUC operations follow – in all material respect – the Executive Branch travel policies.

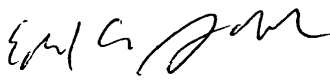
For recommendation number two and three, CUC agrees with this recommendation and the directive will be issued to the Executive Director to implement the recommendations made. It is important that we note that bullet item 6 of recommendation number two is not enforceable as the Board members are not employees of CUC.

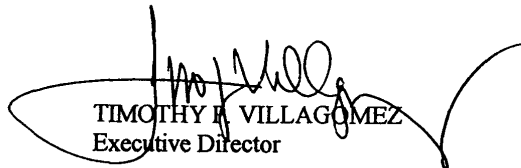
CUC agrees to initiate the recovery of any overpayments agreed to in this report and to continue its effort in standardization.

* * * * *

We would like to thank the officers and staff of your office for a thorough audit of our travel expenditures and for allowing us the chance to respond to your findings.

Sincerely,


EDWARD C. SABLAN
Board Chairman


TIMOTHY R. VILLAGOMEZ
Executive Director

**Commonwealth Utilities Corporation
Audit of Travel of the Board of Directors, Key Management and other CNMI
Government Officials from October 1999 through March 2001**

STATUS OF RECOMMENDATIONS

Recommendations	Agency to Act	Status	Agency Response/ Action Required
<p>We recommend that:</p> <p>1. The Board immediately adopt rules on travel and per diem rates that are identical to CNMI travel policies for all travel made by Board members.</p>	CUC	Resolved	<p>CUC agreed with OPA's recommendation to adopt a travel policy and stated that it will do so in its next general board meeting. The travel policy to be adopted will in all material respect be identical to the Executive Branch policies, subject to amendments as it deems fit for the purpose of meeting the mandates of CUC's enabling act.</p> <p><i>Further Actions Needed</i></p> <p>CUC should provide OPA a copy of the adopted travel policy.</p>
<p>2. The Chairman of the Board issue a directive that serves to enforce the following specific policies concerning processing of Board member travel:</p> <ul style="list-style-type: none"> • Off-island travel should be conducted using only economy class fares. • Travel advances should be approved only after determining that there are no previous travel advances outstanding for over two weeks to the traveler, unless an emergency situation exists. • Travel advances may be issued only for per diem and ground transportation. • Per diem or subsistence allowance may be paid only after the conditions specified under CNMI travel policies have been met. • Travel advances must be liquidated within 15 days after completion of travel. • Immediate payroll deduction should be initiated if travelers fail to liquidate travel advances within 25 days of trip completion. 	CUC	Resolved	<p>CUC generally agreed with this recommendation by stating that it will adopt a travel policy in its next board meeting. CUC, however, clarified that it is arranging with the individuals concerned to return the erroneous payments made.</p> <p><i>Further Actions Needed</i></p> <p>CUC should provide OPA a copy of the adopted travel policy.</p>
<p>3. The Chairman of the Board issue a directive that ensures that Board members adhere to the following CNMI travel policies when processing Board travel:</p> <ul style="list-style-type: none"> • Travel advances shall not exceed the 80 percent ceiling. • Any outstanding travel advance for cancelled trips shall be immediately returned to CUC. • Travelers shall submit detailed trip reports. 	CUC	Resolved	<p>CUC agreed with this recommendation by stating that it will incorporate into its proposed travel policy the 80% ceiling on travel advances and the submission of detailed trip report by travelers.</p> <p><i>Further Actions Needed</i></p> <p>CUC should provide OPA a copy of the adopted travel policy.</p>

