

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, 2020

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, 2020, 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 June 27, 2022. 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, 2020; 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) as a basis for designing 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 2020-001 through 2020-004 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 financial statements. 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 2020-002 and 2020-003.

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

June 27, 2022

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 each of CUC's major federal programs for the year ended September 30, 2020. CUC's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of CUC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of CUC's compliance.

Basis for Qualified Opinion on CFDA Program 11.300 and CFDA Program 66.600

As described in Findings 2020-005 through 2020-010 in the accompanying Schedule of Findings and Questioned Costs, CUC did not comply with requirements regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program Name</i>	<i>Compliance Requirement</i>
2020-005	11.300	Investments for Public Works and Economic Development Facilities	Allowable Costs/Cost Principles
2020-006	11.300	Investments for Public Works and Economic Development Facilities	Matching, Level of Effort, Earmarking
2020-007	11.300	Investments for Public Works and Economic Development Facilities	Reporting
2020-008	11.300	Investments for Public Works and Economic Development Facilities	Special Tests and Provisions - Wage Rate Requirements
2020-009	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Equipment and Real Property Management
2020-010	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Reporting

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

Qualified Opinion on CFDA Program 11.300 and CFDA Program 66.600

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, CUC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA Program 11.300 Investments for Public Works and Economic Development Facilities and CFDA Program 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support for the year ended September 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

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 each of its other major federal programs identified in the summary of auditors’ results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2020.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2020-003 and 2020-011. Our opinion on each 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CUC's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2020-005 through 2020-010 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2020-003 and 2020-011 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, 2020, and have issued our report thereon dated June 27, 2022, 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, 2020, 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

June 27, 2022

COMMONWEALTH UTILITIES CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Commerce Direct Program: Economic Development Cluster: Investments for Public Works and Economic Development Facilities and Economic Development Cluster Total	11.300		\$ 957,476
Total U.S. Department of Commerce			<u>957,476</u>
U.S. Department of the Interior Direct Program: Economic, Social, and Political Development of the Territories	15.875		62,479
U.S. Department of the Interior Pass-Through Program From the CNMI Government: Economic, Social, and Political Development of the Territories: CUC Kagman Waterline	15.875	CNMI-CIP-2018-9	450,000
Total U.S. Department of the Interior			<u>512,479</u>
U.S. Environmental Protection Agency Direct Program: Environmental Protection Consolidated Grants for the Insular Areas - Program Support	66.600		3,357,817
Total U.S. Environmental Protection Agency			<u>3,357,817</u>
U.S. Department of Homeland Security Pass-Through Program From the CNMI Government: Disaster Grants - Public Assistance (Presidentially Declared Disasters): Typhoon Yutu	97.036	DR-4404-MP	116,213
Total U.S. Department of Homeland Security			<u>116,213</u>
Total Expenditures of Federal Awards			<u>\$ 4,943,985</u>
Reconciliation: Expenditures per Statement of Revenues, Expenses and Changes in Net Position: Federal grants and capital contributions Grant revenues and contribution reimbursements from prior year expenditures			\$ 5,244,635 <u>(300,650)</u> <u>\$ 4,943,985</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, 2020

(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, 2020. 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 recognizes contributions from the federal government when qualifying expenditures are incurred.

b. Indirect Costs

CUC does not have an indirect cost negotiation agreement and does not elect to use the de-minimis indirect cost rate allowed under the Uniform Guidance.

c. Matching Costs

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

The 25 percent non-federal share of CFDA 11.300 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, 2020

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? | Yes | | | | | | | | | | |
| 6. | Significant deficiency(ies) identified? | Yes | | | | | | | | | | |
| 7. | Type of auditors' report issued on compliance for major federal programs: | | | | | | | | | | | |
| | 11.300 | Qualified | | | | | | | | | | |
| | 66.600 | Qualified | | | | | | | | | | |
| | 97.036 | 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 programs: | | | | | | | | | | | |
| | <table border="0" style="margin-left: 20px;"> <tr> <td style="text-align: center;"><u>CFDA</u></td> <td style="text-align: center;"><u>Name of Federal Program/Cluster</u></td> </tr> <tr> <td style="text-align: center;">11.300</td> <td>Economic Development Cluster:</td> </tr> <tr> <td style="text-align: center;">66.600</td> <td>Investments for Public Works and Economic Development Facilities</td> </tr> <tr> <td style="text-align: center;">97.036</td> <td>Environmental Protection Consolidated Grants for the Insular Areas - Program Support</td> </tr> <tr> <td></td> <td>Disaster Grants - Public Assistance (Presidentially Declared Disasters)</td> </tr> </table> | <u>CFDA</u> | <u>Name of Federal Program/Cluster</u> | 11.300 | Economic Development Cluster: | 66.600 | Investments for Public Works and Economic Development Facilities | 97.036 | Environmental Protection Consolidated Grants for the Insular Areas - Program Support | | Disaster Grants - Public Assistance (Presidentially Declared Disasters) | |
| <u>CFDA</u> | <u>Name of Federal Program/Cluster</u> | | | | | | | | | | | |
| 11.300 | Economic Development Cluster: | | | | | | | | | | | |
| 66.600 | Investments for Public Works and Economic Development Facilities | | | | | | | | | | | |
| 97.036 | Environmental Protection Consolidated Grants for the Insular Areas - Program Support | | | | | | | | | | | |
| | Disaster Grants - Public Assistance (Presidentially Declared Disasters) | | | | | | | | | | | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 | | | | | | | | | | |
| 11. | Auditee qualified as low-risk auditee? | No | | | | | | | | | | |

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Finding</u>
2020-001	Schedule of Expenditures of Federal Awards
2020-002	Capital Assets
2020-003	Local Noncompliance - Procurement
2020-004	Nonpayroll Expenditures

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2020

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2020-003	66.600	Procurement and Suspension and Debarment	\$ 157,647
2020-005	11.300	Allowable Costs/Cost Principles	\$ -
2020-006	11.300	Matching, Level of Effort, Earmarking	\$ -
2020-007	11.300	Reporting	\$ -
2020-008	11.300	Special Tests and Provisions - Wage Rate Requirements	\$ -
2020-009	66.600	Equipment and Real Property Management	\$ -
2020-010	66.600	Reporting	\$ -
2020-011	66.600	Special Tests and Provisions	\$ -

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Schedule of Expenditures of Federal Awards (SEFA)

Finding No. 2020-001

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:

1. CUC submitted and revised the SEFA numerous times, which delayed the identification of major programs. CUC provided a final SEFA on August 26, 2021. In addition, tests of disbursements noted actual and extrapolated expenditures of \$393,362 and \$559,225, 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 eleven months after the fiscal year end.
2. Of thirteen expenditures tested, aggregating \$1,225,536 of a population of \$2,984,515, we noted for one (or 7%), \$52,272 was inadvertently included in the general ledger details of the program which was not EPA related. The transaction was subsequently corrected, and the general ledger details were updated. No questioned cost is presented as there were no drawdowns made on the amount.

<u>Journal Entry</u>	<u>Transaction Date</u>	<u>Account No.</u>	<u>Account Description</u>	<u>Reference</u>	<u>Amount</u>
265070	07/31/20	30.1.00.1040.2570	CWIP Sewer - Grants	2020-JV07-046-Reclass SLL20-19	\$ 52,272

Cause: CUC's accounting system does not provide for the separate identification of expenditures for each federal program. Additionally, CUC did not reconcile the general ledger details prior to its submission to the auditors. Further, CUC lacks monitoring controls over the accuracy and completeness of the SEFA.

Effect: CUC is in noncompliance with federal SEFA requirements, and fiscal year 2020 expenses are overstated.

Identification as a Repeat Finding: Finding 2019-001.

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, 2020

Capital Assets

Finding No. 2020-002

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 identifying 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. CUC conducted its capital assets inventory during fiscal year 2020; however, the results of the physical inventory count were not properly reconciled to the capital assets register.
3. Of fifty-two assets tested for existence verification, we noted deficiencies, as follows:
 - a. For six (or 12%), we sighted assets with similar descriptions; however, we were unable to verify the assets tested, as 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 capital 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. For eleven (or 21%), 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.

<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

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No. 2020-002, Continued

Condition, Continued:

- c. For two (or 4%), 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, 2020, the assets were included in the capital 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. For two (or 4%), 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. For four (or 8%), the assets have been decommissioned; however, at September 30, 2020, the assets were included in the capital 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. For one (or 2%), the asset had been demolished; however, at September 30, 2020, the asset was included in the capital assets subledger. An audit adjustment was proposed to retire the asset at September 30, 2020.

<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	\$ -

4. Materials related to turbo-charger retrofitting project were received on 06/16/20, but remained in the prepayment account as of September 30, 2020. This matter was corrected through a proposed audit adjustment.

<u>Vendor ID</u>	<u>PO/Contract No.</u>	<u>Payment Reference No.</u>	<u>Prepayment Date</u>	<u>Amount</u>	<u>Date Received</u>
1928	CUC-PG-18-C035	2019-2585162	01/24/19	\$ 929,125	06/16/20
1928	CUC-PG-18-C035	2020-3631921	05/07/20	\$ 836,213	06/16/20

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No. 2020-002, Continued

Cause: CUC has inadequate policies and procedures over the accounting and maintenance of capital assets and file maintenance.

Effect: Capital assets are misstated.

Identification as a Repeat Finding: Finding 2019-003.

Recommendation: CUC should:

- Update policies and procedures over 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;
- Timely reconcile its physical count of all capital assets to the subledger, and accurately reflect capital assets in CUC's financial statements;
- Remove from the capital assets subledger assets that have been decommissioned, disposed, or determined inoperable and irreparable; and
- Properly classify non-capitalizable materials as expenses.

Views of Responsible Officials:

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

Condition 3a - CUC does not concur.

CUC RESPONSE:

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 years of acquisition and specific type of assets and similarity of economic useful life.

Auditor Response:

Condition 3a - 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, 2020

Local Noncompliance - Procurement

Procurement and Suspension and Debarment: CFDA 66.600

Questioned Cost: \$157,647

Finding No. 2020-003

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.
- Per § 50-50-210 Small Purchases:
 - (a) Any procurement not exceeding the amounts established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.
 - (b) No bidding is required for procurement under \$25,000.
 - (c) For procurement valued at \$25,000 to \$50,000, the Director must obtain price quotations from at least three vendors and base the selection on competitive price and quality.
 - (d) Purchase orders may be utilized for small purchases in subsections (b) and (c) only. In no other instance may purchase orders be utilized instead of contracts.
- Per §50-50-225 Competitive Sealed Proposals:
 - (a) Conditions for use. When the Director determines in writing that the use of a competitive sealed bidding is either not practical or not advantageous to the government and receives the approval of the Board of Directors, a contract may be entered into by competitive sealed proposals.
 - (b) Request for proposals. Proposals shall be solicited through a request for 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.
 - (d) Receipt of proposals. Proposals shall be opened so as to avoid disclosure of contents to competing offerors during the process of negotiation. A register of proposals shall be prepared and opened for public inspection after contract award.
 - (e) Evaluation factors. The request for proposals shall state the relative importance of price and other evaluation factors.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No. 2020-003, Continued

Criteria, Continued:

- Per §50-50-305 Architect-Engineer Services, the official with expenditure authority shall negotiate a contract with the highest qualified architect-engineer firm at a price determined to be fair and reasonable to CUC. If a fair and reasonable price cannot be negotiated, negotiations shall be terminated, and negotiations shall be undertaken with the second highest qualified firm. If a fair and reasonable price cannot be negotiated, negotiations shall be terminated and negotiations shall be undertaken with the third highest qualified firm. If a fair and reasonable price cannot be negotiated with any of the firms, then the officer with expenditure authority shall select additional firms in order of competence and qualifications and continue negotiations until a fair and reasonable price is agreed upon.
- 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.

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 partially provided, as we were advised that the documents are stored at CUC’s storage bunker and are not easily retrievable. No questioned cost is presented as CUC’s selections resulted from competitive processes as there were more than one contractor who submitted bids.

<u>Reference No.</u>	<u>CFDA No.</u>	<u>Date</u>	<u>Amount</u>	<u>Obligating Document No.</u>	<u>IFB/SOQ Reference No.</u>	<u>Deficiency</u>
1121427	66.600	04/30/20	\$ 877,075	CUC-WD-17-C005	CUC-IFB-16-022	Only the 09/05/16 public notice was provided

2. For the following contract procured by CUC’s Engineering Division, we noted that of the four consulting firms awarded to perform various design, construction management, construction inspection and electrical inspection works for water and wastewater infrastructure requirements, only two firms - the highest and third-highest qualified firms – were provided the Scope of Work for the Isley Booster II Transmission and Booster Pump Upgrade. The project was awarded to the third-highest qualified firm for bidding the lowest. However, it was not evident that negotiations were also made with the second-highest qualified firm prior to awarding the project. In addition, the third-highest qualified firm submitted a revised Scope of Work and fee proposal; however, it was not evident that the highest qualified firm was also given the opportunity to submit a revise Scope of Work and fee proposal.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No. 2020-003, Continued

Condition, Continued:

<u>Reference No.</u>	<u>CFDA No.</u>	<u>Date</u>	<u>Obligating Document No.</u>	<u>General Ledger Amount</u>	<u>Contract Amount and Questioned Costs</u>
265019	66.600	07/07/20	CUC-WW-18-C029	\$ 19,191	\$ 157,647

3. Of ten non-federal expenditures totaling \$317,718, we noted that for one (or 10%), 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>
40.1.00.3110.6090	06/11/20	261082	\$ 35,000	PMTRX

4. Of twenty-four non-federal repair and maintenance expenditures totaling \$11,676,719, we noted that for two (or 8%), there was no evidence in writing that the use of competitive sealed bidding is either not practical or not advantageous to the government and approval of the Board of Directors was obtained.

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Source Document</u>
10.2.00.3070.5640	11/30/19	248638	\$ 62,456	PMTRX
10.2.00.3070.5640	01/29/20	253109	\$ 62,476	PMTRX

Cause: CUC has inadequate 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, and questioned costs of \$157,647 exist.

Identification as a Repeat Finding: Finding 2019-004.

Recommendation: CUC should establish and implement adequate controls over compliance with applicable procurement rules and regulations and establish and maintain efficient filing of relevant documents for easier retrieval.

Views of Responsible Officials:

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

Condition 2 - CUC does not concur.

CUC RESPONSE:

Section 50-50-305 of CUC's Procurement Regulations applied to the creation of the contracts for the A&E services. Section 50-50-305 does not apply to solicitation of the scope of work for the Isley Booster II Station as a contract was already in place. CUC solicited to two firms whose knowledge and experience tailored to the design requirements.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No. 2020-003, Continued

Auditor Response:

Condition 2 - There is no documentation on file as to why CUC solicited only the two firms.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Nonpayroll Expenditures

Finding No. 2020-004

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

Condition: Tests of purchases/disbursements noted the following:

1. Of ten non-federal expenditures, totaling \$317,718, we noted the following:

a. For one (or 10%), the expenditure recorded did not agree to the invoice amount.

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Source Document</u>	<u>Invoice Amount</u>
10.1.00.3030.5240	12/06/19	248612	\$ 169,026	RECVG	\$ 164,726

b. For two (or 20%), the expenditure recorded pertained to the prior year.

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Source Document</u>
40.1.00.3110.6040	10/02/19	243519	\$ 1,495	RECVG
10.1.00.3030.5240	12/06/19	248612	\$ 169,026	RECVG

2. Of twenty-four repair and maintenance expenditures, totaling \$11,676,719, the following were noted:

a. For one (or 4%), the expenditure did not agree to the invoice amount.

<u>Account No.</u>	<u>Transaction Date</u>	<u>Journal Entry</u>	<u>Amount</u>	<u>Invoice No.</u>	<u>Invoice Amount</u>	<u>Variance</u>
10.1.00.3080.5650	12/18/19	249608	\$ 9,589	ISSUE0034392	\$ 7,868	\$ 1,721

b. 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>
10.1.00.3070.5640	08/14/20	266047	\$ 204,986	RECVG

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.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No. 2020-004, Continued

Identification as a Repeat Finding: Finding 2019-005.

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 disagreement, as follows:

Condition 1.a - CUC does not concur.

CUC RESPONSE:
CUC has provided the documents to the auditors.

Condition 1.b - CUC does not concur.

CUC RESPONSE:
CUC has provided the documents to the auditors.

Condition 2.a - CUC does not concur.

CUC RESPONSE:
Documents have been provided. This is inventory issuance and not vendor-related invoice

Condition 2.b - CUC does not concur.

CUC RESPONSE:
CUC has provided the documents to the auditors.

Auditor Response:

Condition 1.a - Documents provided were insufficient to resolve the condition.

Condition 1.b - Documents provided were insufficient to resolve the condition.

Condition 2.a - Documents provided were insufficient to resolve the condition.

Condition 2.b - Documents provided were insufficient to resolve the condition.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-005
 Federal Agency: U.S. Department Commerce
 CFDA Program: 11.300 Investments for Public Works and Economic Development Facilities
 Federal Award No.: 07-01-07128
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$-0-

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, including written internal control procedures governing its Federal awards. In addition, in accordance with the grant's special awards conditions, the Program is under a reimbursement basis only, accordingly, program expenditures are to be paid using local funding prior to requesting reimbursement from the Economic Development Administration (EDA).

Condition:

1. CUC does not have overall written internal control procedures governing Federal awards. The written procedures provided were for administrative and accounting functions only.
2. Of ten expenditures tested, aggregating \$869,214 of a population of \$957,476, we noted that two invoices (or 20%), amounting to \$348,019, were paid from the federal grant bank account, into which funding from other federal awarding agencies are being deposited. CUC subsequently replenished \$200,000 from its local operation's bank account to the federal grant bank account on April 2, 2020; however, documentation substantiating that the remaining \$148,019 was ultimately paid using local funds were not provided. As of September 2, 2020, all Federal deposits are comingled with local deposits in one bank account. No questioned costs are presented, as based on extensive analysis of the federal bank account, we concluded that the remaining \$148,019 was ultimately paid using local funds.

<u>Journal Entry</u>	<u>General Ledger Date</u>	<u>Invoice No.</u>	<u>Invoice Date</u>	<u>Amount Paid</u>
256663	03/23/20	1	02/06/20	\$ 189,709
256664	03/23/20	2	02/06/20	<u>158,310</u>
				348,019
			Less amount replenished	<u>(200,000)</u>
				\$ <u>148,019</u>

Cause: CUC has inadequate internal controls over compliance with applicable allowable costs/cost principles requirements. CUC has inadequate monitoring procedures over payment processing and inadequate internal controls over a recordkeeping process that would clearly demonstrate whether CUC uses non-Federal funds for Program transactions prior to drawing Federal funds.

Effect: CUC is in noncompliance with applicable allowable costs/cost principles requirements.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-005, Continued
Federal Agency: U.S. Department Commerce
CFDA Program: 11.300 Investments for Public Works and Economic Development Facilities
Federal Award No.: 07-01-07128
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Recommendation: CUC should establish overall written internal control procedures governing Federal funds. In addition, CUC should monitor all payment processing to make certain that program expenditures are paid using non-Federal funding sources prior to requesting reimbursement from EDA. We further recommend that CUC establish adequate internal control procedures to clearly track receipts and uses of federal and local funds. CUC should consider transferring from the Federal bank account to the general fund bank account only those Federal deposits that are reimbursements. CUC should consider retaining Federal advances in the federal bank account and issuing corresponding payments from the federal bank account so that federal and local funds are properly segregated for easy monitoring.

Views of Responsible Officials:

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

Condition 2 - CUC does not concur.

CUC RESPONSE:

CUC has provided numerous documents. After extensive analysis of the federal bank account and it was concluded that \$148,019 was ultimately paid using local funds.

Auditor Response:

Condition 2 - The numerous documents provided by CUC did not include an audit trail to demonstrate the funding source for expenditures. The extensive analysis was performed by the Auditors.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-006
 Federal Agency: U.S. Department Commerce
 CFDA Program: 11.300 Investments for Public Works and Economic Development Facilities
 Federal Award No.: 07-01-07128
 Area: Matching, Level of Effort, Earmarking
 Questioned Costs: \$-0-

Criteria: CUC must match Federal dollars with local dollars for eligible project expenses in proportion to the federal share in accordance with the grant terms and conditions. The 25% local match is determined by the Federal share as indicated on the approved grant award.

Condition: Tests of local matching requirements determined that CUC was deficient with its local match requirement at September 30, 2020, as noted below:

Total FY2020 gross expenditures	\$ 1,276,635
Percentage of local share	<u>25%</u>
Required FY2020 local match	<u>319,159</u>
FY2020 expenditures paid during FY2020	909,102
Less 75% federal share of expenditures paid in FY2020	<u>(681,826)</u>
Actual local match paid during FY2020	<u>227,276</u>
Deficient local match at FYE 09/30/20	\$ <u>91,883</u>

Of the deficient local match, no questioned cost is presented as \$63,814 and \$28,069 were subsequently paid in FY2021 and FY2022, respectively.

Cause: CUC has inadequate monitoring procedures over compliance with applicable matching requirements.

Effect: CUC is in noncompliance with applicable matching requirements.

Recommendation: CUC should establish adequate monitoring procedures to make certain that applicable matching requirements are met in the period program expenditures are incurred.

Views of Responsible Officials:

CUC's Corrective Action Plan states disagreement, as follows:

CUC does not concur.

CUC RESPONSE:

Documents provided to the auditor showed that the required local match is the obligation of the CNMI Government, which is beyond the control of CUC.

Auditor Response: CUC lacked communication with the CNMI Government to substantiate compliance with applicable matching requirements.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-007
 Federal Agency: U.S. Department Commerce
 CFDA Program: 11.300 Investments for Public Works and Economic Development Facilities
 Federal Award No.: 07-01-07128
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, the grantee shall submit an accurate Federal Financial Report (SF 425) on a semi-annual basis for the periods ending March 31 and September 30, or any portion thereof, for the entire project period, which should be supported by underlying accounting records.

Condition: The total federal and recipient shares of expenditures reported on the SF 425 report for the 09/30/20 semi-annual reporting period differ from underlying accounting records.

<u>Description</u>	<u>Per SF 425</u>	<u>Per Underlying Accounting Records</u>	<u>Variance</u>
10e. Federal share of expenditures	\$ 829,026	\$ 957,476	\$ (128,450)
10f. Federal share of unliquidated obligations	\$ 450,535	\$ 322,085	\$ 128,450
10j. Recipient share of expenditures	\$ 276,332	\$ 319,159	\$ (42,827)
10k. Remaining recipient's share to be provided	\$ 250,098	\$ 207,271	\$ 42,827

Cause: CUC did not effectively monitor the accuracy and completeness of the SF-425 report based on underlying accounting records.

Effect: CUC submitted an inaccurate SF 425 report for the 09/30/20 semi-annual reporting period. No questioned costs are presented as the variances do not represent program overpayments and the expenditures that were under reported were determined to be allowable based on invoices provided.

Recommendation: Responsible personnel should take steps to monitor reports and determine that the federal and recipient shares of expenditures reported on the SF-425 report are supported by underlying accounting records.

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, 2020

Finding No.: 2020-008
 Federal Agency: U.S. Department Commerce
 CFDA Program: 11.300 Investments for Public Works and Economic Development Facilities
 Federal Award No.: 07-01-07128
 Area: Special Tests and Provisions - Wage Rate Requirements
 Questioned Costs: \$-0-

Criteria: All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL). Non-federal entities shall include in their construction contracts subject to the Wage Rate Requirements a provision that the contractor or subcontractor comply with those requirements and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance.

Condition: Of four invoices pertaining to a construction contract tested, aggregating \$588,799 of program costs of \$873,270, either the contractor’s certified payroll reports and/or signed statements of compliance were not submitted for 100% of all four invoices. No questioned costs are presented as the certified payroll reports and statements of compliance covering the payroll periods of the contractor’s laborers, were subsequently obtained on July 14, 2021.

Journal Entry No.	General Ledger Date	Amount	Invoice No.	Invoice Date	Deficiencies Noted
256663	03/23/20	\$ 189,709	1	02/06/20	Certified payroll reports and statement of compliance
256664	03/23/20	158,310	2	02/06/20	Certified payroll reports for 01/01/20 - 01/19/20 and statement of compliance
263487	07/09/20	123,281	3	06/16/20	Statement of compliance
268254	09/14/20	<u>117,499</u>	4	07/31/20	Statement of compliance
		<u>\$ 588,799</u>			

Cause: CUC has inadequate internal controls over compliance with applicable special tests and provisions for wage rate requirements.

Effect: CUC is in noncompliance with applicable special tests and provisions for wage rate requirements.

Recommendation: CUC should implement adequate procedures in accordance with applicable special tests and provisions for wage rate requirements.

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, 2020

Finding No.: 2020-009
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas -
Program Support
Federal Award Nos.: M-00T33715, M-00T33717 and M-00T33719
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

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

CUC's annual capital assets inventory policy states the following:

- An annual inventory will be conducted.
- The inventory coordinator should submit a listing of the existing infrastructures, plant or power plant equipment to the assigned Accounting personnel.
- When the inventory is complete, accounting records will be reconciled against the inventory worksheets.

Condition: Tests of equipment and real property noted the following:

1. A physical inventory of equipment was performed in August 2020 at the entity level; however, a reconciliation was not performed between the program and Accounting.
2. Equipment records maintained by the program could not be provided as of 09/30/20.

Cause: CUC has inadequate human resources and financial management system structure needed to effect compliance with applicable equipment and real property management requirements.

Effect: CUC is in noncompliance with applicable equipment and real property management requirements. No questioned cost is presented as we are unable to quantify the extent of the noncompliance.

Recommendation: CUC should consider seeking technical and financial support from Federal agencies to develop human resources and a financial management system that are capable of effecting compliance with applicable property management policies and procedures.

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 RESPONSE:
CUC has provided the documents to the auditors.

Auditor Response:

Condition 1 - A detailed program assets listing was not provided as of September 30, 2020 to substantiate records from Accounting.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-010
 Federal Agency: U.S. Environmental Protection Agency
 CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
 Federal Award Nos.: M-00T33715, M-00T33717 and M-00T33719
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, the program is required to submit an SF-425, Federal Financial Report, which should agree to the underlying accounting records. Further, per the Administrative Conditions of the grant awards, CUC shall identify actual in-kind Intergovernmental Personnel Agreement (IPA) expenditures of the Federal Financial Report.

Condition:

1. Based on total expenditures reported to the grantor for the reporting period ended September 30, 2020, we noted an under (over) reporting of expenditures, as follows:

<u>Report Details</u>	<u>Reporting Period</u>	<u>Per SF-425</u>	<u>Per General Ledger</u>	<u>Variance</u>
M-00T33715-4				
Federal Expenditures:				
10e. Federal Share of Expenditures	09/30/20	\$ 4,170,253	\$ 4,284,666	\$ 114,413
M-00T33717-4				
Federal Expenditures:				
10e. Federal Share of Expenditures	09/30/20	\$ 4,789,544	\$ 5,147,215	\$ 357,671
M-00T33719-1				
Federal Expenditures:				
10e. Federal Share of Expenditures	09/30/20	\$ 833,512	\$ 774,109	\$ (59,403)

2. CUC did not reflect the total in-kind IPA expenditures of \$10,650 on the Federal Financial report for M-00T33715-4.
3. CUC failed to record prior year U.S. Environmental Protection Agency in-kind expenditures of \$300,650. A proposed journal entry adjustment was made to correct the error.

Cause: CUC reported the amounts using the cash basis instead of the accrual basis, and there was no indication that monitoring controls were implemented.

Effect: CUC is in noncompliance with applicable reporting requirements. Further, the reported amounts are lower than the recorded amounts. No questioned cost is reported as the drawdowns were based on the SF-425 report.

Recommendation: Responsible personnel should review the SF-425 report prior to submission to the grantor to verify that amounts are supported by underlying accounting records. Further, the total of the IPA expenditures should be reported in the 'Remarks' section of the federal financial report.

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, 2020

Finding No.: 2020-011
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas -
Program Support
Federal Award Nos.: M-00T33715, M-00T33717 and M-00T33719
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria:

1. In accordance with the Administrative Conditions, the recipient shall identify actual in-kind Intergovernmental Personnel Agreement (IPA) expenditures of the Federal Financial Report.
2. In accordance with the Programmatic Conditions at part 30(5), the Recipient shall periodically interview a sufficient number of employees entitled to DB prevailing wages (covered employees) to verify that contractors or subcontractors are paying the appropriate wage rates.

Condition: Tests of the Administrative and Programmatic Conditions noted the following:

1. The Intergovernmental Personnel Agreement (IPA) expenditures were not reported in Block 12 of the 'Remarks' section of the Federal Financial Report per the Administrative Conditions for M-00T33715.
2. The Compliance Verification was not performed throughout FY 2020 per the Programmatic Conditions.

Cause: CUC lacks internal controls over monitoring.

Effect: CUC is in noncompliance with applicable special tests and provisions requirement. No questioned costs are presented as we are unable to quantify the extent of the noncompliance.

Recommendation: CUC should design and implement an effective system of internal controls over the monitoring process for the Administrative and Programmatic Conditions.

Views of Responsible Officials:

CUC's Corrective Action Plan states agreement.



Commonwealth Utilities Corporation Office of the Chief Financial Officer



Response to Audit Findings FY 2020

Finding No. 2020-001

Name of Contact Person: Greg P. Cruz, Chief Finance Officer

1. Condition 1

CUC concurs.

CUC RESPONSE (Corrective Action Plan):

The SEFA will be prepared and submitted within the due date. All federally funded expenditures will be recorded on the date they were incurred.

Proposed Completion Date: June 30, 2022

2. Condition 2

CUC concurs.

CUC RESPONSE (Corrective Action Plan):

CUC will ensure that only SEFA transactions are recorded on the general ledger by creating a separate account for federal funded expenditures.

Proposed Completion Date: Completed

Finding No. 2020-002

Name of Contact person: Greg P. Cruz, Chief Finance Officer

1. 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

2. Condition 2

CUC concurs.



Commonwealth Utilities Corporation

Office of the Chief Financial Officer



CUC RESPONSE (Corrective Action Plan):

SOPs will be amended to implement semi-annual condition assessments of 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

3. Condition 3a

CUC does not concur.

CUC RESPONSE:

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 years of acquisition and specific type of assets and similarity of economic useful life.

Proposed Completion Date: Completed

4. Condition 3b

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

5. Conditions 3c, 3d, 3e and 3f

CUC concurs.



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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

6. Condition 4

CUC concurs.

CUC RESPONSE (Corrective Action Plan):

The materials for the turbo-charger retrofitting project were already received on 6/16/20 but actual work / retrofitting are not done yet. Periodic evaluation of prepayment accounts will be done to assure that assets are recorded on correct asset classifications, i.e. from prepayment to work in progress account.

Proposed Completion Date: Completed

Finding No. 2020-003

Name of Contact person: Manny Sablan, Purchasing Administrator
Nicolette Villagomez, Engineer W/WWD

1. Condition 1

CUC concurs.

CUC RESPONSE (Corrective Action Plan):

The procurement division will include the newspaper clippings or public notices of the invitation for bids in the file folder of each contract as part of the procurement regulations.

Proposed Completion Date: Completed

2. Condition 2

CUC does not concur.

CUC RESPONSE:

Section 50-50-305 of CUC's Procurement Regulations applied to the creation of the contracts for the A&E services. Section 50-50-305 does not apply to solicitation of the scope of work for the Isley Booster II Station as a contract was already in place. CUC solicited to two firms whose knowledge and experience tailored to the design requirements.



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3. Condition 3

CUC concurs.

CUC RESPONSE (Corrective Action Plan)

CUC will issue a sole source justification moving forward.

Proposed Completion Date: Completed

4. Condition 4

CUC concurs.

CUC RESPONSE (Corrective Action Plan)

CUC can no longer retrieve the original documents back in 1997. Moving forward, CUC will issue Sole Source justification.

Proposed Completion Date: Completed

Finding No. 2020-004

Name of Contact Person: Greg P. Cruz, Chief Finance Officer

1. Condition 1.a

CUC does not concur.

CUC RESPONSE:

CUC has provided the documents to the auditors.

2. Condition 1.b

CUC does not concur.

CUC RESPONSE:

CUC has provided the documents to the auditors.

3. Condition 2.a

CUC does not concur.

CUC RESPONSE:

Documents have been provided. This is inventory issuance and not vendor-related invoice



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4. Condition 2.b

CUC does not concur.

CUC RESPONSE:

CUC has provided the documents to the auditors.

Finding No. 2020-005

Name of Contact Person: Greg P. Cruz, Chief Finance Officer

1. 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

2. Condition 2

CUC does not concur.

CUC RESPONSE:

CUC has provided numerous documents. After extensive analysis of the federal bank account and it was concluded that \$148,019 was ultimately paid using local funds.

Finding No. 2020-006

Name of Contact Person: Greg P. Cruz, Chief Finance Officer

1. Condition 1

CUC does not concur.

CUC RESPONSE:

Documents provided to the auditor showed that the required local match is the obligation of the CNMI Government, which is beyond the control of CUC.



Commonwealth Utilities Corporation Office of the Chief Financial Officer



Finding No. 2020-007

Name of Contact Person: Greg P. Cruz, Chief Finance Officer

1. Condition 1

CUC concurs.

CUC RESPONSE (Corrective Action Plan):

CUC will take additional steps to verify the figures reported on the SF-425

Proposed Completion Date: Completed

Finding No. 2020-008

Name of Contact Person: Greg P. Cruz, Chief Finance Officer
Nicolette Villagomez, Engineer W/WWD

1. Condition 1

CUC concurs.

CUC RESPONSE (Corrective Action Plan):

CUC will ensure that the required contractor's certified payroll reports and statement of compliance for all federally funded projects will be submitted on time.

Proposed Completion Date: Completed

Finding No. 2020-009

Name of Contact Person: Greg P. Cruz, Chief Finance Officer

1. Condition 1

CUC does not concur.

CUC RESPONSE:

CUC has provided the documents to the auditors.

2. Condition 2

CUC concurs.



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CUC RESPONSE:

CUC has provided the documents to the auditors but after September 30, 2020.

Proposed Completion Date: Completed

Finding No. 2020-010

Name of Contact Person: Greg P. Cruz, Chief Finance Officer

1. Condition 1

CUC concurs.

CUC RESPONSE (Corrective Action Plan)

CUC will take additional steps to review and reconcile SF-425 report prior to submission.

Proposed Completion Date: Completed

2. Condition 2

CUC concurs.

CUC RESPONSE (Corrective Action Plan)

CUC will take additional steps to review and reconcile SF-425 report prior to submission.

Proposed Completion Date: Completed

3. Condition 3

CUC concurs.

CUC RESPONSE (Corrective Action Plan)

CUC will take additional steps to review and reconcile SF-425 report prior to submission.

Proposed Completion Date: Completed



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Finding No. 2020-011

Name of Contact Person: Greg P. Cruz, Chief Finance Officer
Nicolette Villagomez, Engineer W/WWD

1. Condition 1

CUC concurs.

CUC RESPONSE (Corrective Action Plan)

CUC will take additional steps to review and reconcile SF-425 report prior to submission.

Proposed Completion Date: Completed

2. Condition 2

CUC concurs.

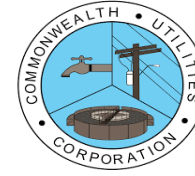
CUC RESPONSE (Corrective Action Plan):

To verify that contractors / subcontractors are paying the appropriate wage rates, CUC project engineers will ensure that periodic interview of employees entitled to DB prevailing wages is done for all federally funded construction projects.

Proposed Completion Date: Completed



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SUMMARY OF PRIOR AUDIT FINDINGS: FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2020

Ref. Number	Assistance Listing No.	Finding	Questioned Costs	Status	Corrective Action Plan	Contact Person	QC Resolved	\$Amt Bal Carry Forward	
Fiscal Year 2019									
2019-001	N/A	Schedule of Expenditures of Federal Awards	\$ -	CUC Concur	CUC establishes and implement procedures to develop a system that provides for the separate identification of expenditures for each federal program by using its CFDA or other identifying number	Ernesto Lopez, Fiscal Administrator	in progress	\$ -	
2019-002 Condition 1	N/A	Inventory	\$ -	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.	Cristina Tuazon, Fiscal Analyst	unresolved	\$ -	
2019-002 Condition 2	N/A	Inventory	\$ -	CUC concurs.	Additional controls were implemented to enhance CUC's system for organizing and storing documents such as digitizing documents to serve as a backup.	Cristina Tuazon, Fiscal Analyst	in progress	\$ -	
2019-003 Condition 1	N/A	Capital Assets	\$ -	CUC concurs.	Discussions are underway to update the policy with a completion date of September 30, 2022	Cristina Tuazon, Fiscal Analyst	in progress	\$ -	
2019-003 Condition 2a	N/A	Capital Assets	\$ -	CUC concurs	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	Cristina Tuazon, Fiscal Analyst	in progress	\$ -	
2019-003 Condition 2b	97.036	Equipment and Real Property Management	\$ -	CUC concurs	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	Cristina Tuazon, Fiscal Analyst	in progress	\$ -	
2019-003 Condition 2c	97.036	Equipment and Real Property Management	\$ -	CUC concurs	Refer to response to Finding 2019-003, condition 2b	Cristina Tuazon, Fiscal Analyst	in progress	\$ -	



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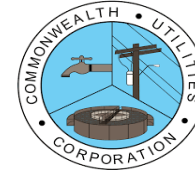


SUMMARY OF PRIOR AUDIT FINDINGS: FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2020

Ref. Number	Assistance Listing No.	Finding	Questioned Costs	Status	Corrective Action Plan	Contact Person	QC Resolved	\$Amt Bal Carry Forward
2019-003 Condition 2d	N/A	Capital Assets	\$ -	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.	Cristina Tuazon, Fiscal Analyst	unresolved	\$ -
2019-003 Condition 3	N/A	Capital Assets	\$ -	CUC concurs	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.	Cristina Tuazon, Fiscal Analyst	in progress	\$ -
2019-003 Condition 4a	N/A	Capital Assets	\$ -	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.	Cristina Tuazon, Fiscal Analyst	unresolved	\$ -
2019-003 Condition 4b	N/A	Capital Assets	\$ -	CUC concurs	Refer to response to Finding 2019-003, condition 3	Cristina Tuazon, Fiscal Analyst	in progress	\$ -
2019-003 Condition 4c	N/A	Capital Assets	\$ -	CUC concurs	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.	Cristina Tuazon, Fiscal Analyst	in progress	\$ -



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SUMMARY OF PRIOR AUDIT FINDINGS: FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2020

Ref. Number	Assistance Listing No.	Finding	Questioned Costs	Status	Corrective Action Plan	Contact Person	QC Resolved	\$Amt Bal Carry Forward
2019-003 Condition 4d	N/A	Capital Assets	\$ -	CUC concurs	Refer to response to Finding 2019-003, condition 4c	Cristina Tuazon, Fiscal Analyst	in progress	\$ -
2019-003 Condition 4e	N/A	Capital Assets	\$ -	CUC concurs	Refer to response to Finding 2019-003, condition 4c	Cristina Tuazon, Fiscal Analyst	in progress	\$ -
2019-003 Condition 4f	N/A	Capital Assets	\$ -	CUC concurs	Refer to response to Finding 2019-003, condition 4c	Cristina Tuazon, Fiscal Analyst	in progress	\$ -
2019-003 Condition 5	N/A	Capital Assets	\$ -	CUC concurs	Refer to response to Finding 2019-003, condition 3	Cristina Tuazon, Fiscal Analyst	in progress	\$ -
2019-003 Condition 6	N/A	Capital Assets	\$ -	CUC concurs	Additional controls will be implemented to enhance CUC's system for organizing and storing documents such as digitizing documents to serve as a backup.	Cristina Tuazon, Fiscal Analyst	in progress	\$ -
2019-004 Condition 1	66.600	Procurement and Suspension and Debarment	\$ -	CUC does not concur	Documents were furnished to the auditor last August 4, 2021. This finding should be removed	Manny Sablan, Purchasing Administrator	unresolved	\$ -
2019-004 Condition 2a	N/A	Local Non Compliance-Procurement	\$ -	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.	Manny Sablan, Purchasing Administrator	unresolved	\$ -
2019-004 Condition 2b	N/A	Local Non Compliance-Procurement	\$ -	CUC does not concur	Documents were furnished to the auditor last August 4, 2021. This finding should be removed	Manny Sablan, Purchasing Administrator	unresolved	\$ -
2019-004 Condition 3a	N/A	Local Non Compliance-Procurement	\$ -	CUC does not concur	Documents were furnished to the auditor on 07/14/2021. This finding should be removed	Manny Sablan, Purchasing Administrator	unresolved	\$ -
2019-004 Condition 3b	N/A	Local Non Compliance-Procurement	\$ -	CUC does not concur	Documents were furnished to the auditor on 07/19/2021. This finding should be removed.	Manny Sablan, Purchasing Administrator	unresolved	\$ -
2019-005 Condition 1a	N/A	Non-Payroll Expenditures	\$ -	CUC does not concur	Documents were provided to the auditor on 07/14/2021. This finding should be removed.	Cristina Butac, Fiscal Administrator	unresolved	\$ -
2019-005 Condition 1b	N/A	Non-Payroll Expenditures	\$ -	CUC concurs	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.	Cristina Butac, Fiscal Administrator	in progress	\$ -



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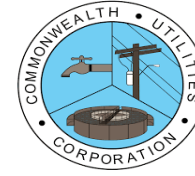


SUMMARY OF PRIOR AUDIT FINDINGS: FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2020

Ref. Number	Assistance Listing No.	Finding	Questioned Costs	Status	Corrective Action Plan	Contact Person	QC Resolved	\$Amt Bal Carry Forward
2019-005 Condition 2a	N/A	Non-Payroll Expenditures	\$ -	CUC does not concur	Documents were furnished to the auditor on 07/14/2021. This finding should be removed	Cristina Butac, Fiscal Administrator	unresolved	\$ -
2019-006 Condition 1	97.036	Allowable Costs / Cost Principles	\$ -	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.	Cristina Butac, Fiscal Administrator	unresolved	\$ -
2019-006 Condition 2	97.036	Allowable Costs / Cost Principles	\$ 332,717.0	CUC concurs	CUC enhanced its business process and internal controls for receiving and invoice matching. For example, SOPs were amended for Analyst 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.	Cristina Tuazon, Fiscal Analyst	in progress	\$ 332,717
2019-006 Condition 3	97.036	Allowable Costs / Cost Principles	\$ -	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.	Cristina Butac, Fiscal Administrator	unresolved	\$ -
2019-006 Condition 4	97.036	Allowable Costs / Cost Principles	\$ -	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.	Cristina Butac, Fiscal Administrator	unresolved	\$ -



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SUMMARY OF PRIOR AUDIT FINDINGS: FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2020

Ref. Number	Assistance Listing No.	Finding	Questioned Costs	Status	Corrective Action Plan	Contact Person	QC Resolved	\$Amt Bal Carry Forward
2019-007	97.036	Matching, Level of Effort, Earmarking	\$ -	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.	Cristina Tuazon, Fiscal Analyst	unresolved	\$ -
			<u>\$ 332,717</u>					<u>\$ 332,717</u>