



COMMONWEALTH UTILITIES 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, 2019

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

Board of Directors  
Commonwealth Utilities 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 Commonwealth Utilities Corporation (CUC), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statement of net position as of September 30, 2019, 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 December 6, 2021. Our report was qualified due to our inability to determine the effects of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* on CUC's financial statements and the propriety of inventory as of September 30, 2019; our report includes an explanatory paragraph concerning the impact of COVID-19.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered CUC'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 CUC's internal control. Accordingly, we do not express an opinion on the effectiveness of CUC's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 through 2019-005 that we consider to be material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CUC'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 2019-003 and 2019-004.

#### **CUC's Response to Findings**

CUC's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. CUC'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*

December 6, 2021

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

Board of Directors  
Commonwealth Utilities Corporation:

### **Report on Compliance for Each Major Federal Program**

We have audited Commonwealth Utilities Corporation's (CUC's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on CUC's sole major federal program for the year ended September 30, 2019. CUC's sole major federal program is 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for CUC's sole major federal program 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 CUC'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 the sole major federal program. However, our audit does not provide a legal determination of CUC's compliance.

## ***Opinion on the Sole Major Federal Program***

In our opinion, CUC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its sole major federal program for the year ended September 30, 2019.

## ***Other Matters***

The results of our auditing procedures disclosed 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 2019-003, 2019-004, 2019-006, and 2019-007. Our opinion on the sole major federal program is not modified with respect to these matters.

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

CUC is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. CUC's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

## **Report on Internal Control Over Compliance**

Management of CUC 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 CUC's internal control over compliance with the types of requirements that could have a direct and material effect on the sole major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the sole 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 CUC's internal control over compliance.

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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-003, 2019-006, and 2019-007 that we consider to be significant deficiencies.





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

CUC is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. CUC's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 CUC as of and for the year ended September 30, 2019, and have issued our report thereon dated December 6, 2021, which contained a qualified opinion on those financial statements due to our inability to determine the effects of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* on CUC's financial statements and the propriety of inventory as of September 30, 2019, and which included an explanatory paragraph concerning the impact of COVID-19. 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*

December 6, 2021

COMMONWEALTH UTILITIES CORPORATION

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of the Interior Direct Program: Economic, Social, and Political Development of the Territories	15.875		\$ 583,527
<b>Total U.S. Department of the Interior</b>			<u>583,527</u>
U.S. Environmental Protection Agency Direct Program: Environmental Protection Consolidated Grants for the Insular Areas - Program Support	66.600		2,863,806
<b>Total U.S. Environmental Protection Agency</b>			<u>2,863,806</u>
U.S. Department of Homeland Security Pass-Through Program From the CNMI Government: Disaster Grants - Public Assistance (Presidentially Declared Disasters):	97.036		
Typhoon Soudelor		DR-4235-MP	1,175,030
Typhoon Soudelor		HMGP-4235-01-09R	1,003,169
Typhoon Mangkhut		DR-4236-MP	4,969
Typhoon Yutu		DR-4404-MP	76,227,735
<b>Total U.S. Department of Homeland Security</b>			<u>78,410,903</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 81,858,236</u>
Reconciliation:			
Expenditures per Statement of Revenues, Expenses and Changes in Net Position:			
Federal grants and capital contributions			\$ 84,211,727
Grant revenues and contribution reimbursements from prior year expenditures			<u>(2,353,491)</u>
			<u>\$ 81,858,236</u>

See accompanying notes to the schedule of expenditures of federal awards.

COMMONWEALTH UTILITIES CORPORATION

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2019

(1) Scope of Audit

The Commonwealth Utilities Corporation (CUC) is a component unit of the Commonwealth of the Northern Mariana Islands (CNMI) Government and was established as a public corporation by CNMI Public Law 4-47, as amended and has the powers of a body corporate, as defined in the act and local statutes. Only the transactions of CUC are included within the scope of the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of CUC under programs of the federal government for the year ended September 30, 2019. 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 CUC, it is not intended to and does not present the financial position, changes in net position or cash flows of CUC.

(3) Summary of Significant Accounting Policies

a. Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which CUC maintains its accounting records. 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. CUC does not elect to use the de-minimis indirect cost rate allowed under the Uniform Guidance.

CUC recognizes contributions from the federal government when qualifying expenditures are incurred.

b. Matching Costs

The 10 percent non-federal share of CFDA 97.036 is not included in the accompanying Schedule of Expenditures of Federal Awards.



COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2019

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

- |    |   |               |
|----|---|---------------|
| 1. | Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: | Qualified     |
|    | Internal control over financial reporting:  |               |
| 2. | Material weakness(es) identified?   | Yes           |
| 3. | Significant deficiency(ies) identified?   | None reported |
| 4. | Noncompliance material to the financial statements noted?   | Yes           |

*Federal Awards*

- |                    |  |                    |                                |        |   |  |
|--------------------|--|--------------------|--------------------------------|--------|---|--|
|                    | Internal control over major federal programs:  |                    |                                |        |   |  |
| 5.                 | Material weakness(es) identified?  | No                 |                                |        |   |  |
| 6.                 | Significant deficiency(ies) identified?  | Yes                |                                |        |   |  |
| 7.                 | Type of auditors' report issued on compliance for major federal programs:  | Unmodified         |                                |        |   |  |
| 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 program:   |                    |                                |        |   |  |
|                    | <table border="0"> <tr> <td style="text-align: right;"><u>CFDA Number</u></td> <td style="text-align: left;"><u>Name of Federal Program</u></td> </tr> <tr> <td style="text-align: right;">97.036</td> <td style="text-align: left;">Disaster Grants - Public Assistance (Presidentially Declared Disasters)</td> </tr> </table> | <u>CFDA Number</u> | <u>Name of Federal Program</u> | 97.036 | Disaster Grants - Public Assistance (Presidentially Declared Disasters) |  |
| <u>CFDA Number</u> | <u>Name of Federal Program</u>   |                    |                                |        |   |  |
| 97.036             | Disaster Grants - Public Assistance (Presidentially Declared Disasters)  |                    |                                |        |   |  |
| 10.                | Dollar threshold used to distinguish between Type A and Type B Programs:   | \$2,455,747        |                                |        |   |  |
| 11.                | Auditee qualified as low-risk auditee?   | No                 |                                |        |   |  |

**SECTION II - FINANCIAL STATEMENT FINDINGS**

<u>Reference Number</u>	<u>Finding</u>
2019-001	Schedule of Expenditures of Federal Awards
2019-002	Inventory
2019-003	Capital Assets
2019-004	Local Noncompliance - Procurement
2019-005	Nonpayroll Expenditures

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2019-004	66.600	Procurement and Suspension and Debarment	\$ -
2019-003	97.036	Equipment and Real Property Management	\$ -
2019-006	97.036	Allowable Costs/Cost Principles	\$ 332,717
2019-007	97.036	Matching, Level of Effort, Earmarking	\$ -

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Schedule of Expenditures of Federal Awards (SEFA)

Finding No. 2019-001

Criteria: In accordance with applicable federal regulations, the auditee shall prepare a SEFA for the period covered by the auditee's financial statements. At a minimum, the SEFA shall provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

Condition: CUC submitted and revised the SEFA numerous times, which delayed the identification of major programs. CUC provided a final SEFA on May 21, 2021. In addition, tests of subsequent disbursements noted actual and extrapolated expenditures of \$380,762 and \$532,820, respectively, which were incurred in fiscal year 2019 but recorded in fiscal year 2020. Given the fact that the Single Audit reporting package is normally due within nine months after the fiscal year end, a finding is warranted when the preparation, submission, and provision of the SEFA is dated nearly twenty months after the fiscal year end.

Cause: CUC's accounting system does not provide for the separate identification of expenditures for each federal program. Also, CUC lacks monitoring controls over the accuracy and completeness of the SEFA.

Effect: CUC is in noncompliance with federal SEFA requirements and fiscal year 2019 expenses are understated.

Recommendation: CUC should establish and implement procedures to develop or acquire an accounting system that provides for the separate identification of expenditures for each federal program by using its CFDA or other identifying number. Also, CUC should establish and implement monitoring controls to periodically review the SEFA during the fiscal year for accuracy and completeness.

Views of Responsible Officials:

CUC's Corrective Action Plan states agreement.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Inventory

Finding No. 2019-002

Criteria: A system of internal control provides for adequate monitoring and tracking of inventory transactions. Inventory should be reviewed and adjusted based on net realizable value.

Condition:

1. Of thirty-five inventory items tested, aggregating \$7,348,714, the following were noted:
  - i. For sixteen inventory items tested, the unit cost per the inventory report did not agree to the unit cost per the inventory transaction history and supporting invoices. Total and projected variances were \$381,084 and \$1,183,547, respectively, of which \$1,248,364 was corrected through client adjustments.

#	Inventory No.	Quantity	Unit Cost Per Inventory Report	Total Cost Per Inventory Report	Estimated Unit Cost	Estimated Total Cost	Variance
1	1320-01-38	2,959	\$ 23.79	\$ 70,392	\$ 21.4400	\$ 63,441	\$ 6,951
2	1515-58-18	2,945	\$ 20.50	\$ 60,383	\$ 21.3700	\$ 62,935	(2,552)
3	2250-40-20	2,400	\$ 30.25	\$ 72,593	\$ 23.8600	\$ 57,264	15,329
4	2310-10-20	7,917	\$ 52.19	\$ 413,210	\$ 42.0395	\$ 332,827	80,383
5	2330-20-55	6,023	\$ 72.13	\$ 435,508	\$ 75.0601	\$ 452,087	(16,579)
6	2390-04-10	7,008	\$ 97.69	\$ 684,605	\$ 101.8299	\$ 713,624	(29,019)
7	2422-07-10	6,593	\$ 58.46	\$ 385,446	\$ 55.6700	\$ 367,032	18,414
8	2465-39-95	4,168	\$ 57.25	\$ 238,604	\$ 45.7816	\$ 190,818	47,786
9	2171-40-40	70,000	\$ 3.85	\$ 269,491	\$ 4.0100	\$ 280,700	(11,209)
10	1103-10-00	1,607	\$ 377.16	\$ 606,100	\$ 393.1400	\$ 631,776	(25,676)
11	2705-58-58	2,753	\$ 12.87	\$ 35,421	\$ 11.4943	\$ 31,644	3,777
12	2671-01-10	997	\$ 768.85	\$ 766,540	\$ 438.1290	\$ 436,815	329,725
13	2673-01-50	1,310	\$ 420.33	\$ 550,627	\$ 437.8030	\$ 573,522	(22,895)
14	1920-01-08	1,185	\$ 18.62	\$ 22,065	\$ 18.5755	\$ 22,012	53
15	4121-47-50	10	\$ 86.40	\$ 864	\$ 108.0000	\$ 1,080	(216)
16	2673-01-90	150	\$ 329.39	\$ 49,409	\$ 417.3133	\$ 62,597	(13,188)
							\$ 381,084

2. Tests of inventory adjustments noted several adjustments posted to correct the general ledger to the sub-ledger due to no reconciliation performed for the FY2019 beginning balance. Adjustments proposed were to correct actual count as of year-end. Further, variances for the following inventory adjustment could not be explained.

Account No.	Transaction Date	Journal Entry	Source Document	Originating Document No.	Amount
40.1.00.3110.6400	01/22/19	225559	IVADJ	00000000000000140	\$ 35,501

Cause: CUC lacks periodic review of inventory cost per inventory report and inventory transaction history. In addition, CUC lacks established policies and procedures to assess the adequacy of the allowance for slow-moving and obsolete inventories.

Effect: Inventory may be misstated.

Recommendation: CUC should timely reconcile inventory balances and ascertain that recorded transactions are properly supported. CUC should periodically assess and review the adequacy of the allowance for inventories.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No. 2019-002, Continued

Views of Responsible Officials:

CUC's Corrective Action Plan states agreement with Condition 2 and states disagreement with Condition 1, as follows:

Condition 1 - CUC does not concur. CUC maintains its position on this finding. The finding is unwarranted. CUC's inventory valuation is based on the actual weighted average cost of items grouped by specific type. CUC was unable to draw a conclusion from the finding due to the calculation of the auditor was based on an estimate and not actual cost of the sample items tested. Thus, the inconsistencies in methodologies made their valuation irreconcilable to the CUC's.

Auditor Response:

Condition 1 - Calculation of the estimated unit cost and estimated total cost is based on unit cost calculation, transaction history and supporting invoices provided by CUC.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Capital Assets

Equipment and Real Property Management: CFDA 97.036

Finding No. 2019-003

Criteria: An effective system of internal control includes policies and procedures for determining a threshold for capitalization of capital assets. In accordance with applicable property standards, capital assets should be properly recorded and maintained; must include a description of the property, a serial number or other identifiable information, the acquisition date and cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal of the property; and should not include expense items.

Further, CUC conducts physical counts of its capital assets every two years to help verify the existence and condition of the assets and reconcile with its financial records.

Condition:

1. CUC does not have an updated written capitalization policy.
2. Of seventeen asset additions tested, we noted that transactions identified with a CFDA number were federally funded while funding sources for the other assets were not specifically identified on the fixed asset subledger.
  - a. An asset was double recorded in the previous year. An audit adjustment was proposed to correct the error, which resulted in a restatement of net position.

<u>Asset ID No.</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>
9640451B	10/31/02	\$ 573,356

- b. The total quantity of concrete poles received per receiving reports differs from the total quantity per invoices, resulting in unrecorded capital assets of \$297,540. An audit adjustment was proposed to record the unrecorded capital assets and capital contributions. No questioned costs are presented as CUC received the concrete poles.

<u>Asset ID No.</u>	<u>CFDA No.</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>	<u>Quantity Per Invoices</u>	<u>Quantity Per Receiving Reports</u>	<u>Variance</u>	<u>Amount</u>
1121404	97.036	09/30/19	\$ 7,353,100	1,559	1,646	87	\$ 297,540

- c. For asset ID no. 1121405 (CFDA No. 97.036), with an acquisition cost of \$4,959,287 and acquisition date of September 30, 2019, the following were noted:
      - i. Of 80,928 material acquisitions received with no corresponding invoices, CUC determined the costs of 79,511 to be \$749,419 from invoices having similar material descriptions. Of the \$749,419, CUC only recorded \$181,962, as the costs for the remaining \$567,457 were only subsequently determined on May 25, 2021 and June 15, 2021. The remaining 1,417 in materials received were not recorded as costs were undeterminable.
      - ii. The quantity and descriptions of materials for invoice no. 44 were not specified, accordingly, we were not able to verify completeness of the materials received, as there were no corresponding packing slips.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No. 2019-003, Continued

Condition, Continued:

iii. For materials with invoices, the following variances were noted.

<u>Invoice No.</u>	<u>Quantity Per Invoices</u>	<u>Quantity Per Receiving Reports</u>	<u>Variance</u>	<u>Net Amount Overage/ (Shortage)</u>
47	189,595	189,585	(10)	\$ (181)
50	536,769	526,859	(9,910)	(23,914)
121802	163,146	163,151	5	4,295
121920	5	-	(5)	(4,295)
121968	19,516	15,955	(3,561)	(152,485)
121976	223	220	(3)	(6,711)
122056	6,432	5,534	(898)	(59,622)
122144	52,887	65,492	12,605	48,859
122163	3,992	2,560	(1,432)	(61,110)
122222	225	-	(225)	(13,801)
122660	11,476	11,792	316	12,278
122663	208,468	207,500	(968)	(197)
122664	431,443	427,637	(3,806)	(8,323)
122666	110,024	108,937	(1,087)	(25,341)
122678	21,376	20,416	(960)	(105,872)
122733	13,458	8,374	(5,084)	(69,331)
122740	210,000	340,000	130,000	230,100
122761	2,231	2,250	19	493
122790	243,738	236,847	(6,891)	(61,261)
122817	130,000	-	(130,000)	(230,100)
123012	36,807	35,296	(1,511)	(182,777)
123075	100,000	106,000	6,000	3,300
123301	62,002	54,849	(7,153)	(149,171)
123570	7,483	7,224	(259)	(9,556)
123400	1,440	540	(900)	(35,451)
			Net shortage	\$ (900,174)

An audit adjustment was proposed to decrease the assets' acquisition costs and capital contributions by \$332,717, which is a questioned cost at Finding No. 2019-006, Condition 2:

Unrecorded acquisition costs	\$ 567,457
Net shortage in materials received	<u>(900,174)</u>
Net overstated acquisition costs	\$ <u>(332,717)</u>

d. Two assets pertain to materials that were issued between fiscal years 2013 and 2019 for typhoon restorations and/or mitigations. Certifications of the project completions were only subsequently prepared on April 29, 2021. In addition, the certifications do not specify the project completion dates. Additionally, of the \$3,121,225 cost for asset ID no. 1121442, \$413,155 of materials issued in fiscal years 2013 and 2014 were determined to be expenses in nature. An audit adjustment was proposed to record the expense in the period incurred, which resulted in a restatement of net position.

<u>Asset ID No.</u>	<u>Capitalization Date</u>	<u>Acquisition Cost</u>	<u>Period Covered</u>
1121441	09/30/19	\$ 7,588,910	FY2015 - FY2019
1121442	09/30/19	\$ 3,121,225	FY2013 - FY2019



COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No. 2019-003, Continued

Condition, Continued:

3. Of nine assets disposals tested, eight disposals pertain to assets damaged by a typhoon; however, the detailed schedule of the damaged assets did not contain the asset ID number, thus, we were not able to verify that assets disposed are part of the assets destroyed by the typhoon. In addition, asset ID nos. 9650741, 9680131 and 9680161 were only partially disposed to agree the total disposal amounts to the Fixed Assets Summary Assessment report. The remaining net book value was not adjusted and/or disposed, as CUC was not able to determine whether all materials associated with the assets were damaged.

<u>Asset ID No.</u>	<u>Asset Description</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>	<u>Net Book Value at September 30, 2019</u>
561031	OVERHEAD CONDUCTOR DEV	09/30/97	\$ 7,211	\$ -
601007	PERMANENT INSTALLATION SERVICES	09/30/97	\$ 103,038	\$ -
9640401	POLES PROJECT, 40 FT & BELOW	09/30/97	\$ 313,329	\$ -
9640451	POWER D.PROJECT - POLES, 45 FT	09/30/97	\$ 862,342	\$ -
9650741	POWER D.PROJECT - COND, PRI, AL (574,073	02/28/07	\$ 779,843	\$ 286,210
9650821	POWER D.P COND, SEC, SGL, MCM	10/31/97	\$ 148,496	\$ -
9680131	POWER D.P TRANSFORMER, 15 KVA (303)	05/31/11	\$ 221,345	\$ 82,728
9680161	TRANSFORMER, 50 KVA	03/31/06	\$ 266,305	\$ 21,484

4. Of fifty-one assets tested for existence verification, the following were noted:
- a. We sighted similar assets; however, we were unable to verify the assets tested, as either the assets and/or the subledger lacked sufficient descriptions (e.g., tag number, serial number or other identifying information) to match the asset to the fixed asset detail.

<u>Asset ID No.</u>	<u>Asset Description</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>	<u>Net Book Value</u>
2142018B	Tank 103	02/28/18	\$ 1,825,123	\$ 1,574,200
221038	FUEL TANK 102	04/30/17	\$ 2,880,875	\$ 2,384,755
231041	NEW RADIATOR SETS INSTALLATION	09/30/14	\$ 1,665,080	\$ 1,159,967
332005	FUEL TANK SYSTEM	06/30/01	\$ 596,661	\$ 21,375
351003	WASTE OIL INCINERATOR	03/31/08	\$ 790,382	\$ -
6032140	INTERLAKE RACKING SYST	03/31/13	\$ 49,594	\$ -

- b. We were unable to sight the assets, as the assets are part of either the electrical or water well grids for which location of the assets can only be determined by Feeder locations; however, the asset's exact location within the Feeders are undeterminable, as such are not being tracked. In addition, CUC could not determine if the assets are part of the assets that were damaged by a typhoon.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No. 2019-003, Continued

Condition, Continued:

<u>Asset ID No.</u>	<u>Asset Description</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>	<u>Net Book Value</u>
611012	METERING CONTRACT	03/31/13	\$ 3,559,560	\$ -
9650887	POWER D COND, SVC, QUAD, #6-#2 (16,043)	12/31/14	\$ 75,938	\$ 54,051
9680151	TRANSFORMER, 37.5 KVA	11/30/14	\$ 469,011	\$ 331,021
591134	LINE TRANSFORMERS	03/31/11	\$ 34,641	\$ -
9680171	TRANSFORMER, 75 KVA	03/31/07	\$ 279,206	\$ 90,228
9700201	METERS - 1 PHASE	04/30/17	\$ 473,783	\$ 392,729
611019	METERS	03/31/13	\$ 30,325	\$ -
641067	ARRA(SEP)LED STREET LIGHT INS-	09/30/12	\$ 353,414	\$ 212,004
2331269	PLEUGER MOTOR M-62-30H	03/31/15	\$ 6,182	\$ -
2331189	ELEC PUMPING EQUIPMENT	03/31/13	\$ 23,860	\$ -
1121442	New Power Installation materials	09/30/19	\$ 3,121,225	\$ 2,965,164

- c. We were unable to sight the assets, as we were advised that the assets had either been damaged, scrapped and/or could not be located. At September 30, 2019, the assets were included in the fixed assets subledger. An audit adjustment was proposed to retire the assets.

<u>Asset ID No.</u>	<u>Asset Description</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>	<u>Net Book Value</u>
3451035	SCORPION MODEL#88 ST B	03/31/13	\$ 19,635	\$ -
6051133	MOTOROLA RADIO APX6000	03/31/15	\$ 4,488	\$ -

- d. The assets are inoperable; however, the assets have not been decommissioned. For asset ID #433010, the asset is comprised of two units, one of which is inoperable (serial no. G11S110650), and we were advised that although the unit is repairable, it would be more feasible to replace the unit with a new engine. Management has not made a determination as to the disposition of the assets.

<u>Asset ID No.</u>	<u>Asset Description</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>	<u>Net Book Value</u>
433010	1825 KW CUMMINS GENERATOR	01/31/10	\$ 1,318,967	\$ 614,445
6341019	Vehicle - 2005 FORD RANGER XL	03/31/13	\$ 5,167	\$ -

- e. The assets have been decommissioned; however, at September 30, 2019, the assets were included in the fixed assets subledger. An audit adjustment was proposed to retire the assets.

<u>Asset ID No.</u>	<u>Asset Description</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>	<u>Net Book Value</u>
221019	HEAVY FUEL OIL TANK	03/31/98	\$ 829,940	\$ -
1121327	EASY POWER SINGLE USER	03/31/13	\$ 25,375	\$ -
1171006	1996 PRESSURE DIGGER D	03/31/13	\$ 183,977	\$ -
3491005	WELL DRILL RIG	03/31/98	\$ 700,000	\$ -

- f. The asset had been demolished; however, at September 30, 2019, the asset was included in the fixed assets subledger. An audit adjustment was proposed to retire the asset.

<u>Asset ID No.</u>	<u>Asset Description</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>	<u>Net Book Value</u>
4951004	STRUCTURAL STEEL BEAM FABRICATED	03/31/03	\$ 19,500	\$ -

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No. 2019-003, Continued

Condition, Continued:

5. Of the \$6,423,876 of assets identified as damaged by a typhoon, CUC recorded a disposal of \$4,974,887 based on the estimated costs to repair and/or replace the damaged assets, as CUC was not able to determine which of the damaged assets were repaired and/or replaced. In addition, the listing of damaged assets does not contain the asset I.D. numbers, thus, we were not able to determine whether the \$4,974,887 in assets that were disposed at September 30, 2019, are the assets that were damaged and replaced.
6. Of nineteen capital improvement project additions tested, the journal vouchers or equivalent, approving the recordation of the transactions to capital improvement projects, were not provided.

<u>Journal Entry No.</u>	<u>Description</u>	<u>Transaction Date</u>	<u>Acquisition Cost</u>
232686	Construction WIP-Power	05/02/19	\$ 21,300
216211	Construction WIP - T&D	11/03/18	\$ 802
217090	Construction WIP - T&D	11/10/18	\$ 17,203
218131	Construction WIP - T&D	11/29/18	\$ 9,573
220607	Construction WIP - T&D	12/19/18	\$ 27,854
223149	Construction WIP - T&D	01/17/19	\$ 7,845
225467	Construction WIP - T&D	02/08/19	\$ 2,908
234027	Construction WIP - T&D	05/21/19	\$ 734

Cause: CUC lacks established policies and procedures for the accounting and maintenance of capital assets and for adequate file maintenance.

Effect: Capital assets are misstated. Also, CUC is in noncompliance with applicable property standards, including equipment and real property management requirements for CFDA 97.036.

Recommendation: CUC should:

- Establish policies and procedures for the accounting and maintenance of capital assets;
- Identify all assets with either a tag number, serial number or other identifying information to specifically account for the assets;
- Remove from the fixed assets subledger assets that have been decommissioned, disposed, or determined inoperable and irreparable;
- Properly classify non-capitalizable materials as expenses; and
- Adequately substantiate with underlying accounting records the asset acquisition costs and disposals of assets.

Views of Responsible Officials:

CUC's Corrective Action Plan states agreement with Conditions 1, 2a, 2b, 2c, 3, 4b, 4c, 4d, 4e, 4f, 5 and 6 and states disagreement with Conditions 2d and 4a, as follows:

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No. 2019-003, Continued

Views of Responsible Officials, Continued:

Condition 2d - CUC does not concur. These are Warehouse Material Transactions (WMT) issuances from 2013 to 2019 which were previously recorded as CWIP. Since these materials were used for typhoon restoration projects, they were installed and became part of the electric grid. These amounts are then, reclassified from CWIP to Fixed Assets. Reclassification was not done earlier since restoration projects were not final or completed yet. Certifications of project completions was not required since this was not a single project but a series of small work orders to complete the restoration project. The \$413,155 was adjusted through a Client Adjusting Journal Entry.

Condition 4a - CUC does not concur. CUC maintains its position on this finding. The finding is unwarranted. Management considers its current controls and the methodology for identifying assets meets the utility's objective. Furthermore, all assets tested for physical existence by the auditor were identified by CUC and witnessed by the auditor. For a majority of CUC's capital assets, CUC believes that the cost benefit of identifying the physical existence of assets outweigh the value of placing identifying information on the asset. These assets are fixed and permanent in nature i.e., power plants, power poles, fuel tanks, transformers, water wells, treatment plants, etc. For assets that are significant in number (and an integral part of the system) but have relatively small unit values and are below CUC's 5K capitalization policy, they are grouped by year of acquisition and specific type of assets and similarity of economic useful life.

Auditor Response:

Condition 2d - The material issuances date back between 2013 and 2019 which were only capitalized in fiscal year 2019. Certification of project completion or equivalent documentation substantiates that the restoration project has been completed and is ready for its intended use.

Condition 4a - We were unable to verify the assets tested, as either the assets and/or the subledger lacked sufficient descriptions (e.g., tag number, serial number or other identifying information) to match the asset to the fixed asset detail.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Local Noncompliance - Procurement

Procurement and Suspension and Debarment: CFDA 66.600

Finding No. 2019-004

Criteria: CUC procurement regulations state the following requirements:

- Adequate public notice of the invitation for bids shall be given a reasonable time prior to the date set forth for the opening of bids. Publication of notice in a newspaper of general circulation in the Commonwealth once in each week over a period of calendar days shall be deemed to be adequate notice.
- § 50-50-225 Competitive Sealed Proposals:
  - (c) Public notice. Adequate public notice of the request for proposals shall be given in the same manner as provided for in competitive sealed bids.
- § 50-50-215 Sole Source Procurement:
  - (a) A contract may be awarded for a supply, service or construction item without competition when the Director determines in writing that there is a demonstrated benefit to CUC for sole source procurement for the required supply, service or construction item.
  - (b) The written determination shall be prepared by the Director and shall contain the following information:
    - (1) The unique capabilities required and why they are required and the consideration given to alternative sources.
- Per §50-50-270 Retention of Procurement Records:
  - (a) All procurement records shall be retained by the Director.
  - (b) The Director shall maintain a record listing all contracts made under sole-source procurement or emergency procurement for a minimum of years. The records shall contain:
    - (1) Each contractor's name;
    - (2) The amount and type of each contract; and
    - (3) A listing of the supplies, services or construction procured under each contract.
  - (c) All procurement records, except those designated as not subject to disclosure, shall be available to public inspection.

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.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No. 2019-004, Continued

Condition: Tests of purchases/disbursements noted deficiencies. All transactions appear to be locally funded, except for those identified with a CFDA number.

1. Based on tests of capital assets and capital improvement projects, we noted the newspaper clippings or equivalent evidencing adequate public notices were either not provided or partially provided, as we were advised that the documents are stored at CUC's storage bunker and are not easily retrievable. No questioned costs are presented as the newspaper clippings were subsequently obtained from the newspaper publishers on July 29, 2021 and July 30, 2021 and CUC's selections resulted from competitive processes as there were more than one engineer/contractor submitted statements of qualifications and/or bids.

<u>Reference No.</u>	<u>CFDA No.</u>	<u>Date</u>	<u>Amount</u>	<u>Obligating Document No.</u>	<u>RFSOQ/IFB/SOQ Reference No.</u>	<u>Deficiency</u>
1121361	66.600	02/28/19	\$ 1,622,155	CUC-SD-14-C038 CUC-WD-16-C046	CUC-RFSOQ-14-017 CUC-IFB-16-015	Only the 05/14/14, 05/19/14, 05/26/14, 06/02/14 public notices were provided. The 05/08/14, 05/09/14 and 05/12/14 public notices were subsequently obtained from the newspaper publisher on 07/30/21. Public notices for CUC-IFB-16-015 were subsequently obtained from the newspaper publisher on 07/29/21.
1121400	66.600	09/30/19	\$ 597,026	CUC-SD-12-C065	CUC-SOQ-11-056	Public notices were subsequently obtained from the newspaper publisher on 07/29/21.
240113	66.600	07/26/19	\$ 117,155	CUC-WD-17-C005	CUC-IFB-16-022	Only the 09/05/16 public notice was provided. The 08/15/16, 08/17/16, 08/19/16, 08/22/16, 08/24/16, 08/26/16, 08/29/16 and 08/31/16 were subsequently obtained from the newspaper publisher on 07/29/21.
234901	66.600	05/30/19	\$ 210,452	CUC-WD-16-C036	CUC-IFB-16-014	Public notices were subsequently obtained from the newspaper publisher on 07/29/21.

2. Of seventeen non-federal expenditures totaling \$3,038,186, we noted the following:

- a. For three (or 18%), procurement was done through sole source, but we were not provided with the determination in writing as to the demonstrated benefit to CUC and the unique capabilities required and why they are required and the consideration given to alternative sources for contract for the following:

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Source Document</u>	<u>Obligating Document No.</u>
40.1.00.3110.6300	12/31/18	222207	\$ 2,119	RECVG	CUC-ADM-13-C030
40.1.00.3110.6300	03/04/19	227692	\$ 2,880	RECVG	19-0391
20.1.00.3040.5340	09/30/19	273830	\$ 9,216	GJ	CUC-WW-19-C012

- b. For three (or 18%), we were not provided with evidence that adequate public notice was given.

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Source Document</u>	<u>Obligating Document No.</u>
10.3.00.3030.5370	01/30/19	224952	\$ 7,138	RECVG	CUC-ALL-15-C031
40.3.00.3110.6300	07/12/19	238019	\$ 2,124	RECVG	CUC-ALL-15-C031
10.1.00.3030.5370	08/21/19	241871	\$ 28,554	RECVG	CUC-ALL-15-C031



COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No. 2019-004, Continued

Condition, Continued:

3. Of twenty-six typhoon-related expenditures totaling \$40,636,380, the following was noted:

a. For one (or 4%), we were not provided with procurement documents.

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Source Document</u>
10.1.00.3080.5361	09/30/19	251013	\$ 374,496	GJ

b. For one (or 4%), we were not provided with evidence that adequate public notice was given.

<u>Account Number</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Source Document</u>	<u>Obligating Document No.</u>
10.1.00.3030.5651	01/31/19	224506	\$ 278,767	RECVG	CUC-PG-17-C008

Cause: CUC lacks controls, such as oversight responsibility and monitoring, over compliance with procurement rules and regulations. Furthermore, CUC’s personnel experienced difficulties with retrieving documents from CUC’s storage bunker.

Effect: CUC is in local noncompliance with procurement rules and regulations requirements; CUC is in noncompliance with applicable procurement and suspension and debarment requirements for CFDA 66.600.

Recommendation: CUC should establish and implement controls over compliance with applicable procurement rules and regulations, including a policy clarification as to the minimum number of years required for records retention, and establish and maintain efficient filing of relevant documents for easier retrieval.

Views of Responsible Officials:

CUC’s Corrective Action Plan states agreement with Condition 2a for obligating document no. 19-0391 and states disagreement with Conditions 1, 2a for obligating document nos. CUC-ADM-13-C030 and CUC-WW-19-C012, 2b, 3a and 3b, as follows:

Condition 1 - CUC does not concur. Documents were furnished to the auditor last August 4, 2021. This finding should be removed.

Condition 2a for obligating document nos. CUC-ADM-13-C030 and CUC-WW-19-C012 - CUC does not concur.

- CUC-ADM-13-C030 - This was the time that CUC did not have any board of directors.
- CUC-WW-19-C012 - Document was furnished to the auditor on July 16, 2021. This finding should be removed.

Condition 2b - CUC does not concur. Documents were furnished to the auditor last August 4, 2021. This finding should be removed.

Condition 3a - CUC does not concur. Documents were furnished to the auditor on 07/14/2021. This finding should be removed.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No. 2019-004, Continued

Views of Responsible Officials, Continued:

Condition 3b - CUC does not concur. Documents were furnished to the auditor on 07/19/2021. This finding should be removed.

Auditor Response:

Condition 1 - In accordance with CUC's procurement regulation, §50-50-270 Retention of Procurement Records, all procurement records shall be retained by the Director. The newspaper clippings or equivalent evidencing adequate public notices were either not provided or partially provided, as we were advised that the documents are stored at CUC's storage bunker and are not easily retrievable. Accordingly, CUC was not able to substantiate that the newspaper clippings are being retained on file. CUC subsequently obtained copies of the newspaper clippings from the newspaper publishers on July 29, 2021 and July 30, 2021, as a result of our audit finding.

Condition 2a for obligating document nos. CUC-ADM-13-C030 and CUC-WW-19-C012 - The justification provided did not give consideration to other vendors.

Condition 2b - Documents were not provided to show that adequate public notice was given. The finding remains.

Condition 3a - The procurement documents were not provided. The finding remains.

Condition 3b - Advertising orders did not confirm that services were actually performed by newspaper outlets. The finding remains.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Nonpayroll Expenditures

Finding No. 2019-005

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

Condition: Tests of purchases/disbursements noted the following:

1. Of seventeen non-federal expenditures totaling \$3,038,186, we noted the following:
  - a. For two (or 12%), supporting documentation was not provided to substantiate the recorded transaction.

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Source Document</u>
10.1.00.3050.5360	09/30/19	251361	\$ (2,579,069)	GJ
10.1.00.3060.5450	09/30/19	246235	\$ (3,840)	GJ

- b. For one (or 6%), the expenditure recorded was understated based on the invoice amount.

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Source Document</u>
20.1.00.3050.5240	09/30/19	244436	\$ 213,012	RECVG

2. Of twenty-six typhoon-related expenditures totaling \$40,636,380, the following was noted.
  - a. For one (or 4%), no documents were provided to substantiate the amount recorded.

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Source Document</u>
10.1.00.3080.5361	09/30/19	251013	\$ 374,496	GJ

Cause: CUC lacks controls, such as oversight responsibility and monitoring to confirm documents are properly maintained and safeguarded and that expenditures are recorded based on the invoice balance.

Effect: CUC is in noncompliance with internal control policies to confirm expenditures are adequately substantiated.

Recommendation: CUC should establish and implement monitoring controls to confirm that documents are properly maintained and safeguarded and that expenditures are recorded based on underlying supporting documents.

Views of Responsible Officials:

CUC's Corrective Action Plan states agreement with Condition 1b and states disagreement with Conditions 1a and 2a, as follows:

Condition 1a - CUC does not concur. Documents were provided to the auditor on 07/14/2021. This finding should be removed.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No. 2019-005, Continued

Views of Responsible Officials, Continued:

Condition 2a - CUC does not concur. Documents were furnished to the auditor on 07/14/2021. This finding should be removed.

Auditor Response:

Condition 1a - For document JE251361, an explanation could not be provided for the basis of the journal entry recording. The entry aimed to agree the General Ledger (GL) to the Subsidiary Ledger (SL) without any reconciliation performed. The cause of the variance between the GL and SL was not provided.

For document JE246235, the entry was made in error as there should not have been a credit to expense. Rather, a credit to revenue should have been recorded. A credit to expense was not substantiated.

Condition 2a - The invoices and related check payments that substantiates the expenditure amount were not provided. The finding remains.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No.: 2019-006  
 Pass Through Entity: CNMI Government  
 Federal Agency: U.S. Department of Homeland Security  
 CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)  
 Federal Award Nos.: FEMA-4235-DR, HMGP-4235-01-09R, FEMA-4236-DR and FEMA-4404-DR  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$332,717

Criteria: Non-federal entities receiving Federal awards are required to establish and maintain internal control over the Federal awards that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes.

Condition:

1. Of forty control items tested, aggregating \$163,060 of a population of \$75,387,512, we noted that there was at least one instance wherein the obligating document was prepared after the service was completed.

<u>Journal Entry No.</u>	<u>Transaction Date</u>	<u>Account No.</u>	<u>Document No.</u>	<u>Obligating Document</u>	<u>Obligating Document Date</u>	<u>Invoice Date</u>	<u>Amount</u>
241883	08/14/19	40.2.00.3110.5261	RCT19-08708	19-1035	06/10/19	03/22/19	\$ 1,243

No questioned cost is presented as the amount was subsequently approved by management.

2. Of twenty items tested, aggregating \$65,255,883 of a population of \$79,762,138, one or (5%) was for \$15,274,558 per JV#247125, dated 09/30/19. Of the JV total, \$749,419 were estimated amounts for items delivered without an invoice, and only \$181,962 was recorded. This resulted in an understatement of \$567,457. The \$567,457 amount was subsequently determined on May 25, 2021 and June 15, 2021 during fieldwork. Further, invoice no. 123400 for \$179,997 was subsequently provided.

Additionally, the capital assets additions testing noted a shortage of materials received amounting to \$900,147, resulting in an overstatement of materials cost of \$332,717. An audit adjustment was proposed to decrease the assets acquisition costs and capital contributions by \$332,717. See details below:

<u>Invoice No.</u>	<u>Amount Determined Without Invoice</u>	<u>Less Amount Recorded</u>	<u>Amount Understated</u>	<u>Net Shortage of Materials Received</u>	<u>Net Overstatement of Materials Cost</u>
121920	\$ 102,792				
122056	284,668				
No invoice	<u>361,959</u>				
Total	\$ 749,419	\$ 181,962	\$ 567,457	\$ 900,174	\$ 332,717

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No.: 2019-006, Continued  
 Pass Through Entity: CNMI Government  
 Federal Agency: U.S. Department of Homeland Security  
 CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)  
 Federal Award Nos.: FEMA-4235-DR, HMGP-4235-01-09R, FEMA-4236-DR and FEMA-4404-DR  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$332,717

Condition, Continued:

3. No approved purchase order or equivalent document authorizing the purchase of materials was provided. The transaction is covered under a Memorandum of Agreement (MOA) between CUC and an off-island utility agency wherein both utility agencies could share and provide resources to one another during times of need. The MOA agreement, however, is a blanket agreement wherein the effective date, agreed upon amount, and the type of resources and services to be rendered were not specified on the agreement. Thus, transactions covered under such agreement should be supported with an approved purchase order or equivalent to substantiate management approval of the resources and/or services to be purchased/rendered. No questioned costs are presented as expenditures are determined to be allowable based on invoices provided.

<u>Asset ID No.</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>
1121403	09/30/19	\$ 919,525

4. Of twenty-six typhoon-related expenditures totaling \$40,636,380, four (or 15%) expenditures were incurred before the item was obligated. No questioned costs are presented as expenditures are determined to be allowable.

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Invoice Date</u>	<u>Obligating Document No.</u>	<u>Obligating Document Date</u>	<u>Days Lapsed</u>
10.1.00.3080.5371	12/31/18	222199	\$ 13,750	11/30/18	19-0458	12/28/18	8
10.1.00.3080.5361	02/27/19	227316	\$ 239,408	11/21/18	19-0413	12/15/18	24
10.1.00.3080.5261	04/18/19	231295	\$ 1,796	02/11/19	19-0889	04/12/19	60
10.1.00.3080.5371	07/31/19	239778	\$ 1,500	02/01/19	19-1065	06/19/19	38

Cause: CUC lacks internal controls over compliance with applicable allowable costs/cost principles requirements.

Effect: CUC is in noncompliance with applicable allowable costs/cost principles requirements, and questioned costs of \$332,717 exist.

Recommendation: CUC should comply with applicable federal requirements by implementing an accounting system capable of segregating federal and non-federal charges. Also, CUC should implement adequate procedures in the review, authorization, and documentation of costs in accordance with applicable allowable costs/cost principles requirements.

Views of Responsible Officials:

CUC's Corrective Action Plan states agreement with Condition 2 and states disagreement with Conditions 1, 3 and 4, as follows:



COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No.: 2019-006, Continued  
Pass Through Entity: CNMI Government  
Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)  
Federal Award Nos.: FEMA-4235-DR, HMGP-4235-01-09R, FEMA-4236-DR and FEMA-4404-DR  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$332,717

Views of Responsible Officials, Continued:

Condition 1 - CUC does not concur. CUC maintains its position on this finding. The finding is unwarranted. Procurement regulations were suspended by way of Executive Order No. 2018-25 on account of a natural disaster. The Order authorized the CUC to procure needed materials and services waiving procurement regulation for the acquisition of typhoon restoration materials and supplies. The related expenditures and corresponding payments were authorized and approved by the Executive Director. The Order was furnished to the auditor.

Condition 3 - CUC does not concur. CUC maintains its position on this finding. The finding is unwarranted. These were power poles purchased from GPA, a government agency in Guam, pursuant to a Memorandum of Agreement (MOA) between CUC and GPA. The acquisition is consistent with the scope of the MOA. Additionally, purchase orders are not a requirement under current procurement regulations for purchases between government agencies.

Condition 4 - CUC does not concur. CUC maintains its position on this finding. The finding is unwarranted. Procurement regulations were suspended by way of Executive Order No. 2018-25 on account of a natural disaster. The Order waived procurement regulations and authorized the CUC to procure typhoon restoration supplies and services. The related expenditures and corresponding payments were authorized and approved by the Executive Director. The Order was furnished to the auditor.

Auditor Response:

Condition 1 - Costs should be properly reviewed and approved by management before they are incurred notwithstanding the situation. Finding stays.

Condition 3 - The MOA agreement is a blanket agreement wherein the effective date, agreed upon amount, and the type of resources and services to be rendered were not specified on the agreement. Thus, transactions covered under such agreement should be either supported with an approved purchase order or equivalent documentation to substantiate management approval of the resources and/or services to be purchased/rendered.

Condition 4 - Although procurement regulations were suspended, the process by which items are procured should be obligated before the expense is incurred. The finding remains.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No.: 2019-007  
 Pass Through Entity: CNMI Government  
 Federal Agency: U.S. Department of Homeland Security  
 CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)  
 Federal Award Nos.: FEMA-4235-DR, HMGP-4235-01-09R, FEMA-4236-DR and FEMA-4404-DR  
 Area: Matching, Level of Effort, Earmarking  
 Questioned Costs: \$-0-

Criteria:

1. Non-federal entities receiving Federal awards are required to establish and maintain internal control over the Federal awards that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes.
2. In accordance with applicable matching requirements, costs must be on a shared basis, as specified in the FEMA-State Agreement. The non-Federal share that is split between the State and each subrecipient may vary.

Condition: For four (or 20%) of twenty nonpayroll expenditures tested, aggregating \$65,255,883 of a population of \$79,762,138, the match was not met for Project Worksheet (PW) No. 9. See details below.

	<u>Journal Entry</u>	<u>Transaction Date</u>	<u>Account No.</u>	<u>Account Description</u>	<u>Amount</u>	<u>Combined Total</u>
1	247125	09/30/19	40.1.00.1240.3440	Power-Inventory	\$ 1,333,911	
2	247125	09/30/19	00.0.00.1010.1000	Fixed Assets Clearing	\$ 3,889,771	\$ 5,223,682

Details for #1 and #2:

<u>Invoice No.</u>	<u>Invoice Date</u>	<u>Invoice Amount</u>	<u>Less CUC Partial Payment</u>	<u>Reference No.</u>	<u>Cost share %</u>	<u>Required Match</u>
44	11/13/18	\$ 527,340	N/A	JV #247125	10%	\$ 52,734
47	11/21/18	\$ 1,791,391	N/A	JV #247125	10%	<u>179,139</u>
					<b>Total</b>	<b>\$ <u>231,873</u></b>

	<u>Journal Entry</u>	<u>Transaction Date</u>	<u>Account No.</u>	<u>Account Description</u>	<u>Amount</u>	<u>Combined Total</u>
3	247125	09/30/19	40.1.00.1240.3440	Inventory Clearing Account	\$ 8,953,790	
4	247125	09/30/19	00.0.00.1010.1000	Fixed Assets Clearing	\$ 6,320,769	\$ 15,274,559

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No.: 2019-007, Continued  
 Pass Through Entity: CNMI Government  
 Federal Agency: U.S. Department of Homeland Security  
 CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)  
 Federal Award Nos.: FEMA-4235-DR, HMGP-4235-01-09R, FEMA-4236-DR and FEMA-4404-DR  
 Area: Matching, Level of Effort, Earmarking  
 Questioned Costs: \$-0-

Condition, Continued:

Details for #3 and #4:

<u>Invoice No.</u>	<u>Invoice Date</u>	<u>Invoice Amount</u>	<u>Less CUC Partial Payment</u>	<u>Reference No.</u>	<u>Cost Share %</u>	<u>Required Match</u>
122660	04/10/19	\$ 513,423	\$ 41,074	JV #247125	10%	\$ 10,268
122663	04/11/19	\$ 88,097	\$ 7,049	JV #247125	10%	1,761
122664	04/11/19	\$ 563,396	\$ 45,072	JV #247125	10%	11,268
122665	04/11/19	\$ 88,500	\$ 7,080	JV #247125	10%	1,770
122666	04/11/19	\$ 986,209	\$ 78,897	JV #247125	10%	19,724
122678	04/15/19	\$ 876,359	\$ 70,109	JV #247125	10%	17,527
122733	04/22/19	\$ 151,535	\$ 12,123	JV #247125	10%	3,030
122740	04/22/19	\$ 371,700	\$ 29,736	JV #247125	10%	7,434
122761	04/24/19	\$ 57,939	\$ 4,635	JV #247125	10%	1,159
122790	04/29/19	\$ 496,644	\$ 39,731	JV #247125	10%	9,933
122817	05/01/19	\$ 230,100	\$ 18,408	JV #247125	10%	4,602
123012	05/20/19	\$ 1,629,102	\$ 130,328	JV #247125	10%	32,582
123075	05/23/19	\$ 55,000	\$ 4,400	JV #247125	10%	1,100
123270	06/12/19	\$ 59,805	\$ 4,784	JV #247125	10%	1,196
123276	06/13/19	\$ 4,425	\$ 354	JV #247125	10%	88
123301	06/14/19	\$ 401,148	\$ 32,092	JV #247125	10%	8,023
123332	06/18/19	\$ 292,479	\$ 23,398	JV #247125	10%	5,850
123570	07/16/19	\$ 1,200,529	\$ 113,173	JV #247125	10%	6,880
123374	6/24/19	\$ 214,900	N/A	JV #247125	10%	21,490
123400	6/27/19	\$ 179,997	N/A	JV #247125	10%	18,000
No invoice	unknown	\$ 361,959	N/A	JV #247125	10%	<u>36,196</u>
					Sub-total	219,881
					Less amount paid on 10/20/21	<u>(164,496)</u>
					Total	\$ <u>55,385</u>

In a letter dated October 20, 2021, the Governor’s Authorized Representative from the CNMI Government (Pass-through Entity) confirmed that CUC subsequently paid outstanding local match amounts on October 20, 2021 and that for fiscal year 2019, CUC paid their total 10% cost share regarding PW No. 9. Therefore, no questioned costs are presented.

Cause: CUC’s software system is not programmed to support matching amounts or limits or calculations. Further, CUC lacked communication with the CNMI Public Assistance (PA) Office to substantiate compliance with applicable matching requirements.

Effect: CUC is in noncompliance with applicable matching requirements.

Recommendation: CUC should seek assistance to support matching amounts or limits or calculations into its accounting software system. CUC should develop policies and procedures to coordinate and communicate with the CNMI PA Office of matching requirements and amounts that are due in a timely manner.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2019

Finding No.: 2019-007, Continued  
Pass Through Entity: CNMI Government  
Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)  
Federal Award Nos.: FEMA-4235-DR, HMGP-4235-01-09R, FEMA-4236-DR and FEMA-4404-DR  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$-0-

Views of Responsible Officials:

CUC's Corrective Action Plan states disagreement as follows:

CUC does not concur. CUC maintains its position on this finding. The finding is unwarranted. The 10% cost share was an arrangement and understanding between CUC and the CNMI government and was not intended to be a condition of the grant. Furthermore, a matching requirement by the CUC was not expressly stated in the CDFA 97-036 Disaster Grant Agreement. If the auditor believes otherwise, specific references to regulations, pronouncements, and grant requirements that serves as basis for the auditor's finding is requested.

Auditor Response:

The Disaster Grant Agreement implicitly states a local share (matching) requirement, and this is also evident from the CNMI Public Assistance Program Request for Payment/Reimbursement which explicitly summarizes the project description into three categories: 1) amount requested; 2) federal share; and 3) CUC local share. Furthermore, CUC acknowledges a 10% cost share agreement between CUC and the CNMI government. The finding is retained because as of 09/30/19, CUC was noncompliant and deficient in its non-federal share match as the reimbursement request had not been received from the pass-through entity.



# Commonwealth Utilities Corporation Chief Financial Officer



Response to Audit Findings  
FY 2019 Audit

## **Finding No. 2019-001**

CFDA Program: N/A

Area: Accounting

Contact Person: Greg P. Cruz, Chief Financial Officer

### Condition 1.

CUC concurs.

**Proposed Completion Date:** June 30, 2022



# Commonwealth Utilities Corporation Chief Financial Officer



## Finding No. 2019-002

CFDA Program: N/A  
Area: Accounting  
Contact Person: Greg P. Cruz, Chief Financial Officer

### Condition 1.

CUC does not concur.

#### **CUC RESPONSE:**

CUC maintains its position on this finding. The finding is unwarranted.

CUC's inventory valuation is based on the actual weighted average cost of items grouped by specific type. CUC was unable to draw a conclusion from the finding due to the calculation of the auditor was based on an estimate and not actual cost of the sample items tested. Thus, the inconsistencies in methodologies made their valuation irreconcilable to the CUC's.

**Proposed Completion Date:** Completed

### Condition 2

CUC concurs.

#### **CUC RESPONSE (Corrective Action Plan):**

Additional controls were implemented to enhance CUC's system for organizing and storing documents such as digitizing documents to serve as a backup.

**Proposed Completion Date:** Completed



# Commonwealth Utilities Corporation Chief Financial Officer



## Finding No. 2019-003

CFDA Program: 97.036  
Area: Accounting  
Contact Person: Greg P. Cruz, Chief Financial Officer

### Condition 1

CUC concurs.

#### **CUC RESPONSE (Corrective Action Plan):**

Discussions are underway to update the policy with a completion date of September 30, 2022.

**Proposed Completion Date:** September 30, 2022

### Condition 2.a

CUC concurs.

#### **CUC RESPONSE (Corrective Action Plan):**

CUC enhanced its internal controls by segregating duties and responsibilities for users creating new assets and users entering transactions after the asset has been created.

**Proposed Completion Date:** Completed

### Condition 2.b

CUC concurs.

#### **CUC RESPONSE (Corrective Action Plan):**

CUC enhanced its business process and internal controls for receiving and invoice matching. For example, SOPs were revised for warehouse personnel receiving item(s) where the employee receiving the item(s) will only have knowledge of the item's description and associated Purchase Order number but not the quantity ordered. The employee accepting the delivery will count and enter into the receiving report the quantity received which will then be used by the accounting department to reconcile to the vendor's invoice.

**Proposed Completion Date:** Completed

### Condition 2.c.i-ii-iii

CUC concurs.



# Commonwealth Utilities Corporation Chief Financial Officer



**CUC RESPONSE (Corrective Action Plan):**

Refer to CUC response for Condition 2.b (Finding No. 2019-003).

**Proposed Completion Date:** Completed

Condition 2.d

CUC does not concur.

**CUC RESPONSE:**

These are Warehouse Material Transactions (WMT) issuances from 2013 to 2019 which were previously recorded as CWIP. Since these materials were used for typhoon restoration projects, they were installed and became part of the electric grid. These amounts are then, reclassified from CWIP to Fixed Assets. Reclassification was not done earlier since restoration projects were not final or completed yet. Certifications of project completions was not required since this was not a single project but a series of small work orders to complete the restoration project. The \$413,155 was adjusted through a Client Adjusting Journal Entry.

**Proposed Completion Date:** Completed

Condition 3

CUC concurs.

**CUC RESPONSE (Corrective Action Plan):**

CUC will enhance its business process and internal controls for identifying assets that will provide a practical and prudent mechanism for inventorying fixed assets and accountability for the assets and a mechanism for auditors to verify the assets.

**Proposed Completion Date:** September 30, 2022

Condition 4.a

CUC does not concur.

**CUC RESPONSE:**

CUC maintains its position on this finding. The finding is unwarranted.

Management considers its current controls and the methodology for identifying assets meets the utility's objective. Furthermore, all assets tested for physical existence by the auditor were identified by CUC and witnessed by the auditor.





# Commonwealth Utilities Corporation Chief Financial Officer



For a majority of CUC's capital assets, CUC believes that the cost benefit of identifying the physical existence of assets outweighs the value of placing identifying information on the asset. These assets are fixed and permanent in nature i.e., power plants, power poles, fuel tanks, transformers, water wells, treatment plants, etc. For assets that are significant in number (and an integral part of the system) but have relatively small unit values and are below CUC's 5K capitalization policy, they are grouped by year of acquisition and specific type of assets and similarity of economic useful life.

**Proposed Completion Date:** Completed

#### Condition 4.b

CUC concurs.

**CUC RESPONSE:**

Refer to CUC response for Condition 3 (Finding No. 2019-003).

**Proposed Completion Date:** Completed

#### Condition 4.c

CUC concurs.

**CUC RESPONSE (Corrective Action Plan):**

SOPs will be amended to implement semi-annual condition assessments of major equipment assets. In addition, independent annual inspections will also be conducted by accounting personnel to confirm and validate the condition of the assets.

**Proposed Completion Date:** September 30, 2022

#### Condition 4.d

CUC concurs.

**CUC RESPONSE (Corrective Action Plan):**

Refer to CUC response for Condition 4.c (Finding No. 2019-003).

**Proposed Completion Date:** September 30, 2022

#### Condition 4.e

CUC concurs.

**CUC RESPONSE (Corrective Action Plan):**



# Commonwealth Utilities Corporation Chief Financial Officer



Refer to CUC response for Condition 4.c (Finding No. 2019-003).

**Proposed Completion Date:** September 30, 2022

## Condition 4.f

CUC concurs.

**CUC RESPONSE (Corrective Action Plan):**

Refer to CUC response for Condition 4.c (Finding No. 2019-003).

**Proposed Completion Date:** September 30, 2022

## Condition 5

CUC concurs.

**CUC RESPONSE (Corrective Action Plan):**

Refer to CUC response for Condition 3 (Finding No. 2019-003).

**Proposed Completion Date:** Completed

## Condition 6

CUC concurs.

**CUC RESPONSE (Corrective Action Plan):**

Additional controls will be implemented to enhance CUC's system for organizing and storing documents such as digitizing documents to serve as a backup.

**Proposed Completion Date:** Completed



# Commonwealth Utilities Corporation Chief Financial Officer



## Finding No. 2019-004

CFDA Program: 66.600  
Area: Procurement  
Contact Person: Betty G. Terlaje, Chief of Administration

### Condition 1

CUC does not concur.

#### **CUC RESPONSE:**

Documents were furnished to the auditor last August 4, 2021. This finding should be removed.

**Proposed Completion Date:** Completed

### Condition 2.a

CUC does not concur.

#### **CUC RESPONSE:**

- **CUC-ADM-13-C030** – This was the time that CUC did not have any board of directors.
- **CUC-WW-19-C012** – Document was furnished to the auditor on July 16, 2021. This finding should be removed.

**Proposed Completion Date:** Completed

### Condition 2.a

CUC concurs.

#### **CUC RESPONSE:**

- **PO19-0391** – Transaction Warehouse. CUC will prepare a Sole Source Justification for FY2022, beginning October 1, 2021.

**Proposed Completion Date:** October 01, 2021



# Commonwealth Utilities Corporation Chief Financial Officer



## Condition 2.b

CUC does not concur.

### **CUC RESPONSE:**

Documents were furnished to the auditor last August 4, 2021. This finding should be removed

**Proposed Completion Date:** Completed

## Condition 3.a

CUC does not concur.

### **CUC RESPONSE:**

Documents were furnished to the auditor on 07/14/2021. This finding should be removed.

**Proposed Completion Date:** Completed

## Condition 3.b

CUC does not concur.

### **CUC RESPONSE:**

Documents were furnished to the auditor on 07/19/2021. This finding should be removed.

**Proposed Completion Date:** Completed



# Commonwealth Utilities Corporation Chief Financial Officer



## Finding No. 2019-005

CFDA Program: 97.036  
Area: Accounting  
Contact Person: Greg P. Cruz, Chief Financial Officer

### Condition 1.a

CUC does not concur.

#### **CUC RESPONSE:**

Documents were provided to the auditor on 07/14/2021. This finding should be removed.

**Proposed Completion Date:** Completed

### Condition 1.b

CUC concurs.

#### **CUC RESPONSE (Corrective Action Plan):**

SOPs will be enhanced to provide for a timelier recognition of cost sharing agreements. Management believes the enhancement will minimize if not eliminate the probability of future understatements of cost.

**Proposed Completion Date:** Ongoing

### Condition 2.a

CUC does not concur.

#### **CUC RESPONSE:**

Documents were furnished to the auditor on 07/14/2021. This finding should be removed.

**Proposed Completion Date:** Completed



# Commonwealth Utilities Corporation Chief Financial Officer



## Finding No. 2019-006

CFDA Program: 97.036  
Area: Accounting  
Contact Person: Greg P. Cruz, Chief Financial Officer

### Condition 1

CUC does not concur.

#### **CUC RESPONSE:**

CUC maintains its position on this finding. The finding is unwarranted.

Procurement regulations were suspended by way of Executive Order No. 2018-25 on account of a natural disaster. The Order authorized the CUC to procure needed materials and services waiving procurement regulation for the acquisition of typhoon restoration materials and supplies. The related expenditures and corresponding payments were authorized and approved by the Executive Director. The Order was furnished to the auditor.

**Proposed Completion Date:** Completed

### Condition 2

CUC Concur.

#### **CUC RESPONSE (Corrective Action Plan):**

Refer to CUC response for Condition 2.b (Finding 2019-003).

CUC enhanced its business process and internal controls for receiving and invoice matching. For example, SOPs were amended for warehouse personnel receiving item(s) where the employee receiving the item(s) will only have knowledge of the item's description and associated Purchase Order number but not quantity ordered. The employee accepting the delivery will count and enter into the receiving report the quantity received which will then be used by the accounting department to reconcile to the vendor's invoice.

**Proposed Completion Date:** Completed

### Condition 3

CUC does not concur.

#### **CUC RESPONSE:**



# Commonwealth Utilities Corporation Chief Financial Officer



CUC maintains its position on this finding. The finding is unwarranted.

These were power poles purchased from GPA, a government agency in Guam, pursuant to a Memorandum of Agreement (MOA) between CUC and GPA. The acquisition is consistent with the scope of the MOA. Additionally, purchase orders are not a requirement under current procurement regulations for purchases between government agencies.

**Proposed Completion Date:** Completed

#### Condition 4

CUC does not concur.

#### **CUC RESPONSE:**

CUC maintains its position on this finding. The finding is unwarranted.

Procurement regulations were suspended by way of Executive Order No. 2018-25 on account of a natural disaster. The Order waived procurement regulations and authorized the CUC to procure typhoon restoration supplies and services. The related expenditures and corresponding payments were authorized and approved by the Executive Director. The Order was furnished to the auditor.

**Proposed Completion Date:** Completed



# Commonwealth Utilities Corporation Chief Financial Officer



## Finding No. 2019-007

CFDA Program: 97.036  
Area: Accounting  
Contact Person: Greg P. Cruz, Chief Financial Officer

CUC does not concur.

### **CUC RESPONSE:**

CUC maintains its position on this finding. The finding is unwarranted.

The 10% cost share was an arrangement and understanding between CUC and the CNMI government and was not intended to be a condition of the grant. Furthermore, a matching requirement by the CUC was not expressly stated in the CDFA 97-036 Disaster Grant Agreement.

If the auditor believes otherwise, specific references to regulations, pronouncements, and grant requirements that serves as basis for the auditor's finding is requested.

**Proposed Completion Date:** Completed