

**GUAM MEMORIAL HOSPITAL AUTHORITY**

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**Financial Statements And Independent Auditor's Report  
And Additional Information**

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**For The Years Ended September 30, 2004 and 2003**

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**(a Public Corporation)**

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**September 30, 2004**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Guam Memorial Hospital Authority:

I have audited the accompanying statements of net assets of Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of September 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the GMHA's management. My responsibility is to express an opinion on these financial statements based on my audits.

Except as discussed in the following paragraphs, I conducted my audits 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 of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

The accounts receivable balances in the general ledger were not reconciled to the subsidiary ledgers as of September 30, 2004 and 2003, in which the variance was \$15,557,893 and \$15,559,525, respectively. I was also unable to determine the reasonableness and adequacy of allowance for bad debts and contractual adjustments in the amount of \$76,211,654 and \$94,935,639 at September 30, 2004 and 2003, respectively, due to GMHA's inability to substantiate and provide a rational basis for such estimates. Additionally, accounts receivable confirmations obtained from third-party payors showed significant differences from amounts recorded by GMHA, and reconciliations had not been performed to identify and reconcile such differences. Because of the inadequacy in the accounting records, I was unable to apply audit procedures to satisfy myself as to the adequacy of the accounts receivable, the allowance for bad debts and the contractual adjustments to determine that such account balances were fairly stated as of September 30, 2004 and 2003. Furthermore, in my judgment, the balances of accounts receivable and the related allowance for bad debts and contractual adjustments materially affect operating revenues and expenditures for the years ended September 30, 2004 and 2003.

The capital assets detailed control register of GMHA was not reconciled to the general ledger balances at September 30, 2004 and 2003. The movable equipment's fixed assets register control account as of September 30, 2004 and 2003, was overstated by \$2,234,347 and \$2,325,048, respectively, as compared to the general ledger, and the buildings' fixed assets register control account was understated by \$5,451,679 and \$1,783,380, respectively, as compared to the general ledger. Because of the inadequacies of the accounting records, I was unable to form an opinion regarding the amounts at which capital assets, net of accumulated depreciation are recorded in the accompanying statements of net assets at September 30, 2004 and 2003 (stated at \$42,192,771 and \$43,640,783, respectively), or the amount of depreciation expense for the years ended (stated at \$3,683,158 and \$3,707,209, respectively).

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of accounts receivable and the related allowance for bad debts and contractual adjustments; and capital assets net of accumulated depreciation and related depreciation expense been determinable, such financial statements present fairly, in all material respects, the financial position of GMHA as of September 30, 2004 and 2003, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 4 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Guam Memorial Hospital Authority's management. I have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information (Schedule of Expenses) on pages 37 and 38 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 43 is presented for purposes of additional analysis, as required by the U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which is not a required part of the basic financial statements. These schedules are the responsibility of the management of Guam Memorial Hospital Authority. Such information has been subjected to the auditing procedures applied in my audits of the basic financial statements and, in my opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 14, 2005 on my consideration of Guam Memorial Hospital Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audits.

The Guam Memorial Hospital Authority has incurred continuing operating losses and negative cash flows that are insufficient to pay current expenses and liabilities. The Guam Memorial Hospital Authority incurred operating losses of \$10,970,088 and \$11,357,328 for the years ended September 30, 2004 and 2003, respectively. The GMHA defaulted on its \$6.5 million note payable to the Government of Guam Retirement Fund and is in arrears on unpaid retirement fund contributions of approximately \$10 million as of September 30, 2004. Additionally, GMHA is in arrears in the amount of \$551,581 for principal and interest on its outstanding note payable of \$1.1 million to the Guam Power Authority. These factors raise substantial doubt about the Guam Memorial Hospital Authority's ability to continue as a going concern without continuing subsidies and appropriations from the Government of Guam. Management's plans regarding those matters are also described in Note 13, and the Government of Guam's subsequent assistance relevant to the above matters are described in Note 14. The accompanying financial statements do not include any adjustments that might be necessary if the Guam Memorial Hospital Authority is unable to continue as a going concern.

*J. Scott Magliari + Company*

Hagåtña, Guam  
December 14, 2005

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**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2004**



Our discussion and analysis of Guam Memorial Hospital's financial statements provide an overview of the hospital's financial activities for the fiscal year ended September 30, 2004. Please read management's discussion and analysis in conjunction with GMHA's financial statements beginning on pages 11 through 14.

**Basis of Accounting**

The Hospital is an autonomous Government of Guam entity, which uses the accrual basis of accounting for financial statement presentation. The accrual basis of accounting reports income when earned and expenses when incurred. Under the accrual basis of accounting, the Hospital is required to make prudent estimates against revenues that are recorded but may not be received, called a bad debt expense and contractual adjustments.

**Annual Report Presentation**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34.

**BASIC FINANCIAL STATEMENTS**

**Independent Auditor's Report**

The Independent Auditor's Report of Financial Statements as presented provides GMHA with a qualified opinion. The qualified opinion was due to material differences in accounts receivable and the lack of reconciliations of accounts receivable subsidiary to the accounts receivable control account. The lack of reconciliation of the capital assets detail control register to the general ledger also is a cause for the rendering of the qualified opinion for the period ending September 30, 2004. GMHA received the qualified opinion due to the lack of compliance with Office of Management and Budget (OMB) Circular A-133 procurement requirements.

The management of the Hospital has undergone various changes in management, which included the hiring of a CEO/Administrator and Associate Administrator of Operations, which occurred in April 2005.

GMHA is currently working with a USDA Office of Insular Affairs and the USDA Graduate School (Consultant) to develop a Financial Management Improvement Plan (FMIP). The Consultant will begin to develop the FMIP in the second quarter of 2006. Governor Camacho forwarded a letter to the USDA Office of Insular Affairs requesting Office of Insular Affairs technical assistance for the Hospital. Governor Camacho's request was made in conjunction with a request from the Office of the Public Auditor.



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2004**



**Basic Financial Statements, Continued**

The USDA Office of Insular Affairs and the USDA Graduate School (Consultant) has previously provided technical assistance to Guam's Departments of Revenue and Tax, Administration and Public School System.

The goal of an FMIP is to aid the Hospital in identifying areas for improvement and implement needed solutions. An FMIP will review and examine all departments in the hospital including medical and business services.

GMHA's Governing Board of Trustees has issued a Request for Information to outsource the management of the Hospital to a private hospital management company or partner GMHA with a hospital that can help address many of the issues identified in this audit. Public Law 28-68 mandates "management Privatization." A "Request for Proposal" was issued March 3, 2006 and is scheduled to close on April 4, 2006. The goal of the RFP is the development of a streamlined management structure, implementation of hospital wide cost containment measures and increased efficiency hospital operations.

Finally, the Fiscal Services Division has formed a task force with the goal to provide sustainable corrective actions on findings related to accounts receivables. The task force will initiate procedures to enable timely reconciliation of the accounts receivable subsidiary to the general ledger and that services provided to patients are correctly billed. The number one goal of the task force is to maximize all revenues generated by the hospital.

Our discussion and analysis of Guam Memorial Hospital Authority provides a financial overview of the Hospital's financial activities for the fiscal years ended September 30, 2004, 2003 and 2002.

GMHA's financial statement consists of three statements: a Statement of Net Assets (Balance Sheet), a Statement of Revenues, Expenses and Changes in Net Assets (Income Statement) and a Statements of Cash Flows.

The Statement of Net Assets (Balance Sheet) and Statement of Revenues, Expenses and Changes in Net Assets (Income Statement) report information about GMHA's resources and its activities taken as a whole. These statements include all restricted and unrestricted assets and all liabilities using the accrual method of accounting. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report GMHA's net assets and changes in these assets. A net asset is the difference between assets and liabilities and is a measure of the entity's financial position. Over time, increases and decreases in GMHA's net assets is an indicator of whether the facility's financial position is improving or deteriorating. Readers of this report should also consider nonfinancial factors, such as changes in patient base and measures of the quality of services provided to the community and local economic factors.



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2004**



**Basic Financial Statements, Continued**

The Statement of Cash Flows, the final statement, reports cash received, cash payments and net changes in cash resulting from operating, investing and financing activities. Information contained in the Statement of Cash Flows comprises sources of cash, uses of cash, and the change in the cash balance during the reporting period.

**Statements of Net Assets (Balance Sheet)**

GMHA's net assets decreased in each of the past two years with a 2.54 percent decrease in 2004 and a 17 percent decrease in 2003.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Statements of Net Assets**  
**September 30, 2004, 2003 and 2002**

**ASSETS**

	2004	2003	2002
Current assets	\$31,248,725	\$34,804,013	\$39,490,211
Capital assets, net	42,192,771	43,640,783	44,538,793
Total assets	\$73,441,496	\$78,444,796	\$84,029,004

**LIABILITIES AND NET ASSETS**

Current liabilities	\$27,289,345	\$30,287,404	\$27,206,639
Long-term liabilities	4,646,236	5,568,909	5,463,520
Net assets	41,505,915	42,588,483	51,358,845
Total liabilities and net assets	\$73,441,496	\$78,444,796	\$84,029,004

GMHA's total net assets decreased by \$1,082,568 due to adjustments to the patient accounts receivable, net and a decrease in available cash. Patient accounts receivable, net, equaling \$26,229,935 decreased \$4,357,351 compared to the previous year. The decrease in net patient accounts receivable is the result of an adjustment to the provision for bad debts account. Bad debt accounts are submitted to a collection agency once all efforts to collect these accounts are exhausted by the Hospital's Patient Affairs Department. The adjustment of provision for bad debts includes provisions for prior periods.



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2004**



**Statements of Net Assets (Balance Sheet), Continued**

GMHA Management recognizes that a majority of the patients seen do not have the ability to pay for the care received at the hospital. These patients are categorized as Self Pay patients and GMHA Management continues to diligently exercise all means to recover the cost of seeing these patients. During the latter part of fiscal Year 2005, the Governor of Guam called the Guam Legislature in to emergency session to allocate funds to pay delinquent GMHA vendors. For fiscal year 2006, the Guam Legislature allocated approximately \$25 million in subsidies for the hospital.

Total current liabilities decreased due to the extinguishment of a payable to United Government Service for the fiscal year 2003 Medicare Cost Report. An explanation for the failure to pay the Government of Guam Retirement Fund cannot be ascertained because the decision not to pay the debt was made under a prior administration. In fiscal year 2003, Management initiated payments to the long-term notes payable in an effort to abate the delinquent status of this debt.

GMHA received a Qualified Audit Opinion due to the irreconcilable difference between the financial statements and the subsidiary ledger of patient accounts receivables and capital asset accounts. In fiscal year 2005, management is working diligently to initiate corrective procedures and provided training to current staff members.

GMHA has a critical need for qualified accounting staff with the ability to complete account analysis and reconciliations. Management will address this need by requiring extensive continuing education in the area of accounting and/or seeking qualified accountants from other governmental agencies. Included in the Fiscal Year 2006 budget are four accountant positions and these positions are currently being recruited.



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2004**



**Statements of Revenues, Expenses and Changes in Net Assets (Income Statement)**

Total Operating Revenues increased in fiscal year 2004 when compared to the previous fiscal year. Net Patient Services Revenues increased \$4,478,356 due to adjustments to revenue and contractual adjustments to reconcile patient accounts receivables to the subsidiary ledger.

Total Operating Expenses increased in fiscal year 2004 as compared to the previous fiscal year due to an increase of \$3,548,740 in the Bad Debt Expense, which is a component of Total Operating Expenses.

GMHA's reported operating losses in 2004 and 2003, \$10,970,088 and \$11,357,328 respectively. Non-operating revenues increased \$3,820,246 in 2004 compared to 2003. Fiscal year 2003 non-operating revenues decreased \$22,775,279 compared to 2002 due to higher governmental subsidies received.

Total Non-Operating Revenues in fiscal year 2004 increased due to an increase in transfers from the Government of Guam. In fiscal year 2002 transfers from the Government of Guam totaled \$25,236,268 and were used to extinguish bank and withholding tax debts and to support operational and capital expenditures.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended September 30, 2004, 2003 and 2002**

	2004	2003	2002
Operating revenues:	\$ 69,422,295	\$ 64,998,240	\$ 68,255,144
Operating expenses:	80,392,383	76,355,568	71,547,256
Operating loss	(10,970,088)	(11,357,328)	(3,292,112)
Non-operating revenues (expenses):	\$ 5,293,543	\$1,473,297	\$ 24,248,576
Excess of revenues over expenses (expenses over revenues)	(5,676,545)	(9,884,031)	20,956,464
Federal Awards capital grants and contributions	4,593,977	1,113,669	2,011,502
Decrease in assets	(1,082,568)	(8,770,362)	22,967,966
Net assets beginning of the year	42,588,483	51,358,845	28,390,879
Net assets end of the year	\$ 41,505,915	\$ 42,588,483	\$ 51,358,845



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2004**



**Statements of Cash Flows**

The statement of cash flows reports cash received, cash disbursements and net changes from operations, non-capital financing activities, capital financing activities and the reconciliation of operating loss to net cash provided by operating activities. Changes in cash flows are consistent with operating losses and non-operating revenues and expenses referenced above in the discussions of Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Statements of Cash Flows**  
**Years Ended September 30, 2004, 2003 and 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash flows used in operating activities:	\$ (7,468,503)	\$ (930,437)	\$(3,695,235)
Cash flows from non-capital financing activities:	4,756,150	516,853	2,475,870
Cash flows from capital and related financing activities:	<u>1,672,353</u>	<u>(872,172)</u>	<u>(763,643)</u>
Net (decrease) in cash	(1,040,000)	(1,285,756)	(1,983,008)
Cash at beginning of year	<u>1,671,237</u>	<u>2,956,993</u>	<u>4,940,001</u>
Cash at end of year	<u>\$ 631,237</u>	<u>\$ 1,671,237</u>	<u>\$ 2,956,993</u>
Reconciliation of operating loss to net cash provided			
by operating activities:			
Operating loss	\$(10,970,088)	\$(11,357,328)	\$(3,292,112)
Adjustments to reconcile operating loss to net cash provided			
by operating activities:			
Depreciation	3,683,158	3,707,209	3,763,125
Bad debts	12,495,905	8,947,165	3,967,182
Loss from disposal of equipment	-	4,249	-
(Increase) decrease in assets:	(8,560,220)	(5,280,331)	(9,451,445)
Increase (decrease) in liabilities:	<u>(4,117,258)</u>	<u>3,048,599</u>	<u>1,318,015</u>
Net cash used in operating activities	<u>\$ (7,468,503)</u>	<u>\$ (930,437)</u>	<u>\$ (3,695,235)</u>



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2004**



**Contacting GMHA's Financial Management**

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of GMHA's finances and demonstrate GMHA's accountability for the money it collects. If you have questions about this report or need additional information, please contact GMHA CEO/Hospital Administrator Office at 647-2828 or the GMHA Chief Financial Officer's Office at 647-2934 or 647-2190.

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**GUAM MEMORIAL HOSPITAL AUTHORITY**

Statements of Net Assets  
September 30, 2004 and 2003

	<u>ASSETS</u>	
	2004	2003
Current assets:		
Cash (notes 1 and 2)	\$ 631,237	\$ 1,178,147
Restricted cash (notes 1 and 3)	-	493,090
Total cash	631,237	1,671,237
Patient accounts receivable, net (notes 1, 5 and 6)	26,229,935	30,587,286
Other receivables	2,636,230	904,222
Inventories (note 1)	1,502,119	1,353,680
Prepaid expenses	249,204	287,588
Total current assets	31,248,725	34,804,013
Capital assets, net (notes 1 and 4)	42,192,771	43,640,783
Total assets	\$ 73,441,496	\$ 78,444,796
	<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities:		
Current portion of long-term debt (note 8)	\$ 7,590,661	\$ 7,403,566
Accounts payable - trade	5,764,919	6,005,584
Accounts payable - Retirement Fund (note 9)	10,003,860	9,666,160
Accrued payroll and benefits	1,357,378	1,061,710
Current portion of accrued annual leave (notes 1 and 8)	1,323,362	1,400,468
Estimated third party payor settlements (Medicare) (note 6)	408,446	4,203,767
Other accrued liabilities (note 11)	840,719	546,149
Total current liabilities	27,289,345	30,287,404
Long-term liabilities (note 8):		
Long-term debt (note 8)	-	672,268
Deferred retirement fund contributions (notes 7 and 8)	2,634,704	2,634,704
Long-term portion of accrued annual leave (notes 1 and 8)	1,127,309	1,457,630
Accrued sick leave (notes 1 and 8)	884,223	804,307
Total long-term liabilities	4,646,236	5,568,909
Total liabilities	31,935,581	35,856,313
Net assets (note 1):		
Invested in capital assets net of related debt	42,192,771	43,640,783
Temporarily restricted for capital expenditures	-	493,090
Unrestricted	(686,856)	(1,545,390)
Total net assets	41,505,915	42,588,483
Total liabilities and net assets	\$ 73,441,496	\$ 78,444,796
Commitments and contingencies (note 11)		

See accompanying notes to financial statements.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Net patient service revenue (notes 1 and 6)	\$ 68,802,501	\$ 64,324,145
Other operating revenue:		
Food sales, cafeteria	471,209	528,578
Other	<u>148,585</u>	<u>145,517</u>
Total operating revenues	<u>69,422,295</u>	<u>64,998,240</u>
Operating expenses (note 1):		
Nursing	27,748,518	28,491,351
Ancillary	15,589,859	15,870,634
Bad debts (note 6)	12,495,905	8,947,165
General services	8,761,170	8,311,066
Administrative support	7,134,608	6,963,181
Depreciation (note 4)	3,683,158	3,707,209
Medical staff	2,553,242	2,021,144
Administration	<u>2,425,923</u>	<u>2,043,818</u>
Total operating expenses	<u>80,392,383</u>	<u>76,355,568</u>
Operating loss	<u>(10,970,088)</u>	<u>(11,357,328)</u>
Non-operating revenues (expenses):		
Capital grants and contributions	140,683	7,779
Transfers from the Government of Guam (note 10)	5,109,622	1,113,100
Insurance claim (note 12)	733,920	1,000,000
Federal Emergency Management Agency (FEMA)	790,898	627,805
Interest and penalties (note 8)	<u>(1,481,580)</u>	<u>(1,275,387)</u>
Total non-operating revenues	<u>5,293,543</u>	<u>1,473,297</u>
Excess of (expenses over revenues)	(5,676,545)	(9,884,031)
Amounts released from restrictions -Federal Awards capital grants and contributions	<u>5,087,067</u>	<u>1,113,669</u>
Decrease in unrestricted net assets	<u>(589,478)</u>	<u>(8,770,362)</u>
Temporarily restricted net assets (notes 1 and 3):		
Amounts released from restrictions -Federal Awards contributions and capital grants	(5,087,067)	(1,113,669)
Federal Awards capital grants and contributions	<u>4,593,977</u>	<u>1,113,669</u>
Decrease in temporarily restricted net assets	<u>(493,090)</u>	<u>-</u>
Decrease in net assets	(1,082,568)	(8,770,362)
Net assets beginning of the year	<u>42,588,483</u>	<u>51,358,845</u>
Net assets end of the year	<u>\$ 41,505,915</u>	<u>\$ 42,588,483</u>

See accompanying notes to financial statements.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Statements of Cash Flows Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 60,663,948	\$ 59,092,485
Payments to suppliers and contractors	(23,024,442)	(20,241,078)
Payments to employees	(41,932,482)	(44,665,905)
Third party payor settlements (Medicare Program)	(3,795,321)	4,203,767
Other receipts and payments, net	<u>619,794</u>	<u>680,294</u>
Net cash used in operating activities	<u>(7,468,503)</u>	<u>(930,437)</u>
Cash flows from non-capital financing activities:		
Transfers from the Government of Guam	5,109,622	1,019,101
Repayment of notes payable, net of proceeds	(796,574)	(710,351)
Interest paid	(488,479)	(427,481)
Contributions from FEMA and non-profit organizations	<u>931,581</u>	<u>635,584</u>
Net cash provided by non-capital financing activities	<u>4,756,150</u>	<u>516,853</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,235,146)	(2,813,448)
Decrease in amounts due from grantor agency and other receivables	(1,420,398)	216,247
Capital grants and contributions	4,593,977	725,029
Accrual of insurance claims	730,844	-
Proceeds from insurance claim	<u>3,076</u>	<u>1,000,000</u>
Net cash (provided by) used in capital and related financing activities	<u>1,672,353</u>	<u>(872,172)</u>
Net (decrease) in cash	(1,040,000)	(1,285,756)
Cash at beginning of year	<u>1,671,237</u>	<u>2,956,993</u>
Cash at end of year	<u>\$ 631,237</u>	<u>\$ 1,671,237</u>
Cash at end of year:		
Unrestricted	\$ 631,327	\$ 1,178,147
Restricted	<u>-</u>	<u>493,090</u>
Total	<u>\$ 631,327</u>	<u>\$ 1,671,237</u>

See accompanying notes to financial statements.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Statements of Cash Flows, Continued  
Years Ended September 30, 2004 and 2003

	2004	2003
Reconciliation of operating loss to net cash provided		
by operating activities:		
Operating loss	\$ (10,970,088)	\$ (11,357,328)
Adjustments to reconcile operating loss to net cash provided		
by operating activities:		
Depreciation	3,683,158	3,707,209
Bad debts	12,495,905	8,947,165
Loss from disposal of equipment	-	4,249
(Increase) decrease in assets:		
Patient accounts receivable	(8,138,554)	(5,231,660)
Other receivables	(311,611)	6,199
Inventories	(148,439)	152,579
Prepaid expenses	38,384	(207,449)
Increase (decrease) in liabilities:		
Accounts payable	(584,665)	146,410
Accrued payroll and employees benefits	295,668	414
Accrued annual leave and sick leave	(327,511)	181,217
Estimated third party payor settlements (Medicare)	(3,795,321)	4,191,531
Other accrued liabilities	294,571	(1,470,973)
Net cash used in operating activities	\$ (7,468,503)	\$ (930,437)

See accompanying notes to financial statements.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

## (1) Organization and Summary of Significant Accounting Policies

### Organization

The Guam Memorial Hospital Authority (GMHA) was created on July 26, 1977 under Public Law 14-29 as an autonomous agency of the Government of Guam. The law provides for control of GMHA to be vested with the Board of Trustees of the Hospital consisting of nine (9) members that shall serve a term of five (5) years. GMHA is a component unit of the Government of Guam and is included as a discretely presented component unit of the basic financial statements of the Government of Guam.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Enterprise Fund Accounting

GMHA uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting," as amended, GMHA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

During 2002, GMHA implemented GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government, GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, and GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

## (1) Organization and Summary of Significant Accounting Policies, Continued

### Cash

For purposes of the statements of net assets and the statements of cash flows, GMHA considers cash to be cash on hand and cash on deposits in banks.

### Restricted Funds

Restricted funds are used to differentiate between contributions which are restricted by a donor for a particular purpose or for a particular time frame, and contributions on which donor places no restrictions or amounts which arise as a result of normal operations of the GMHA. Funds restricted by donor for plant replacement and expansion are recorded as "net assets released from restrictions" and are transferred from temporarily restricted net assets to unrestricted net assets to the extent expended within the period.

### Capital Assets

Building and land improvements acquired prior to June 30, 1978, are recorded at their appraised values as of that date. Subsequent additions are primarily valued at cost. GMHA generally capitalizes all expenditures of property and equipment that equal or exceed \$500 with a minimum useful life of at least three years. Major renewals and betterments are charged to the property accounts, while maintenance and repairs which do not improve or extend the life of an asset are charged to expense. Donated capital assets are recorded at fair market value at the date of donation. Depreciation is provided over the estimated useful lives of the respective assets through use of the straight-line method. Useful lives for capital assets are based on the American Hospital Association Guide "Estimated Useful Lives of Depreciable Hospital Assets" as follows:

Building and land improvements	10-40 years
Equipment	3-20 years

### Net Assets

Net assets of GMHA are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Temporarily restricted net assets* are those whose use by GMHA has been limited by donors to a specific time period or purpose. At September 30, 2004 and 2003, the temporarily restricted net assets were \$-0- and \$493,090, respectively, for use in capital improvements to renovate or expand the hospital and the long-term care facility. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

## (1) Organization and Summary of Significant Accounting Policies, Continued

### Federal Grant Award Revenues and Contributions

From time to time, GMHA receives federal grant awards and contributions from the Federal Emergency Management Administration (FEMA) and Compact of Free Associations through the Government of Guam as well as contributions from individuals, non-profit, and private organizations. Revenues from federal award grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Federal grant and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital replacement and expansions are reported after non-operating revenues and expenses.

### Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future period as final settlements are determined.

### Patient Accounts Receivable

Patient accounts receivable are primarily due from individuals and businesses located within the Territory of Guam, the Federated States of Micronesia and from Medicare.

The allowance for uncollectible accounts receivable is determined based on management estimates. While management believes the amount is adequate, the ultimate uncollectible balance may differ from the amounts provided. At September 30, 2004 and 2003, GMHA's general ledger balances of patient's accounts receivable were not reconciled to patient's subsidiary ledgers in which the variance was \$15.6 million in each year. GMHA is in the process of reviewing and reconciling the differences. Therefore, significant adjustments are expected to occur in the near future upon completion of the analysis.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

## (1) Organization and Summary of Significant Accounting Policies, Continued

### Inventories

Inventories are recorded at the lower of cost or market value, with cost being derived through an average historical cost.

### Compensated Absences

For fiscal years 2004 and 2003, employees were credited vacation leave at rates of 104 and 160 hours depending upon their lengths of service with GMHA. The accumulation of vacation credits is limited to 480 hours at fiscal year end. All such vacation credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave to 320 hours. Any annual leave earned by eligible employees in excess of 320 hours but not to exceed 100 hours as of February 28, 2003 shall be credited to the employee's sick leave. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess 320 hours as of February 28, 2003 may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. Public Law 27-05 does not apply to registered nurses. Therefore, accumulated vacation hours for registered nurse remains status quo. GMHA recognizes all vested vacation leave benefits accrued by its employees as a long-term liability in the statements of net assets. Amounts to be paid during the next fiscal year based on estimate are reported as current. When employees use vacation leave benefits, the liability account is reduced accordingly. At September 30, 2004 and 2003, vacation leave taken was \$1,572,494 and \$1,801,258, respectively.

Except for the provision under Public Law 26-86, as disclosed in the following paragraph, GMHA records cost of sick leave in accordance to the policy of the Government of Guam, that is, when leave is actually taken and a liability is actually incurred. Sick leave is paid only when an employee is compelled to be absent from duty on account of illness or injury, medical treatment or related-family death.

Pursuant to Public Law 26-86, upon the retirement of the employees under the Defined Contribution Retirement System (DCRS) plan, such employees will be paid by it's employer a lump sum payment of their unused sick leave hours up to one-half of their accumulated sick leave. At September 30, 2004 and 2003, unused sick leave of the members under the DC plan totaled \$1,768,446 and \$1,608,606, respectively, of which one-half or \$884,223 and \$804,307, respectively, was accrued as long-term liability in the accompanying statements of net assets.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

## (1) Organization and Summary of Significant Accounting Policies, Continued

### Operating Revenues and Expenses

GMHA's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which are GMHA's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital assets acquisition, are reported as non-operating revenues. Operating expenses are expenses incurred to provide health care services other than financing costs.

### Risk Management

GMHA is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. GMHA is self-insured for medical malpractice claims and judgments, as discussed in note 11.

## (2) Cash

Cash insured by the Federal Deposit Insurance Corporation (FDIC) is \$113,442 and \$300,000 as of September 30, 2004 and 2003, respectively, with the remaining amounts being uninsured.

## (3) Assets Limited as to Use and Donor Restriction Released

GMHA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished by incurring costs satisfying the restricted purposes, temporarily restricted net assets are classified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(3) Assets Limited as to Use and Donor Restriction Released, Continued

The assets released from restriction as of September 30, 2004 and 2003 are as follows:

	2004	2003
Amounts Released from Restrictions:		
Compact Impact Fund:		
Used for pharmaceutical and supplies	\$ 3,584,010	\$ -
Used for building improvements, facility repairs, and equipments	599,232	379,741
FEMA - Hazard Mitigation Program	81,032	725,029
Programs under National Bio-Terrorism		
Hospital Preparedness: Expenditures for education, training, and bio-terrorism preparedness supplies	329,703	8,899
Current year Federal Award capital grants and Contributions	4,593,977	1,113,669
Decrease in temporarily restricted net assets, FEMA contributions - repair of chiller	493,090	-
Total amounts released from restrictions	\$ 5,087,067	\$ 1,113,669

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(4) Capital Assets

A summary of capital asset additions, retirements, and transfer balances for the years ended September 30, 2004 and 2003 is as follows:

<u>For Fiscal Year 2004:</u>	<u>Beginning Balance October 1, 2003</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2004</u>
<u>Capital assets, being depreciated:</u>				
Building and land improvements	\$ 53,932,735	\$ 952,522	\$ -	\$ 54,885,257
Long-term care facility	10,660,987	-	-	10,660,987
Movable equipments	<u>23,094,494</u>	<u>959,934</u>	<u>-</u>	<u>24,054,428</u>
Total capital assets	87,688,216	1,912,456	-	89,600,672
Less: Accumulated depreciation and amortization	<u>(45,153,938)</u>	<u>( 3,683,158)</u>	<u>-</u>	<u>( 48,837,096)</u>
Total net capital assets being depreciated	<u>42,534,278</u>	<u>( 1,770,702)</u>	<u>-</u>	<u>40,763,576</u>
<u>Capital assets, not being depreciated:</u>				
Construction in progress	<u>1,106,505</u>	<u>1,275,212</u>	<u>( 952,522)</u>	<u>1,429,195</u>
Total capital assets, net	<u>\$ 43,640,783</u>	<u>(\$ 495,490)</u>	<u>(\$ 952,522)</u>	<u>\$ 42,192,771</u>

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(4) Capital Assets, Continued

<u>For Fiscal Year 2003:</u>	<u>Beginning Balance October 1, 2002</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2003</u>
<u>Capital assets, being depreciated:</u>				
Building and land improvements	\$ 51,285,458	\$ 2,715,777	(\$ 68,500)	\$ 53,932,735
Long-term care facility	10,660,987	-	-	10,660,987
Movable equipments	<u>22,997,961</u>	<u>443,801</u>	<u>( 347,268)</u>	<u>23,094,494</u>
Total capital assets	84,944,406	3,159,578	( 415,768)	87,688,216
Less: Accumulated depreciation and amortization	<u>(41,858,248)</u>	<u>(3,707,208)</u>	<u>411,518</u>	<u>(45,153,938)</u>
Total net capital assets being depreciated	43,086,158	( 547,630)	( 4,250)	42,534,278
<u>Capital assets, not being depreciated:</u>				
Construction in progress	<u>1,452,635</u>	<u>2,369,647</u>	<u>(2,715,777)</u>	<u>1,106,505</u>
Total capital assets, net	<u>\$ 44,538,793</u>	<u>\$ 1,822,017</u>	<u>(\$2,720,027)</u>	<u>\$ 43,640,783</u>

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(5) Patients Accounts Receivable, Net

As of September 30, 2004 and 2003, patient accounts receivable, net were as follows:

	2004	2003
Receivable from patients and their insurance carriers	\$ 36,228,485	\$ 41,489,490
Patient receivables referred to collection agencies	66,213,104	84,033,435
Total patient accounts receivable	102,441,589	125,522,925
Less: Allowance for bad debts	( 55,869,063)	( 76,119,436)
Allowance for contractual adjustments	( 20,342,591)	( 18,816,203)
Total allowance for bad debts and contractual adjustments	( 76,211,654)	( 94,935,639)
Patients accounts receivable, net	\$ 26,229,935	\$ 30,587,286

(6) Third-Party Rate Adjustments and Revenue, and Concentrations of Credit Risk

The GMHA has agreements with third-party payors that provide for payments to the hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at current interim rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. GMHA is reimbursed for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by GMHA and audits by the Medicare fiscal intermediary. At September 30, 2004 and 2003, outstanding amounts due to the Medicare program was \$408,446 and \$4,203,767, respectively, consisting of prior year retroactive lump adjustments and overpayments under the medicare program facility. Overpayments made by Medicare under the facility, are being recovered by the United Government Service (Medicare) through withholding from the current year settlements.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(6) Third-Party Rate Adjustments and Revenue, and Concentrations of Credit Risk, Continued

Medicaid and Medically Indigent Program (MIP).

GMHA is reimbursed for the cost of inpatient and outpatient services rendered under the programs administered by the Government of Guam Department of Public Health and Social Services. During each fiscal year, GMHA is reimbursed on the basis of interim rates with the final settlement determined after submission of annual cost reports prepared in accordance with the agency requirement.

Laws and regulations governing Medicare and Medicaid Programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

GMHA also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to GMHA under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Revenue from Contracting Agencies and Concentrations of Credit Risk

GMHA grants credit without collateral to its patients, most of whom are residents of the Territory of Guam and are insured under third-party payor agreements.

A summary of Patient Service Revenue at September 30, 2004 and 2003 is as follows:

	<u>Fiscal Year 2004</u>		<u>Fiscal Year 2003</u>	
	<u>Gross</u>	<u>% to Total</u>	<u>Gross</u>	<u>% to Total</u>
	<u>Patient</u>	<u>Inpatient/</u>	<u>Patient</u>	<u>Inpatient/</u>
	<u>Service</u>	<u>Outpatient</u>	<u>Service</u>	<u>Outpatient</u>
	<u>Revenues</u>	<u>Services</u>	<u>Revenues</u>	<u>Services</u>
<u>Inpatient and outpatient</u>				
<u>acute care services:</u>				
Medicare	\$21,825,393	22%	\$20,507,812	22%
Medicaid	10,325,347	11%	9,063,836	10%
Medically Indigent Program	8,513,650	9%	6,864,061	8%
Other Local Insurances	14,667,293	15%	15,756,285	17%
Self-Pay	24,845,577	26%	24,448,431	26%
Other Providers	<u>16,896,305</u>	<u>17%</u>	<u>16,120,307</u>	<u>17%</u>
Total	<u>\$97,073,565</u>	<u>100%</u>	<u>\$92,760,732</u>	<u>100%</u>

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(6) Third-Party Rate Adjustments and Revenue, and Concentrations of Credit Risk,  
Continued

Revenue from Contracting Agencies and Concentrations of Credit Risk, Continued

	<u>Fiscal Year 2004</u>		<u>Fiscal Year 2003</u>	
	<u>Gross</u>	<u>% to Total</u>	<u>Gross</u>	<u>% to Total</u>
	<u>Patient</u>	<u>Inpatient/</u>	<u>Patient</u>	<u>Inpatient/</u>
	<u>Service</u>	<u>Outpatient</u>	<u>Service</u>	<u>Outpatient</u>
	<u>Revenues</u>	<u>Services</u>	<u>Revenues</u>	<u>Services</u>
Forwarded total, inpatient and outpatient acute care services	\$ 97,073,565		\$ 92,760,732	
		% to Total Support <u>Services</u>		% to Total Support <u>Services</u>
<u>Inpatient and outpatient support services:</u>				
Medicare	\$ 2,545,674	47%	\$ 2,286,014	49%
Medicaid	214,028	4%	101,588	2%
Medically Indigent Program	794,924	15%	543,889	12%
Other Local Insurance	420,112	8%	268,055	6%
Self-Pay	712,797	13%	800,815	17%
Other Providers	<u>721,900</u>	<u>13%</u>	<u>641,676</u>	<u>14%</u>
	\$ 5,409,435	<u>100%</u>	\$ 4,642,037	<u>100%</u>
Total Gross Patient Revenues	\$102,483,000		\$ 97,402,769	
		% to Total Inpatient/ Outpatient Services by Third-Party Payor		% to Total Inpatient/ Outpatient Services by Third-Party Payor
Less Management's estimates for:				
<u>Contractual allowances:</u>				
Medicare	\$ 8,948,170	41%	\$ 9,592,374	47%
Medicaid	4,233,150	41%	3,530,696	39%
Medically Indigent Program	-	-	1,683,698	25%
Other Local Insurances	1,173,314	8%	2,610,932	17%
<u>Adjustments &amp; denials</u>				
Self-Pay	17,468,413	70%	15,660,924	64%
Other Providers	<u>1,857,452</u>	11%	-	-
Total Management's estimates of contractual adjustments & denials	<u>33,680,499</u>	35%	<u>33,078,624</u>	35%
Net Patient Service Revenue	\$ 68,802,501		\$ 64,324,145	

## GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

### (6) Third-Party Rate Adjustments and Revenue, and Concentrations of Credit Risk, Continued

At September 30, 2004 and 2003, Management's estimate of the patient's receivable doubtful of collection was \$12,495,905 and \$8,947,165, respectively.

For the year ended September 30, 2004, management has written-off approximately \$35 million of patient accounts receivable deemed uncollectible.

### (7) Employees' Retirement Plan

#### Plan Description

##### Defined Benefit Plan (DB)

The Defined Benefit Plan provides for retirement, disability, and survivors benefits to members of the plan prior to October 1, 1995 (all government employees are required to participate in the Defined Contribution Retirement System Plan after October 1, 1995). Under this plan, retirement benefits are based on age and/or years of credited service and an average of the three (3) highest annual salaries received by a member during the years of credited service, or six thousand dollars (\$6,000), whichever is greater.

##### Defined Contribution Retirement System Plan (DCRS)

The Defined Contribution Retirement System (DCRS) was created by Public Law 23-42:3 to provide an individual account retirement system for any person who is employed in the Government of Guam whose employment commences on or after October 1, 1995. Existing members of the DB Plan with less than twenty years of service credit may, upon written election, voluntarily elect membership in the DCRS. This option was available for sixty five (65) months after enactment of the legislation, and between March 1 and May 31 of every year, beginning in the year 2002. After making the election to transfer, the employee may not change the election or again become a member of the DB plan.

#### Contributions

Contributions under the DB and the DCRS are set by law and are administered by the Government of Guam Retirement Fund. For the year ended September 30, 2004, the statutory contribution rates for employers and employees under the DB Plan were 20.81% and 9.5% respectively. During the year ended September 30, 2003, the Guam Legislature mandated an employer and employee contribution rate of 26% and 9.5% respectively, of covered payroll from October 1, 2002 to February 28, 2003. The employer contribution rate was dropped to 18% by legislative mandate effective March 1, 2003.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(7) Employees' Retirement Plan, Continued

As a result of the most recent actuarial valuation performed as of September 30, 2003 issued in March 15, 2005, the annual actuarially required contribution rates for the years ended September 30, 2004 and 2003 as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Normal Cost (as % of expected Defined Benefit Plan payroll)	17.66%	18.30%	17.66%
Unfunded liability costs , as % of total payroll (DB and DC)	<u>16.23%</u>	<u>19.93%</u>	<u>16.23%</u>
	33.89%	38.23%	33.89%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Government contribution as % of DB Plan payroll	<u>24.39%</u>	<u>28.73%</u>	<u>24.39%</u>
Government required contribution, as % of total payroll (DB and DC)	<u>20.81%</u>	<u>24.89%</u>	<u>20.81%</u>

The Defined Benefit Plan utilizes the actuarial cost method termed “entry age normal” with an assumed rate of return of 7% and an assumed salary scale increase of 8.5% per annum for short service employees and 4% per annum for longer service employees. The most recent actuarial valuation performed as of September 30, 2003 did not provide a breakdown of the actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor, and therefore, the amount was not determinable. If the actuarial valuation were performed for GMHA as a separate sponsor, the accrual unfunded liability at September 30, 2004 and 2003 may be materially different than that recorded in the accompanying financial statements.

Contributions in the DCRS by members are based on an automatic deduction of 5% of the member’s regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions into the DCRS for the years ended September 30, 2004 and 2003, are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member’s regular base pay is deposited in the member’s individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(7) Employees' Retirement Plan, Continued

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service but have not attained the age of 55 are eligible only for the amount of member contributions plus any earnings thereon.

For the years ended September 30, 2004 and 2003, retirement expense contribution was \$5,482,710 and \$5,958,278, respectively. At September 30, 2004 and 2003, the accrued unfunded liability to the retirement fund was \$2,634,704 in each year.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(8) Long-Term Debt

At September 30, 2004 and 2003, long-term debt consists of the following:

	<u>2004</u>	<u>2003</u>
<p>Promissory note payable to the Government of Guam Retirement Fund in equal quarterly installments of \$401,330 including interest at the Bank of Hawaii's prime rate plus 1% (9% at September 30, 2004 and 2003). During 2004 and 2003, not all installments were made and the note is in arrears. Payments made to the notes were \$469,558 and \$695,700, respectively, of principal and interest. The note was due in March 2003 and is uncollateralized. (See note 14).</p>	\$ 6,496,549	\$ 6,654,705
<p>Promissory note to the Guam Power Authority (GPA) for balance due on electrical service with electric utility, payable in total monthly installments of \$45,965, beginning October 13, 2001, including interest at 4.47% per annum. During 2004 and 2003, GMHA defaulted on total twelve (12) monthly installments totaling \$551,581. The note is uncollateralized and due September 2005.</p>	<u>1,094,112</u>	<u>1,421,129</u>
Total notes payable	7,590,661	8,075,834
Less current portion	<u>7,590,661</u>	<u>7,403,566</u>
Long-term debt	<u>\$ -</u>	<u>\$ 672,268</u>

On November 21, 2002, the Superior Court of Guam ordered GMHA to pay its outstanding liabilities to the Government of Guam Retirement Fund, which at September 30, 2002 approximates \$16 million of notes payable and unpaid contributions. Furthermore, in March 2003, GMHA defaulted on this note for failure to make a final balloon payment with the Government of Fund Retirement Fund due on March 2003.

At September 30, 2004 and 2003, the notes payable to Retirement Fund included an estimated accrual of interest and penalties of \$708,416 and \$397,014, respectively.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(8) Long-Term Debt, Continued

At September 30, 2004 and 2003, the changes in the long-term liabilities are as follows:

<u>2004</u>	<u>Outstanding Balance 09/30/03</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding Balance 09/30/04</u>	<u>Current</u>	<u>Noncurrent</u>
Government of Guam Retirement Fund, note payable	\$ 6,654,705	\$ -	(\$ 158,156)	\$ 6,496,549	\$ 6,496,549	\$ -
Guam Power Authority note payable	1,421,129	-	( 327,017)	1,094,112	1,094,112	-
Deferred retirement fund contributions	2,634,704	-	-	2,634,704	-	2,634,704
Accrued annual leave	2,858,098	1,165,067	(1,572,494)	2,450,671	1,323,362	1,127,309
50% Accrued sick leave of employees under DC Retirement Plan	<u>804,307</u>	<u>79,916</u>	<u>-</u>	<u>884,223</u>	<u>-</u>	<u>884,223</u>
	<u>\$14,372,943</u>	<u>\$1,244,983</u>	<u>(\$2,057,667)</u>	<u>\$13,560,259</u>	<u>\$ 8,914,023</u>	<u>\$ 4,646,236</u>

<u>2003</u>	<u>Outstanding Balance 09/30/02</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding Balance 09/30/03</u>	<u>Current</u>	<u>Noncurrent</u>
Government of Guam Retirement Fund note payable	\$ 6,932,542	\$ -	(\$ 277,837)	\$ 6,654,705	\$ 6,654,705	\$ -
Guam Power Authority note payable	1,591,861	-	( 170,732)	1,421,129	748,861	672,268
IBM note payable	50,055	-	( 50,055)	-	-	-
Deferred retirement fund contributions	2,634,704	-	-	2,634,704	-	2,634,704
Accrued annual leave	3,481,188	1,178,168	(1,801,258)	2,858,098	1,400,468	1,457,630
50% Accrued sick leave of employees under DC Retirement Plan	<u>-</u>	<u>804,307</u>	<u>-</u>	<u>804,307</u>	<u>-</u>	<u>804,307</u>
	<u>\$14,690,350</u>	<u>\$1,982,475</u>	<u>(\$2,299,882)</u>	<u>\$14,372,943</u>	<u>\$ 8,804,034</u>	<u>\$ 5,568,909</u>

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(9) Related Party Transactions

At September 30, 2004 and 2003, a summary of related party transactions with the Government Agencies are as follows:

	2004	2003
Payables to Government Agencies:		
Retirement Fund:		
Principal and interest on promissory note	\$ 6,496,549	\$ 6,654,705
Unpaid Contributions and interest accrual	<u>10,003,860</u>	<u>9,666,160</u>
	16,500,409	16,320,865
Guam Power Authority in promissory note and current electric service	1,678,732	1,650,716
Guam Telephone Authority	-	22,727
Guam Waterworks Authority	88,197	21,854
Department of Revenue and Taxation on employees' withholding taxes	<u>-</u>	<u>808</u>
Total	<u>\$18,267,338</u>	<u>\$18,016,970</u>

	2004	2003
Operations Receivable from Government Agencies:		
Department of Public Health and Social Services(DPHSS) for the following programs:		
Medicaid, net of estimated allowance for contractual adjustments of \$6,511,905 and \$2,043,353 and for 2004 and 2003, respectively.	\$ 3,114,694	\$10,644,341
MIP, net of estimated allowance for contractual adjustments of \$6,870,953 and \$9,982,051 for 2003 and 2002, respectively.	<u>4,034,961</u>	<u>7,567,001</u>
Total	<u>\$ 7,149,655</u>	<u>\$18,211,342</u>

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(9) Related Party Transactions, Continued

	2004	2003
Other Receivables:		
Department of Administration	\$ 1,172,193	\$ 482,640
Department of Mental Health and Substance Abuse	208,432	135,008
Fire Department	214,507	183,519
Department of Public Health and Social Services	9,823	18,392
	\$ 1,604,955	\$ 819,559

Due to significant discrepancies between the GMHA patients' receivable subsidiary control account and the general ledger for fiscal years 2004 and 2003 of \$15.6 million in each year, the related party receivables disclosed above may differ by a significant amount as compared to the records of various government agencies.

(10) Transfers from the Government of Guam

At September 30, 2004 and 2003, GMHA's transfers from the Government of Guam consist of cash transfers-in and accrual of unreimbursed capital expenditures as follows:

	2004	2003
Transfers-in from Tobacco Settlement Asset Backed-Bond Proceeds, Series 2001A Bonds, Health Security Trust Fund:		
Used for GMHA's capital expenditures under Public Law 26-80 appropriation	\$ 341,990	\$ 1,113,100
Used for payments of pharmaceutical and medical supply vendors under Public Law 27-98 (amendment of Public Law 26-80)	967,632	-
Total	1,309,622	1,113,100
Appropriations from Public Law 27-29, from Healthy Futures Fund:		
Used to offset the proposed 5% across-the board hospital fee increases and for the treatments that are necessary as a result of tobacco, alcohol and substance abuse.	3,800,000	-
	\$ 5,109,622	\$ 1,113,100

## GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

### (10) Transfers from the Government of Guam, Continued

Management believes that appropriations under Public 26-80 as amended by Public Law 27-98, and Public Law 27-29, were all exhausted at September 30, 2004 and were expended in compliance with the intent of the law.

### (11) Commitments and Contingencies

#### Litigation

GMHA is the defendant in several malpractice claims and has received several claims that are pending review or are expected to go to litigation. While GMHA intends to pursue an aggressive defense of these cases and claims, the possibility exists that some may result in material monetary damages being awarded to claimants or plaintiffs. As of September 30, 2004, GMHA's known maximum exposure under these claims is approximately \$2.7 million. However, GMHA is unable to estimate the actual monetary damages from these self-insured malpractice claims, therefore, no provision for any liability that may result from these claims has been made in the financial statements.

#### Employment/Personnel Matters

In April 2003, fifty nine (59) employees of GMHA were laid off as part of the new management's cost reduction program that includes a reduction in labor and fringe costs. Twenty three (23) of these employees filed their appeal to the Civil Service Commission (CSC). In October 2003, the CSC mandated GMHA to reemploy the laid-off employees on the grounds that lay off procedures of the hospital were found technically incorrect. In June 28, 2005, damages awarded and legal fees determined approximates \$630,468. At September 30, 2004, management has made an accrual on this back pay liability and is included in other accrued liabilities.

#### Encumbrances

As of September 30, 2004 and 2003, GMHA had material purchase commitments under outstanding encumbrances totaling \$6,728,853 and \$4,681,229, respectively.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

### (11) Commitments and Contingencies, Continued

#### Self-Insurance

GMHA is self-insured for malpractice. GMHA's exposure under malpractice claims is limited to \$300,000 per claim by the Government Claims Act.

#### Medicare

The Government of Guam and its component units, including GMHA, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998 for employees hired after March 31, 1986. Prior to October 1998, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the Government is found to be liable for such amounts, an indeterminate liability could result. It is the opinion of GMHA and all other component units of the Government of Guam that this health insurance component is optional prior to October 1998. Therefore, no liability for any amount, which may ultimately arise from this matter, has been recorded in the accompanying financial statements.

### (12) Typhoon Expenses and Related Insurance Claims

The main facility of the GMHA was severely damaged as a result of a major typhoon and a super typhoon that struck the island of Guam on July 5, 2002 and December 8, 2002, respectively. At September 30, 2004, the actual incurred damages from the super typhoon were \$2.8 million. During 2003, GMHA received \$1 million as a partial settlement claim for the damages from its insurance carrier and recovered approximately \$1 million in federal assistance under FEMA. As of September 30, 2004, GMHA has made an accrual in the financial statements of the remaining claim with the insurance company in the amount \$730,844.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

### (13) Going Concern

The GMHA has incurred continuing operating losses and negative cash flows that are insufficient to pay current expense and liabilities. The GMHA incurred operating losses of \$10,970,088 and \$11,357,328 for the years ended September 30, 2004 and 2003, respectively. The GMHA defaulted on its \$6.5 million note payable to the Government of Guam Retirement Fund and is in arrears on unpaid retirement fund contributions of approximately \$10 million as of September 30, 2004. Additionally, GMHA is in arrears in aggregate amount of \$551,581 on its \$1.1 million note payable to the Guam Power Authority as of September 30, 2004. These factors raise substantial doubt about the GMHA's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary if the GMHA is unable to continue as a going concern.

The GMHA has not officially formalized a recovery plan. Management of GMHA is seeking additional funding in the form of increased appropriations from the Government of Guam, intends to reduce costs and restructuring its existing debt on terms that will satisfy the debt and not have a negative effect on operations. Management believes these factors will contribute toward achieving profitability. GMHA's ability to achieve these goals is uncertain and there is no assurance that it will be successful in achieving these objectives. Public Law 28-68, Fiscal Year 2006, appropriated to the hospital, from various funds, \$25,670,657 to fund pharmaceuticals, medical equipment, repairs, renovations, and capital purchases. The hospital's subsidy request for fiscal year 2007 is \$27,700,000.

### (14) Subsequent Events

#### Deficient accounts of GMHA with the Government of Guam Retirement Fund (GGRF)

In June 2005, the Government of Guam Legislature issued Public 28-38 to authorize the Treasurer of Guam to make "interest only" payments of \$192,955 for the Department of Guam Public School System (GPSS) and \$190,501 for the GMHA for their deficiencies to the Government of Guam Retirement Fund of \$17.2 million for GPSS and \$16.8 million for GMHA. Pursuant to the Public Law 28-38, the "interest payments only" by the Treasurer of Guam on behalf GPSS and GMHA shall be made on the first day of the month following the enactment of Public Law 28-38, and every first day of every month thereafter, with grace period of no more than 10 days, through cash drawdown and shall continue within five years until the amount owed to GGRF is satisfied through the issuance of General Obligation Bond or alternate means. The enactment of the law was for the purpose of permitting employees eligible to retire from the GPSS and GMHA to retire. Furthermore, GPSS and GMHA is required under the law to maintain current in the applicable fiscal year.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

### (14) Subsequent Events, Continued

#### Deficient accounts of GMHA with the Government of Guam Retirement Fund (GGRF), Continued

In the event that the Treasurer of Guam fails to make current payments of “interest only” as required under law, or if GPSS or GMHA fails to make current payments for the applicable fiscal year, then GGRF shall cease to accept, process and approve retirement applications of eligible employees, until current payments of the retirement fund contributions are received in full, including applicable interest and penalties.

At September 30, 2004, GMHA’s outstanding payable to GGRF of notes payable and unpaid contributions including interest and penalties was \$16,500,409 as disclosed in note 9, of which \$282,029 pertains to the last payroll period of the fiscal year 2004 contribution, and was current.

#### Emergency Appropriations

On August 7, 2005, the Government of Guam Legislature issued Public Law 28-64, for the emergency appropriation in the sum of \$6,591,000 to fund payments for vendors of medicines, medical supplies, pharmaceuticals, medical equipment maintenance contracts, dietary items, dictation and other expenditures directly related to patient treatment and care for prior years and fiscal year 2005. The sum of \$5,000,000 of the emergency appropriation was taken from Guam Telephone Authority Privatization Proceeds Fund, and \$1,591,000 from the Healthy Futures Fund. GMHA is required by law to provide the Legislature, on a weekly basis, the expenditures made on accounts payable as well as the source of those funds. Furthermore, this information must be posted in the GMHA website.

### (15) Reclassifications

Certain balances in the 2003 financial statements have been reclassified to correspond to the 2004 presentation.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Supplementary Information  
Schedule of Expenses  
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>Nursing:</b>		
Salaries - regular	\$ 15,917,584	\$ 16,755,372
Salaries - overtime and incentive pay	3,878,436	3,701,262
Fringe benefits	<u>4,102,725</u>	<u>4,343,988</u>
Total personnel costs	23,898,745	24,800,622
Supplies and materials	3,101,760	3,144,914
Contractual services	291,408	175,177
Miscellaneous	<u>456,605</u>	<u>370,638</u>
	<u>\$ 27,748,518</u>	<u>\$ 28,491,351</u>
<b>Ancillary:</b>		
Salaries - regular	\$ 4,971,559	\$ 5,057,728
Salaries - overtime and incentive pay	1,475,598	1,593,691
Fringe benefits	<u>1,465,501</u>	<u>1,456,067</u>
Total personnel costs	7,912,658	8,107,486
Supplies and materials	6,188,862	6,418,538
Contractual services	1,390,211	1,285,566
Miscellaneous	<u>98,128</u>	<u>59,044</u>
	<u>\$ 15,589,859</u>	<u>\$ 15,870,634</u>
<b>General services:</b>		
Salaries - regular	\$ 2,806,350	\$ 2,959,284
Salaries - overtime and incentive pay	686,657	526,010
Fringe benefits	<u>842,028</u>	<u>973,116</u>
Total personnel costs	4,335,035	4,458,410
Utilities	1,531,763	1,636,221
Supplies and materials	722,081	623,963
Contractual services	1,102,029	855,163
Typhoon expenses	993,088	647,554
Miscellaneous	<u>77,174</u>	<u>89,755</u>
	<u>\$ 8,761,170</u>	<u>\$ 8,311,066</u>

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Supplementary Information  
 Schedule of Expenses, Continued  
 Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Administrative support:		
Salaries - regular	\$ 3,047,418	\$ 3,041,939
Salaries - overtime and incentive pay	248,220	341,694
Fringe benefits	846,937	989,174
Annual leave lump sum pay	<u>195,332</u>	<u>307,033</u>
Total personnel costs	4,337,907	4,679,840
Contractual services	1,714,155	1,475,432
Supplies and materials	866,731	690,715
Miscellaneous	<u>215,815</u>	<u>117,194</u>
	<u>\$ 7,134,608</u>	<u>\$ 6,963,181</u>
Medical staff:		
Salaries - regular	\$ 526,507	\$ 500,937
Salaries - overtime and incentive pay	17,422	47,523
Fringe benefits	<u>231,519</u>	<u>189,980</u>
Total personnel costs	775,448	738,440
Contractual Services	1,753,912	1,271,620
Miscellaneous	<u>23,882</u>	<u>11,084</u>
	<u>\$ 2,553,242</u>	<u>\$ 2,021,144</u>
Administration:		
Salaries - regular	\$ 490,585	\$ 436,802
Salaries - overtime and incentive pay	15,302	58,248
Fringe benefits	<u>134,958</u>	<u>100,966</u>
Total personnel costs	640,845	596,016
Miscellaneous	447,428	296,104
Contractual Services	<u>1,337,650</u>	<u>1,151,698</u>
	<u>\$ 2,425,923</u>	<u>\$ 2,043,818</u>
Employees at end of year	<u>796</u>	<u>817</u>

**GUAM MEMORIAL HOSPITAL AUTHORITY**

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**REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND COMPLIANCE**

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**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

To the Board of Trustees  
Guam Memorial Hospital Authority:

I have audited the financial statements of Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of and for the year ended September 30, 2004, and have issued my report thereon dated December 14, 2005, which report was qualified due to my inability to determine the propriety of accounts receivable and the related allowance for bad debts and contractual adjustments, and capital assets net of accumulated depreciation, and the related depreciation expense. Except as discussed in the preceding sentence, I conducted my audit 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.

**Internal Control over Financial Reporting**

In planning and performing the audit, I considered GMHA's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect GMHA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-01 through 04-39.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I consider items 04-01 through 04-03, 04-08, 04-12 through 04-16, 04-20, 04-25 through 04-28, and 04-33 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GMHA's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 (pages 48 through 126) as items number 04-04 through 04-07, 04-09 through 04-11, 04-17 through 04-22, 04-24 through 04-25, and 04-29 through 04-39.

I also noted certain immaterial instances of noncompliance that I have reported to management of GMHA, which are included in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information of the Board of Trustees and management of the Guam Memorial Hospital Authority, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than the specified users. However, this report is a matter of public record and its distribution is not limited.

*J. Scott Magliari & Company*

Hagåtña, Guam  
December 14, 2005

GUAM

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Board of Trustees  
Guam Memorial Hospital Authority:

Compliance

I have audited the compliance of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. GMHA's major federal programs are identified in the Summary of Auditor's Results section on page 44-45 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GMHA's management. My responsibility is to express an opinion on GMHA's compliance based on my audit.

I conducted my 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 GMHA's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of GMHA's compliance with those requirements.

As described in items number 04-20, 04-25, 04-34, 04-35, 04-37, and 04-39 in the accompanying Schedule of Findings and Questioned Costs, GMHA did not comply with the requirements regarding property management and procurement that are applicable to its major federal programs described in the accompanying Schedule of Major Federal Award Programs (page 45). Compliance with such requirement is necessary, in my opinion, for the GMHA to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, GMHA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

### Internal Control Over Compliance

The management of GMHA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered GMHA's internal control over compliance with requirements that could have a direct and material effect on a major program in order to determine my auditing procedures for the purpose of expressing an opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect GMHA's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned costs as items 04-20, 04-25, 04-34, 04-35, 04-37 and 04-39.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited which may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 04-20 and 04-25 to be material weaknesses.

### Schedule of Expenditures of Federal Awards

I have audited the basic financial statements of GMHA as of and for the year ended September 30, 2004, and have issued my report thereon dated December 14, 2005, which report was qualified due to my inability to determine the propriety of accounts receivable and the related allowance for bad debts and contractual adjustments; and capital assets net of accumulated depreciation, and the related depreciation expense. My audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 43 is presented for additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Board of Trustees and management of the Guam Memorial Hospital Authority, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

  
Hagåtña, Guam  
December 14, 2005

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2004

Grantor/Pass Through Grantor/Program Title	CFDA Number	Program or Award Amount	Receivable from Grantor/ (Due to Grantor) 09/30/03	Cash Receipts FY 2004	Expenditures FY 2004	Receivable from Grantor/ (Due to Grantor) 09/30/04
U.S. Department of the Interior						
Passed Through the Government of Guam:						
Economic, Social, and Political Development						
of Territories and Freely Associated States:						
For Capital Improvement and Medical						
Equipment (Compact Impact Grant FY 2000-2001)	15.875	1,095,600	\$ 379,740	\$ 556,529	\$ 256,203	\$ 79,414
For Facility Repair and Equipments(Compact						
Impact Grant FY 2003)	15.875	1,355,000	-	5,739	258,280	252,541
For Capital Improvement and Medical Equipment						
(Compact Impact Grant FY 2004)	15.875	1,500,000	-	74,287	84,749	10,462
For Pharmaceutical and Medical Supplies (Compact						
Impact Grant FY 2004)	15.875	3,584,010	-	2,908,454	3,584,010	675,556
Federal Emergency Management Agency						
Passed Through the Government of Guam:						
Hazard Mitigation Programs- Typhoon Pongsona	97.039/83.548	711,181	-	-	-	-
Hazard Mitigation Programs- Enclosure of						
General Walkway	97.039/83.548	193,013	-	25,051	81,032	55,981
Public Assistance-Typhoon Paka	97.036/83.544	630,001	(335,241)	-	335,241	-
Public Assistance-Earthquake	97.036/83.544	49,590	16,040	-	36,736	52,776
Public Assistance-Typhoon Pongsona	97.036/83.544	1,040,399	-	370,611	418,921	48,310
U.S. Department of Health and Human Services						
Passed Through the Government of Guam:						
National Bioterrorism Hospital Preparedness Program						
(Grant for Fiscal Years 2002 and 2003)	93.003	888,414	8,899	296,600	329,703	42,002
U.S. Department of Health and Human Services						
Bioterrorism Hospital Preparedness Program (2004)	93.003	738,414	-	-	-	-
Total Federal Awards Expended						
		<u>\$ 11,785,622</u>	<u>\$ 69,438</u>	<u>\$ 4,237,271</u>	<u>\$ 5,384,875</u>	<u>\$ 1,217,042</u>

Note 1. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the grant activity of GMHA and is presented on the accrual basis of accounting.

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**GUAM MEMORIAL HOSPITAL AUTHORITY**

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**SCHEDULE OF FINDINGS AND  
QUESTIONED COSTS**

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**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**PART I - SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

I have audited the basic financial statements of Guam Memorial Hospital Authority (GMHA) and issued a qualified opinion.

Internal control over financial reporting:

- Material weaknesses were identified?      x      yes              no
  
- Reportable conditions identified that are not considered to be material weaknesses?      x      yes              no
  
- Noncompliance material to financial statements noted?      x      yes              no

Federal Awards

Internal control over financial reporting:

- Material weaknesses were identified?      x      yes              no
  
- Reportable conditions identified that are not considered to be material weaknesses?      x      yes              no

The auditor's report on major program compliance for GMHA having three major programs expresses a qualified opinion based on identified reportable conditions, which, in my opinion, are considered to be material weaknesses.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

  x      yes              no

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**PART I - SUMMARY OF AUDITOR'S RESULTS, Continued**

Identification of major programs:

<u>CFDA#</u>	<u>PROGRAM</u>
15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States
97.039/83.548	Hazard Mitigation Grants
97.036/83.544	Public Assistance Grants
93.003	National Bioterrorism Hospital Preparedness Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk audit?            \_\_\_\_\_ yes      x   no

**PART II - FINANCIAL STATEMENT FINDINGS**

There were instances of noncompliance noted that should be reported in accordance with Government Auditing Standards, which are presented in the following pages as items 04-01 through 04-39.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
04-01	Business Office – Checks Received By Mail	\$ -
04-02	Business Office - Cash Receipts System	-
04-03	Patient Affairs Department - Accounts Receivable Suspense Account and Cash Shortage (Overage) Account	-
04-04	Business Office – Offset Transaction on Payments of Disbursements	-
04-05	Personnel Department – Pertinent Documentation	-
04-06	Personnel Department – Random Drug Testing	-
04-07	Payroll Department –Unauthorized Stand-by/On-Call Pay	13,383
04-08	Nursing, Hospital Facility, Pharmacy, Housekeeping Department	-
04-09	Fiscal Services – Travel Authorization No. 28-04	4,860
04-10	Fiscal Department – Test of Travel Authorization	21,163
04-11	Payroll Department – Supporting Documents	-

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

### **PART II - FINANCIAL STATEMENT FINDINGS, Continued**

Reference Number	Findings	Questioned Costs
04-12	Patient Affairs – Payment Agreement Terms	\$ -
04-13	Accounting & Patient Affairs Department – Patients’ Accounts Receivable	-
04-14	Patient Affairs Department and Accounting Department – Allowance for Doubtful Accounts & Contractual Adjustments	-
04-15	Patient Affairs Department – Accounts Referred to Collection Agencies, Payment Agreements, Payroll Deductions, Pending Litigations, Govt. of Guam	-
04-16	Patient Affairs Department – Internal Control Forms for Bad Debts Write-Offs, Billing Adjustments & Transfer, Recommendation of Contractual Adjustment	-
04-17	Patient Affairs Department – Contracts with Third-Party Payer	-
04-18	Patient Affairs Department – Check Disbursement for Refund of Overpayments	-
04-19	Accounting Department – Other Receivables	-
04-20	Property Management & Accounting Department- Physical Inventory of Fixed Assets	-
04-21	Property Management Department – Loan of Hospital Equipment	-
04-22	Patient Affairs Department (Medical Records)– Late Charges of House Patient Doctor’s Fee	-
04-23	Accounting & Patient Affairs Department – Accounts Receivable from the Department of Revenue & Taxation (Non-Payer)	-
04-24	Accounting Department- Prepayments	-
04-25	Property Management & Accounting Department – Fixed Asset Register Reconciliation	-
04-26	Accounting Department – Inventory Reconciliation	-
04-27	Accounting Department – Accounts Payable	-
04-28	Accounting Department- Timely Reconciliation of Accounts	-
04-29	Administration – Late Submission of Cost Medicare Reports	-
04-30	Notes Payable in Arrears & Unpaid Contributions with Government of Guam Retirement Funds	-
04-31	Pharmacy Department – Loan & Borrowing of Pharmaceuticals and Supplies	-
04-32	Notes Payable in Arrears – Guam Power Authority	-
04-33	Workers’ Compensation	45,131

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

### **PART II - FINANCIAL STATEMENT FINDINGS, Continued**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
04-34	Procurement: Paid Invoices in Excess of Purchase Order	\$ 102,407
04-35	Procurement: Period of Availability	118,918
04-36	Procurement: Requisition Orders	91,520
04-37	Procurement: Bid Invitation & Award / RFP Forms	-
04-38	Procurement: Sole Source Procurement Method	285,389
04-39	Procurement: Qualified Bidders List	<u>-</u>
	Total Questioned Costs	<u>\$ 682,771</u>

### **PART III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

I noted certain reportable conditions and instances of noncompliance, which are presented in the following pages as items 04-01 through 04-39.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
04-20	Property Management & Accounting Department- Physical Inventory of Fixed Assets	\$ -
04-25	Property Management & Accounting Department – Fixed Asset Register Reconciliation	-
04-34	Procurement: Paid Invoices in Excess of Purchase Order	80,855
04-35	Procurement: Period of Availability	118,918
04-37	Procurement: Bid Invitation & Award / RFP Forms	-
04-39	Procurement: Qualified Bidders List	<u>-</u>
	Total Questioned Costs	<u>\$ 199,773</u>

The above Federal Award Findings' Questioned Costs of \$199,773 is included in the above Part II- total Financial Statement Findings' questioned costs of \$682,771.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-01**

**Area: Business Office – Checks Received By Mail**

**CFDA No. N/A**

### Criteria:

A control list of cash receipts (checks) received by mail should be prepared, and those incoming checks by mail should be restrictively endorsed.

### Condition:

There are no standard operating procedures for incoming checks received by mail. Currently, incoming checks received by mail are forwarded to the Cashier by the Administrative Assistant with no control listing and/or restrictive endorsement. Additionally, there is no segregation of duties within the cash receipts section. Cashiers prepare the deposit slip for the checks received by mail and post the payments to the accounts receivable subsidiary ledger.

### Cause:

There are no established written policies and procedures for handling checks received by mail.

### Questioned Cost:

There is no questioned cost as a result of this condition.

### Effect:

The lack of segregation of duties in the Business Office and weak internal controls over the handling of cash receipts exposes GMHA to the potential loss or theft of cash.

### Prior Year Status:

The lack of segregation of duties in the Business Office and weak internal controls over the handling of cash receipts was reported as a finding in the prior year audit of the GMHA.

### Recommendation:

The Chief Financial Officer should establish written internal control policies and procedures for handling of checks received by mail. Checks received by mail should be properly accounted for and summarized by the Administrative Assistant before forwarding to the Cashier. Then, the Cashier should prepare the deposit slips after comparing the checks received with the listing. Cashier functions should be limited to receiving payments and preparing bank deposit slips, an employee having no access to cash should perform the actual postings and compare the validated deposit slips with the listing.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-01, Continued**

**Area: Business Office – Checks Received By Mail**

**CFDA No. N/A**

### Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Beginning in May 2005, the Patient Affairs Administrative Assistant logs mail receipts on a “Collection by Mail Form” on a daily basis. When logging checks received in the mail, the Administrative Assistant records check dates, amounts, number, and total of all checks received. The Patient Affairs Administrative Assistant transfers the information recorded on the “Collection by Mail Form” to a bank deposit slip. Once the bank deposit slip is completed the Administrative Assistant submits the completed package to the Cashier, obtaining the Cashier’s signature to document the transfer of checks.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No.** 04-02  
**Area:** Business Office – Cash Receipts System  
**CFDA No.** N/A

### Criteria:

Management should establish and implement standard written procedures for the use of the cash receipts system in the AS-400 module.

### Condition:

Of sixty (60) official receipts tested, seven (7) or 12% pertain to the write-off of bad debts adjustments, three (3) or 5% pertains to contractual adjustments, and five (5) or 8%, pertain to transfers from current receivable to bad debts receivable.

During 2004, the cash receipts system has generated a count of 41,517 official receipts issued and comprising of Payment Mode (P), Adjustment Mode (A), and Contractual Mode (C), of which 33,060 counts indicated payment mode, with the remaining receipts comprising of adjustment and contractual modes. Of the 33,060 counts of issued payment mode, 10,557 or 32% of these official receipts showed no details of form of payments (i.e. cash, check, credit card, bank, etc.).

### Cause:

There are no established internal control policies and procedures to ascertain and ensure the completeness of the cash receipts control list. Additionally, there is no management oversight of this function.

### Effect:

There is no known effect to the financial statements. However, this severe weakness could result in the following:

1. Possibility that fraud and defalcation could exist and not be detected;
2. Process of crediting the payment to appropriate patient account may not be performed in a timely manner;
3. Possibility of incorrect patient account being credited;
4. Possibility of inaccurate reports of the patient receivable balance;
5. Possibility that unidentified cash receipts cannot be clarified to payor as there was not sufficient detail information of the cash received; and
6. Bank reconciliations are not only voluminous to reconcile, but often virtually impossible for the accounting clerk to verify the unidentified cash receipts, which results in temporarily recording unidentified deposits to cash shortage (overage) or accounts receivable-suspense account.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-02, Continued**  
**Area: Business Office – Cash Receipts System**  
**CFDA No. N/A**

### Prior Year Status:

The lack of internal controls over implementing an efficient accounting system was reported as finding in the prior years audit 2002 and 2003 of GMHA.

### Recommendation:

GMHA should establish and monitor internal control policies and procedures over the Patient Affairs' cash receipts transactions and ensure that the hospital's assets are safeguarded. The method of payment, customer name and detail of what patient charges being credited, including specific reference numbers, should be annotated on receipts.

### Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Fiscal Services Department has formed a task force to aggressively correct the past practices of accounting for Accounts Receivable. Currently, the task force is working daily to document current systemic flaws in order to identify where and how to implement improvements in accounts receivable.

One of the major goals of the task force is to create system documentation that is germane to the current accounts receivable operations and implement much needed to internal controls. The task force's goal is to implement changes into the accounts receivable system by March 1, 2006.

GMHA is also in the process of engaging consultants to develop a Financial Management Improvement Program, which will also provide and evaluation of the current systems, processes and computer software and hardware.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-03**

**Area: Patient Affairs Department – Accounts Receivable-Suspense Account  
and Cash Shortage (Overage) Account**

**CFDA No. N/A**

### Criteria:

All cash receipts should be properly controlled and accounted for, processed, and posted in a timely manner.

### Condition:

During 2004, the Payment Mode (P) official receipts issued total only to \$5,719,857.66 comprising mostly of walk-in cash and credit card payments, checks by mail, payroll deductions from various GovGuam agencies, and payments from non-major health providers. However, it was noted that cash flows from these sources approximated \$66 million, concluding that approximately \$60 million collections were posted in the cash receipts system through relieved entry from Accounts Receivable-Suspense account or the general ledger Cash Shortage (Overage) account, for which no official receipts were issued. These accounts comprise temporary postings of collections from major third-party payers and other sources pending sufficient information for proper posting to individual patient's account or proper general ledger account.

At September 30, 2004, the unrelieved cash collections in the accounts receivable-suspense account aggregated \$620,063.83, and during the year 2004, cash relieved from the temporary posting in the cash shortage (overage) account approximates \$24 million.

### Cause:

There is a lack of established internal control policies and procedures to ensure that collections are properly accounted for and processed in the patient's subsidiary account in a timely manner.

### Effect:

The patient subsidiary ledgers appear to be incorrect as of September 30, 2004. Individual patient's ledgers are misstated due to unposted payments. Additionally, because the daily cash receipts print-out does not always agree to the daily cash receipts deposits, the reconciliation to the bank statement becomes difficult for the accounting clerk and in some cases, virtually impossible. The potential for fraud greatly increases when known account balance differences are not reconciled.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-03, Continued**

**Area: Patient Affairs Department – Accounts Receivable-Suspense Account  
and Cash Shortage (Overage) Account**

**CFDA No. N/A**

### Prior Year Status:

The lack of internal control over cash receipts system/accounts receivable was cited as a finding in the prior year audits 2002 and 2003 of GMHA.

### Recommendation:

The Assistant Chief Financial Officer should establish written internal control policies and procedures for accounting for and processing unmatched cash receipts collections. Accounts receivable clerks should make copies of all unidentified checks as well as any other details of the transaction and that would assist in the follow-up and clarification with third party payors. The appropriate Business Office personnel should be provided a listing of the details of all unmatched cash receipts collections to properly identify the third party payors or patients. Upon completion, an official cash receipt should issued and used to match the validated bank deposit slip and for posting to the accounts receivable subsidiary.

### Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

GMHA management has instructed the Assistant Chief Financial Officer to develop policies, procedures and standards of performance for the reconciliation of the Accounts Receivable Suspense Account.

December 30, 2005 is the completion date for these polices and procedures for submission to the GMHA's Board of Trustee's for approval.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-04**

**Area: Business Office – Offset Transactions on Payments of Disbursements**

**CFDA No. N/A**

Criteria:

Operational expenditures of the Hospital should be paid from its general checking account.

Condition:

During the fiscal year 2004 and as at October 31, 2004, property insurance premiums totaling \$998,910 were not paid through checks from the GMHA hospital funds, but rather through an offset arrangement from the periodic settlement of a third-party payer to the hospital. There was no formal Board of Trustees' resolution approving this offset arrangement with a third-party payer.

Cause:

GMHA did not have sufficient cash flows to meet current liabilities during fiscal year 2004. Hence, the vendor resolved to withhold the property premium from its medical claims payment due to the hospital.

Effect:

There was no effect in the financial statements as of September 30, 2004; however, the cash flow operations of GMHA have been affected by this offset arrangement.

Recommendations:

GMHA should establish written internal control policy and procedures for the authorization to offset transactions with vendors. Management should ensure compliance to fiscal authority to ensure that all expenditures, payments of debts, liabilities, obligations and operational expenses of the hospital are paid from its general fund.

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Chief Financial Officer will establish policies and procedures regarding offset transactions on payments of disbursements.

December 30, 2005 is the completion date for these polices and procedures for submission to the GMHA's Board of Trustee's for approval.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-05**  
**Area: Personnel Department –Pertinent Documentation**  
**CFDA No. N/A**

Criteria:

Current W-4s, Drug Free Workplace Act Policy Statement, and Confidentiality Statement Act Policy must be contained in the personnel files.

Condition:

Twenty-eight (28) or 49% of fifty seven (57) personnel files tested, did not contain the documentation of the Drug Free Workplace Act Policy Statement for the following:

<u>Dept. No.</u>	<u>Employee No.</u>	<u>Dept. No.</u>	<u>Employee No.</u>
1. 7500	64832	15. 8530	947820
2. 8650	928873	16. 7400	948034
3. 8710	547476	17. 7740	737670
4. 6290	948297	18. 8530	947780
5. 7450	948274	19. 8700	947735
6. 7010	809470	20. 6173	761997
7. 8400	947688	21. 7740	62016
8. 7500	533865	22. 6070	577980
9. 7630	431624	23. 6172	312366
10. 7721	235751	24. 6174	948278
11. 6173	158727	25. 8721	948300
12. 7010	402252	26. 7770	461034
13. 7010	947938	27. 6173	947039
14. 8340	948712	28. 7740	753753

For eight (8), or 14% of the fifty-seven (57) personnel files tested, the Confidentiality Statement Act was not in the personnel file of the following:

<u>Dept. No.</u>	<u>Employee No.</u>	<u>Dept. No.</u>	<u>Employee No.</u>
1. 8530	154603	5. 7420	320018
2. 8710	547476	6. 7010	402252
3. 7450	948274	7. 8530	947820
4. 7010	809470	8. 8700	947735

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-05, Continued**  
**Area: Personnel Department –Pertinent Documentation**  
**CFDA No. N/A**

Cause:

It appears that GMHA personnel did not adhere to their personnel policies and procedures and Federal requirements over documentation compliance.

Effect:

There is no material effect on the financial statements as a result of this condition.

Prior Year Status:

The above conditions were cited as findings in the prior year audits of GMHA for 2002 and 2003.

Recommendation:

GMHA should enforce its existing internal control policies and procedures to ensure compliance with the Drug-free Workplace Act and to its pertinent documentation policies. Management should audit all personnel folders to ensure all required documentations are present and make periodic inspections thereafter.

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Human Resources office in an effort to correct the deficiencies conducted an audit of all employee personnel files on July 2005. It was reaffirmed that approximately fifty (50%) of the files did not have all three forms filed. Therefore, on October 27, 2005 a letter of memorandum to all employees was launched by the Human Resources Office to update and obtain the necessary documents. A deadline of November 18, 2005 was given to all departments. The count received by the Human Resources Office for completed documents was exactly 50% received or 459 of the 918 employees. A second reminder notice will be issued on Monday, December 12, 2005.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-06**

**Area: Personnel Department- Random Drug Testing**

**CFDA No. N/A**

Criteria:

To achieve compliance with requirements of the Federal Drug-Free Workplace Act, GMHA should implement random testing on designated positions that are involved with direct care patients.

Condition:

Of the fifty-seven (57) files tested which generally covered employees with direct patient responsibility, there was no documentation on file to provide evidence that a Notice of Random Drug Testing Under the Drug-Free Workplace Program was performed after the initial implementation of Drug Free Workplace Act Policy in 1999.

Cause:

GMHA did not perform random drug testing.

Effect:

GMHA is not in compliance with the requirements of the Federal Drug-Free Workplace Act.

Prior Year Status:

The above conditions were cited as findings in the prior year audit of GMHA.

Recommendation:

GMHA should comply with the requirement of the Federal Drug Free Workplace Act and ensure that random testing of those employees in sensitive positions that have been designated as Testing Designated Positions (TDP). The Personnel Department should monitor the program and make periodic reviews to ensure compliance.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-06, Continued**

**Area: Personnel Department- Random Drug Testing**

**CFDA No. N/A**

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Random Drug Testing is scheduled for FY06. The Personnel Services Administrator is reviewing the Drug Free Workplace policy in place. The current policy requires some modifications and additions to the TDP listing. In addition, a Request for Proposal for a Medical Review Officer (MRO) will be prepared as the hospital does not have one in place at this time. A temporary arrangement is in place when the result is a confirmed positive the hospital uses the services of the Medical Examiner to sign off on the forms.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-07**  
**Area: Payroll Department – Unauthorized Stand-by/On-Call Pay**  
**CFDA No. N/A**

Criteria:

Management should ensure that only authorized designated employees/personnel shall be compensated on Stand-by/On Call pay at 10% of their basic hourly rate.

Condition:

Per review of the listings of employees with designated on-call status and inquiries of the positions being authorized for stand by/on-call differential, the following employees were not authorized to receive this pay differential due to availability of a 24 hours a day, 7 days a week services at the hospital:

<u>Employee Number</u>	<u>Average On-call Hours per Biweekly Payroll Period End</u>	<u>Total On-Call Hours during 2004</u>	<u>Dollar Value of Paid On-Call</u>
948023	132 hours	3,168	\$ 7,467.46
948172	123 hours	3,020	<u>5,916.02</u>
			<u>\$13,383.48</u>

Additionally, the above employees have been on on-call status since prior fiscal year with paid on- call differential of \$7,677.62 and \$5,478.31, respectively.

Questioned Costs:

A questioned cost of \$13,383 exists for the fiscal year 2004.

Cause:

There is no established internal control in place to ensure that authority delegated to Supervisors by the Management will not create opportunities for possible collusions between Supervisors and Timekeepers. Supervisors' timekeeping activities are not consistently monitored.

Effect:

There is no material effect on the financial statements. However, improper payments may have been made to above employees for unauthorized on-call pay.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-07, Continued**

**Area: Payroll Department – Unauthorized Stand-by/On-Call Pay**

**CFDA No. N/A**

Recommendation:

Management should investigate and determine whether the above-mentioned employees were properly authorized to receive on-call pay. Management should establish internal control policy and procedures to ensure that authority and responsibilities delegated to Supervisors are not abused for personal benefit or create opportunities for collusion.

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

GMHA's management agrees with this finding. In December 2004, GMHA enforced its current policy by ensuring that each department had a designated timekeeper and this designee did hold a management position, and the documentation of all proper authorizations. The two employees listed were supervisory employees authorizing stand by/on-call pay for one another. The previous CEO/Administrator terminated both employees listed in the finding on December 3, 2004 for the reasons stated above. Reinstatement of both employees occurred on May 31, 2005 to adhere to a Civil Service Commission order. Both employees received six months retroactive pay totaling \$41,946 for both employees.

These two employees no longer have access to the timekeeping system. The Chief Financial Officer and Assistant Chief Financial Officer review computer access on a semi-annual basis.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-08**

**Area: Nursing, Hospital Facility, Pharmacy, Housekeeping Department**

**CFDA No. N/A**

Criteria:

The GMHA Policy # 6410-20, "Entitlement to Overtime (OT)" or compensatory overtime off requires an evaluation to determine whether when an exempt positions within the Guam Memorial Hospital Authority is entitled to overtime pay at the rate of one and one-half (1 ½) times an employees' regular rate.

Condition:

Policy No. 6410-20 effective July 25, 1995, listed exempt positions not entitled for overtime time pay. The exempt positions referred to in this policy were positions of a bonafide executive, administrative, or professional capacity. However, due to the vacancies in various direct care positions, such exempt positions are being paid by overtime, or straight-time pay for non-direct care positions. The following were selected exempt positions where inconsistencies in the application of policy exist:

<u>Selected Exempt Positions</u>	<u>Functional Department</u>
Direct care:	
1. Hospital Unit Supervisors	Nursing
2. Hospital Nurse Supervisors II	Nursing
3. Chief Hospital Pharmacist	Ancillary
Non-direct care (*Paid by straight-time rate)	
4. Hospital Facility & Maintenance Manager*	General Services
5. Maintenance Supervisor	General Services
6. Housekeeper Supervisor*	General Services

During fiscal year 2004, the Chief Hospital Pharmacist (a Department Head) received overtime pay totaling \$119,884 equivalent to 2,446.65 overtime hours and night differential pay totaling \$2,345 equivalent to 718 hours in addition to his regular straight-time work hours of total 2,200, or \$71,865.86.

During the fiscal year 2004, the Housekeeper Supervisor mostly worked and paid straight-time pay of average 17 hours per day, working 7 days a week, and generally worked 17-20 hours on weekends.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-08, Continued**

**Area: Nursing, Hospital Facility, Pharmacy, Housekeeping Department**

**CFDA No. N/A**

Cause:

The Hospital Administration along with Payroll Department is not enforcing the existing policy. There appears to be vacancies in direct care positions, and shortage of housekeeping staff, therefore, the supervisor or the department head performs the duties of a vacant positions.

Effect:

Budgeted amounts for overtime on affected department were unfavorable during the fiscal year 2004 and management was not able to properly fund payroll expense.

Recommendation:

GMHA management should evaluate its policies and procedures in regard to exempt positions and ensure consistency in its application to ensure that only duly authorized personnel receive overtime compensation. Once the evaluation and determination has been made, it should be communicated in writing to all personnel and strictly enforced by the Payroll Department. Afterwards, the Payroll Department should not process overtime pay for personnel who are not duly authorized to such compensation. Additionally, management overtime and supervision should be monitored to ensure they remain within budget expectations and are properly authorized.

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Effective April 2005, GMHA Management requires the completion of a Budget Modification Form to cover possible budget shortfalls. The Budget Analyst compares purchase requisitions and budget overtime sheets to the current budget and notifies the appropriate department manager of the possible budget shortfall. On the Budget Modification Sheet, department managers document budget transfer from one expenditure line to the expenditure line where there is a possible budget overage.

The budget analyst submits Purchase Requisitions and overtime sheets to the Chief Financial Officer for certification when the budget short fall is covered. The Budget Modification Sheet is reviewed by the CEO/Administrator and the Chief Financial Officer.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-09**  
**Area: Fiscal Services – Travel Authorization No. 28-04**  
**CFDA No. N/A**

Criteria:

In accordance to GMHA Travel Policy-6440-3, travel request must also be accompanied by a brochure/letter/notice of the training, seminar and/or conference.

Condition:

Travel Authorization No. 28-04 for employee number 948023 for off-island training for thirty (30) days was not properly documented to justify the benefit and nature of training. Upon further review of TA 28-04 and supporting documents we noted certain deficient documentation, as follows:

- The specific hospital name was not properly identified in the justification letter and travel authorization.
- At least three quotations were not obtained.
- There was no Certificate of Attendance or sufficient documentation found on file to substantiate the thirty (30) days training credit achieved in the Philippines.
- Travel itinerary report was submitted 122 days late.
- Original airline ticket was not provided.
- Boarding pass, which appears altered, indicates arrival date of August 15, 2004 which did not agree to the arrival date indicated in the travel report that is August 4, 2004. The employee however, has been timed-in/time-out by its timekeeping supervisor from August 4 to 15, 2004, and was compensated.

The total related cost of the TA 28-04 was \$4,860.35, calculated as follows:

Administrative leave paid: 135 hours @ \$23.57/hour	\$3,181.95
Holiday pay while on training 8 hours @ \$23.57/hr.	188.56
Hands-on training - 135 hours @ 23.57/hr. x 25%	795.48
Round Trip fare to Philippines	<u>694.36</u>
Total	<u>\$4,860.35</u>

# GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-09, Continued**

**Area: Fiscal Services – Travel Authorization No. 28-04**

**CFDA No. N/A**

Questioned Cost:

A questioned cost of \$4,860.35 exists as a result of this condition.

Cause:

There appears to be weak internal controls over ensuring that travel authorizations are properly reviewed for proper documentation prior to approval.

Effect:

There is no material effect in the financial statements. However, possibility of fraud and abuse exist because one of the supporting documentation appears to have been altered.

Prior Year Status:

A similar condition was cited as finding in the prior year audit of GMHA.

Recommendation:

GMHA management should investigate TA 28-04 for propriety and corrective action. The possibility of fraud and abuse may have been incurred on this travel authorization. To the extent possible, GMHA should amend its travel policy to conform and be consistent to the Government of Guam's General Service Agency (GSA) travel policy guidelines.

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

GMHA Management is currently investigating whether employee should refund the hospital the amount indicated in the finding.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-10**  
**Area: Fiscal Department -Test of Travel Authorization**  
**CFDA No. N/A**

Criteria:

In accordance with GMHA’s travel procurement policies, three (3) quotations are required to be obtained. The traveler must submit within 10 days following the return from official travel, an itemized statement of account supported by receipts of actual expenses incurred for lodging, meals and travel expenses incurred during the period of official travel.

Condition:

There were forty-seven (47) approved travel authorization for fiscal year 2004 and none of which were supported by the required three price quotations. Based on a review of the travel control checklist, the following TA’s did not contain sufficient proof of travel expenses, travel report, itinerary report, original boarding pass and airline tickets as of September 30, 2004.

<u>Travel Authorization Number</u>	<u>Arrival Date</u>	<u>Travel Amount</u>	<u>Number of days from known arrival to date of audit procedures 12/29/04</u>
1. TA 01-04	November 10, 2003	\$ 3,747.76	414 days
2. TA 13-04	February 29, 2004	2,751.86	304 days
3. TA 38-04	July 31, 2004	3,026.36	151 days
4. TA 39-04	July 28, 2004	3,841.36	154 days
5. TA 45-04	September 19, 2004	5,017.36	101 days
6. TA 46-04	September 19, 2004	<u>2,778.36</u>	101 days
	Total	<u>\$ 21,163.06</u>	

Extended reviews were performed on these TA’s and noted the following deficiencies:

- TA 01-04: -Flight itinerary routes did not match the place of conference-training designation.  
 -Request of travel was not submitted at least 15 days prior to departure travel date.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-10, Continued**  
**Area: Fiscal Services -Test of Travel Authorization**  
**CFDA No. N/A**

### Condition, Continued:

TA 45-04: -Travel request was submitted for approval two (2) days before departure date.  
-GMHA was burdened to pay flight route estimated \$1,000 for flight destination where employee appears to spend vacation after the conference as corroborated by approved annual leave.

Various notices were sent out by the Fiscal Division to the applicable employees notifying them to comply with Travel Policy; however, no responses were received.

### Questioned Costs:

A questioned cost of \$21,163.06 exists as a result of this condition.

### Cause:

There is a lack of adherence to and monitoring of GMHA travel policies. There appears to be weak internal controls over ensuring that travel authorizations are properly reviewed for proper documentation prior to approval.

### Effect:

There is no material effect on the financial statements as a result of the above condition. However, noncompliance with the travel policy increases the risk of not identifying potential abuse or fraud in a timely manner.

### Prior Year Status:

A similar condition was cited as finding in the prior year audit of GMHA.

### Recommendation:

GMHA should enforce its existing internal control policies and procedures over travel authorizations to ensure that only valid travel authorization expenditures are being paid and reimbursed. Management should evaluate its Travel Policy to include procedures to recoup government funds if travelers fail to provide documentation. To the extent possible, GMHA should amend its travel policy to conform and be consistent to the Government of Guam's General Service Agency (GSA) travel policy guidelines.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-10, Continued**  
**Area: Fiscal Services -Test of Travel Authorization**  
**CFDA No. N/A**

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Chief Financial Officer will ensure that policies and procedures as related to the proper travel authorization. The quotations will be obtained and travelers will be required to submit travel documents with in ten days of return.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-11**  
**Area: Payroll Department-Supporting Documents**  
**CFDA No. N/A**

Criteria:

Documentation for excused absences and administrative leave should be properly filed and maintained to substantiate such leave.

Condition:

Payroll personnel were unable to provide leave forms and supporting documents to substantiate leave taken for the following employees:

<u>Pay Code Name</u>				
<u>Employee No.</u>	<u>PPD End Date</u>	<u>Education Seminar</u>	<u>Admin/ Others</u>	<u>Total Amount</u>
948430	3/20/04	21.7 hrs	-	\$ 507.94
948430	9/04/04	-	80 hrs	1,588.00
60608	4/03/04	24 hrs	-	335.40
948657	3/20/04	48 hrs	-	460.94
948182	5/01/04	24 hrs	-	228.46
322378	7/10/04	29 hrs	8 hrs	479.81
320224	5/29/04	-	40 hrs	1,428.62
518373	2/21/04	3.4 hrs	-	101.26
948431	9/04/04	-	80 hrs	1,588.32
388925	3/06/04	1.15 hrs	-	35.45
948497	8/21/04	-	40 hrs	794.16
484623	3/06/04	-	80 hrs	1,792.16
948623	10/04/04	14.8 hrs	-	252.63
948428	9/04/04	-	80 hrs	1,588.32
948066	3/06/04	40 hrs	-	380.77
947592	5/29/04	-	29.25 hrs	932.76
168182	12/27/03	36 hrs	-	757.37
948456	3/20/04	24 hrs	-	595.63
885358	8/21/04	1 hrs	14 hrs	353.66
904657	2/21/04	20 hrs	40 hrs	1,755.58
945945	4/17/04	-	16 hrs	<u>493.19</u>
				<u>\$ 16,450.43</u>

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-11, Continued**  
**Area: Payroll Department-Supporting Documents**  
**CFDA No. N/A**

Cause:

There appears to be lack of staff in the Payroll Department to retrieve the documents in a timely manner.

Effect:

There is the possibility that excused absences or administrative leave were unauthorized.

Prior Year Status:

The above condition was cited as findings in the prior year audit of GMHA.

Recommendation:

Approved leave requests and overtime authorization documentation should be obtained and properly documented in the employee files prior to payroll processing. The Accounting Department should ensure that policies and procedures for document safekeeping and maintenance are strictly followed by the Payroll Department. Once the evaluation and determination has been made, it should be communicated in writing to all personnel and strictly enforced by the Payroll Department. The Payroll Department should not process leave pay for any personnel time sheets lacking supporting documentation of approved and authorized leave requests.

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Management will adhere to the requirements in this finding by December 30, 2005. This requirement was not met due to staff shortages and the difficulty in assigning alternate personnel to the confidential nature of the employee salary information.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-12**  
**Area: Patient Affairs- Payment Agreement Terms**  
**CFDA No. N/A**

Criteria:

GMHA should maintain credit and collection policies and procedures on repayment agreements to ensure that amounts billed for services provided are collected in a timely manner.

Condition:

At September 30, 2004, there were payment agreements through payroll deductions from patients for medical services provided and Government of Guam Agencies totaling \$1,059,007 and \$1,777,334, respectively, aging 2 years and over. We non-statistically selected and reviewed fifteen (15) files consisting of payroll deduction of GMHA and other GovGuam Agencies. For two (2) or 13% of the files reviewed, credit terms granted appears unreasonable, as such were beyond the normal life span of a person. Additionally, all fifteen (15) payment agreements summarized below, did not contain any credit statement or evaluation of repayment capacity:

<u>Reference Number</u>	<u>Employer</u>	<u>Origination Date</u>	<u>Amount Owed</u>	<u>Number of Installment in Payroll Period</u>	<u>Determined Number of Years to Pay-off</u>
1	GPSS	03/06/03	\$ 149,029.74	14,902	573 years
2	GMHA	11/15/02	134,773.61	10,781	415 years
3	GG-Credit Union	09/27/01	103,444.47	1,035	40 years
4	Guam Fire Dept.	03/03/04	40,846.66	816	31 years
5	Retirement Fund	07/23/04	40,203.35	804	31 years
6	GMHA	05/19/04	21,213.54	788	30 years
7	GMHA	07/27/04	16,691.02	667	25 years
8	GMHA	11/05/03	62,966.78	629	24 years
9	GPSS	06/14/01	27,804.76	556	21 years
10	GMHA	12/30/03	53,295.83	532	20 years
11	Guam Fire Dept.	12/16/03	23,640.86	469	18 years
12	Guam Police Dept.	01/20/04	23,127.04	462	18 years
13	Guam Fire Dept.	09/05/97	37,681.29	376	14 years
14	GMHA	04/08/02	28,709.37	287	11 years
15	Retirement Fund	01/19/01	<u>33,883.87</u>	270	10 years
			<u>\$ 797,312.19</u>		

# GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-12, Continued**  
**Area: Patient Affairs- Payment Agreement Terms**  
**CFDA No. N/A**

Cause:

There is a lack of internal control policies and procedures over extending and authorizing credit repayment terms.

Effect:

The current accounts receivable are overstated by the amounts that may not be collectible.

Recommendation:

The Hospital Administrator, Chief Financial Officer in conjunction with the management of Patient Affairs should evaluate and revise existing Payment Agreement policy guidelines and procedures to ensure that all credit terms extended to patients are properly authorized and amounts owed are collected in a timely manner. The above-mentioned patient receivables should be evaluated to determine collectibility and potential write-off.

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The staff mentioned above will review current payment agreement policies and procedures and revise accordingly. The completion date for this task is February 28, 2006.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-13**

**Area: Accounting & Patient Affairs Department –Patients’ Accounts Receivable**

**CFDA No. N/A**

Criteria:

Accounting principles generally accepted in the United States of America require the reconciliation of the general ledger accounts to the subsidiary ledgers on a periodic and timely basis. This practice serves as a check on the accuracy of the record-keeping process and maintains the accounts receivable on a more timely and accurate basis. The detailed listing of accounts receivable should be reconciled to the general ledger control accounts at the end of each month. Any differences should be investigated and resolved in a timely manner.

Condition:

The accounts receivable general ledger control account was not reconciled to the Patients’ accounts receivable subsidiary ledgers resulting to a difference of \$15,557,893 at September 30, 2004 as follows:

	<u>Per General Ledger</u>	<u>Per AS-400 System</u>	<u>Difference</u>
Current Receivable:			
Main Facility operations	\$ 32,420,238	\$ 55,615,083	(\$23,194,845)
Skilled Nursing Facility-Barrigada	<u>3,985,508</u>	<u>4,267,416</u>	<u>( 281,908)</u>
Total	<u>36,405,746</u>	<u>59,882,499</u>	<u>( 23,476,753)</u>
Collection Agencies Receivable:			
Main Facility operations	64,044,225	56,400,867	7,643,358
Skilled Nursing Facility-Barrigada	<u>2,204,323</u>	<u>1,928,821</u>	<u>275,502</u>
Total	<u>66,248,548</u>	<u>58,329,688</u>	<u>7,918,860</u>
 Total	 <u>\$102,654,294</u>	 <u>\$118,212,187</u>	 <u>(\$15,557,893)</u>

Cause:

The Accounting Department has not performed a detailed reconciliation of the general ledger control account to the subsidiary ledger for over the past five years. GMHA lacks well-trained accounting personnel and sufficient manpower to perform the reconciliation of the subsidiary ledger and the general ledger. There are a limited number of accountants and accounting technicians in the Accounting Department and Business Office and they are unable to perform the reconciliation of accounts receivable in a timely manner.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-13, Continued**

**Area: Accounting & Patient Affairs Department –Patients’ Accounts Receivable**

**CFDA No. N/A**

Effect:

The accounts receivable and revenue accounts are materially misstated. Individual customer accounts may also be misstated. The GMHA Administration may be making managerial and financial decisions on unreliable data. Because of the limited accounting personnel, if an existing employee were unable to perform this function or existing duties in the case of an emergency or for other reasons, this process would not be completed. Thus, the accounts receivable billing and collection could be brought to a standstill. This would ultimately have a negative affect on cash collections and the ability of GHMA to meet its financial obligations. Consequently, it is extremely difficult to manage cash flows with unreliable data. Additionally, the potential for fraud greatly increases when known account balance differences are not reconciled in a timely manner. Errors and fraud could exist and not be detected.

Prior Year Status:

The GMHA financial statements for prior years 2002 and 2003 were qualified due to the above condition.

Recommendation:

Additional qualified and well-trained accountants (with emphasis in hospital accounting) should be hired to fill positions in the Accounting Department and the Business Office. Existing accounting personnel need additional training and continuing professional education.

The Chief Financial Officer (CFO) should establish internal control policies and procedures to ensure that the accounts receivable general ledger control account and subsidiary ledger are reconciled monthly and in a timely manner. Significant discrepancies noted during this process should be immediately reported to the CFO, investigated and resolved. These procedures will assist the hospital in establishing reliable internal control for the billing and collection of accounts receivable.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-13, Continued**

**Area: Accounting & Patient Affairs Department –Patients’ Accounts Receivable**

**CFDA No. N/A**

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Fiscal Services Department has formed a task force to aggressively correct the past practices of accounting for Accounts Receivable. Currently, the task force is working daily to document current systemic flaws in order to identify where and how to implement improvements in accounts receivable.

The number one goal of the task force is to develop procedures where the reconciliation of the subsidiary ledger to the general ledger occurs on a more frequent and timely basis. The task force’s goal is to implement changes into the accounts receivable system by March 1, 2006.

GMHA is also in the process of engaging consultants to complete a Financial Management Improvement Program, which will also provide an evaluation of the current systems, processes and computer software and hardware.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-14**  
**Area: Patient Affairs Department and Accounting Department**  
**– Allowance for Doubtful Accounts & Contractual Adjustments**  
**CFDA No. N/A**

Criteria:

GMHA should maintain written internal control policies and procedures for the evaluation of doubtful accounts and contractual adjustments. Actual uncollectible accounts and contractual adjustments should be reviewed periodically and the results should be used to adjust the write-off/allowance percentage. Supporting analyses should agree with the allowance provided in the general ledger.

Condition:

At September 30, 2004, and in prior years, accounting estimates for doubtful accounts and contractual adjustment were not substantiated by historical analysis of uncollectible accounts based on aging receivables to support those estimates and allowance for bad debts to ensure that such are adequate.

At September 30, 2004 and 2003, the Accounting department’s estimate of contractual adjustments percentages to gross in-patient/out-patient’s service revenues was 35% in each year, or \$33,680,499 and \$33,078,624, respectively. Management has not substantiated the rationale analysis of these estimates.

The following is the comparison of bad debts estimates to total net patients service revenue for the last five years:

<u>Last Five Years</u>	<u>Bad Debts Provision</u>	<u>Net Patient Service Revenue</u>	<u>Service Revenue Percent of Bad Debts to Net Patient</u>
Fiscal Year 2004	\$12,495,905	\$ 68,802,501	18%
Fiscal Year 2003	\$ 8,497,165	\$ 64,324,145	13%
Fiscal Year 2002	\$ 3,967,182	\$ 67,072,391	5%
Fiscal Year 2001	\$ 8,784,163	\$ 64,998,240	13%
Fiscal Year 2000	\$ 9,854,190	\$ 69,946,670	14%

Additionally, during the year 2004, the Patient Affairs Department wrote-off approximately \$35 million of the Allowance for Doubtful Accounts against Bad Debts Receivable and Current Accounts receivable (see Finding No. 04-16 for additional comments).

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-14, Continued**  
**Area: Patient Affairs Department and Accounting Department**  
**– Allowance for Doubtful Accounts & Contractual Adjustments**  
**CFDA No. N/A**

Cause:

There are no written internal control policies and procedures for determining and approving provisions and allowance for bad debts or for writing off bad debts.

Effect:

Patient accounts receivable may be misstated by a material amount due to inadequate estimates of the allowance for doubtful accounts and contractual estimates.

Prior Year Status:

The GMHA financial statements for prior years 2002 and 2003 were qualified due to the above condition.

Recommendation:

The CFO and Assistant CFO should establish internal control policies and procedures to ensure that adequate allowance for bad debts are provided at year-end based on the overall evaluation of the accounts and reviewing the success rate of collection efforts. Additionally, GMHA should ensure that subsidiary ledger is reconciled to the general ledger on a monthly basis.

A policy should be established to ensure that Patient Receivables identified as uncollectible are submitted to the Board of Trustees for approval prior to actual write-off. A minimum threshold should be established to ensure that the Board of Trustees approves the write-off of all significant individual patient accounts receivable.

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Fiscal Services Department has formed a task force to aggressively correct the past practices of accounting for Accounts Receivable. Currently, the task force is working daily to document current systemic flaws in order to identify where and how to implement improvements in accounts receivable.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-14, Continued**

**Area: Patient Affairs Department and Accounting Department  
– Allowance for Doubtful Accounts & Contractual Adjustments**

**CFDA No. N/A**

Auditee Response and Corrective Action Plan, Continued:

One of the goals of the task force is to suggest changes in the system that will enable the timely tracking of bad debts in order to ensure bad debt write-offs the reasonable based on historical data. The task force's goal is to implement changes into the accounts receivable system by March 1, 2006.

GMHA is also in the process of engaging consultants to complete a Financial Management Improvement Program, which will also provide an evaluation of the current systems, processes and computer software and hardware.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-15**  
**Area: Patient Affairs Department – Accounts Referred to Collection Agencies, Payment Agreements, Payroll Deductions, Pending Litigations, and Govt. of Guam**  
**CFDA No. N/A**

Criteria:

Management should maintain written internal control policies and procedures to properly identify and evaluate the proper aging of accounts receivable and to evaluate existing credit and collection policies and procedures.

Condition:

At September 30, 2004, GMHA’s detailed subsidiary ledger for “Current” Accounts Receivable totaled \$59,882,499, which included aging of receivables beyond 365 to 731 days. Furthermore, the aging of these current accounts receivable included referrals to collection agencies, legal counsel pending litigations, payroll deductions and financial arrangements with payment terms exceeding one year. The following accounts were included in the current accounts receivable aging 365 days and beyond:

	<u>Receivable Amount</u>	Percent to GMHA’s “Current Accounts Receivable” as of 9/30/04	<u>Days old in years</u>
Accounts with GMHA Counsel, Other lawyers, & pending litigation	\$ 6,808,627	11%	86% of accounts were 1 yr to over 2 yrs
Referred to Collection Agencies	1,621,500	2%	50% were 1 yr. to 2 yrs
Payroll Arrangement with Govt. of Agencies & GMHA Account’s under Payroll deduction	2,836,768	4%	92% were 1 yr. & beyond with large amounts range average 10 yrs. & over
Financial Arrangement Accounts	1,300,125	2%	80% 1 yr & beyond
Workmen (Private & Govt)	<u>525,973</u>	<u>1%</u>	36% 1 yr and beyond
	<u>\$ 13,092,993</u>	<u>20%</u>	

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-15, Continued**

**Area: Patient Affairs Department – Accounts Referred to Collection Agencies,  
Payment Agreements, Payroll Deductions, Pending Litigations, and  
Govt. of Guam**

**CFDA No. N/A**

Cause:

GMHA has not internal control policies and procedures to properly age and evaluate receivables, extension of credit terms and collection policies which is also attributable GMHA not establishing a proper aging of accounts receivable in its accounting system. GMHA maintains a “Current” Accounts Receivable account and Bad Debts Receivable account. As noted in the above condition, the Current Accounts Receivable includes amounts not payable within one year. Similarly, the Bad Debts Accounts Receivable include certain amounts that are payable under various repayment arrangements over periods extending beyond one year. Neither of these accounts are properly aged and analyzed for collectibility. It appears that the Bad Debts Accounts Receivable account is a misnomer since it does not include all bad debts or uncollectible receivables.

Effect:

GMHA’s financial difficulty to meet its current and long-term obligations is significantly impaired and attributed to the uncertainty and lack of the collections of its self-pay accounts.

Recommendation:

The existing aging of the Current Accounts Receivable should be evaluated to include only amounts due within one year or 365 days and all other amounts presently in this account should be classified as Non-current Accounts Receivable. The Bad Debts Accounts Receivable account should be re-named to Non-Current Accounts Receivable that should include patients and third-party payors with repayment arrangements that exceed 365 days. Each of these accounts should be analyzed monthly for collectibility and if the probability of collection is determined doubtful, an allowance should be established for potential bad debts and eventually written off once all documented attempts of collection have been exhausted. Prior to write-off, such amounts should be reported to the GMHA Finance Committee and subsequently to the Board of Trustees for approval to write-off uncollectible accounts. A minimum threshold should be established to ensure that the Board of Trustees approves the write-off of all significant individual patient and third-party payor accounts receivables.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-15, Continued**

**Area: Patient Affairs Department – Accounts Referred to Collection Agencies,  
Payment Agreements, Payroll Deductions, Pending Litigations, and  
Govt. of Guam**

**CFDA No. N/A**

Recommendation, Continued:

GMHA should evaluate existing internal control policies and procedures over credit and collection, and develop necessary steps to prevent aging of accounts receivable from accumulating. To settle these old accounts and obtain cash at a time when it is much needed, it is recommended that an individual(s) be assigned the responsibility of reviewing all of the customer accounts and be given authority to make settlements subject to prior approval by the Board of Trustees. This action should help the Hospital avoid prolonged litigation, save valuable time and resources, and assist current cash flow requirements.

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Chief Financial Officer and Assistant Chief Financial Officer will develop policies and procedures to prevent the accumulation of accounts receivable and establish definitive time periods for the account write-offs. The staff mentioned will also develop policies and procedures to ensure that all such transaction are appropriately approved by the Board of Trustees.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-16**

**Area: Patient Affairs Department-Internal Control Forms for Bad Debt Write-Offs, Billing Adjustments & Transfer, Recommendation for Contractual Adjustment**

**CFDA No. N/A**

Criteria:

In accordance with existing GMHA Credit and Collections Policies and Procedures, accounts identified and recommended for write-off, billing adjustments & transfer, and recommended for contractual adjustments, referral to Collection Agency must be accompanied with the required standard form for signature by the appropriate level of authority signifying review and approval.

Condition:

During fiscal year 2004, approximately \$35 million of the accounts receivable were written-off against bad debt receivables and current account receivables. There was no written documentation of approval from the Board of Trustees authorizing this write-off. Additionally, the standard forms required under GMHA's existing policies and procedures signifying review, authority, and approval for such adjustments were not documented.

Cause:

The Assistant Chief Financial Officer (ACFO) and other employees of the Patient Affairs Office, without upper level management approval primarily, made these adjustments. They did not adhere to existing policies and procedures to obtain proper authorization of the write-off of accounts receivables. Additionally, there is a lack of internal control monitoring activities to ensure compliance to existing policies and procedures. Furthermore, monitoring controls over accounts receivable appear defective in detecting such write-offs in a timely manner.

Effect:

The possibility exist that these accounts written-off and adjusted were not authorized. The possibility of fraud may exist and not detected.

Recommendation:

The Patient Accounting Personnel should adhere to its policies and procedures and ensure compliance with the existing internal controls. The accounts receivables of \$35 million written off should be investigated and documented to determine the validity of uncollectibility.

The Hospital Administrator and CFO should review and evaluate GMHA's existing Credit Policy and related procedures to determine the appropriate criteria for extending credit terms to patients.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-16, Continued**

**Area: Patient Affairs Department-Internal Control Forms for Bad Debt Write-Offs, Billing Adjustments & Transfer, Recommendation for Contractual Adjustment**

**CFDA No. N/A**

### Recommendation, Continued:

Monitoring controls should be established to ensure prompt identification of potential uncollectible accounts receivable and implement procedures to ensure that collection efforts are properly documented by Patient Affairs and Business Office personnel prior to be reviewed by the CFO and recommended for write-off by the Hospital Administrator and Finance Committee and ultimately approved by the Board of Trustees.

A policy should be established to ensure that Patient Receivables identified as uncollectible are submitted to the Board of Trustees for approval prior to actual write-off. A minimum threshold should be established to ensure that the Board of Trustees approves the write-off of all significant individual patient accounts receivables.

### Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Board was well aware of the write-offs being made as a result of GMHA's inability to collect from self-payors and claims rejected by insurance companies and lack of payments from the Medical Indigent Program. While the Board did not review the write-off list for names or exact amounts per individuals, the write-off amounts were included in the monthly financials submitted to the Board. Subsequent to the Board's meeting following the completion of the FY 2003 audit, it tasked management to develop a new write-off policy.

The Fiscal Services Department has formed a task force to aggressively correct the past practices of accounting for Accounts Receivable. Currently, the task force is working daily to document current systemic flaws in order to identify where and how to implement improvements in accounts receivable.

One of the goals of the task force is to suggest changes in the system that will enable the timely tracking of bad debts in order to ensure bad debt write-offs the reasonable based on historical data. The task force's goal is to implement changes into the accounts receivable system by March 1, 2006. GMHA is also in the process of engaging consultants to complete a Financial Management Improvement Program, which will also provide an evaluation of the current systems, processes and computer software and hardware.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-17**

**Area: Patient Affairs Department – Contracts with Third-Party Payer**

**CFDA No. N/A**

### Criteria:

GMHA should maintain approved contracts for all of its Third-Party Payer and to other health insurance companies providing healthcare services to the hospital.

### Condition:

During the fiscal year 2004, all GMHA's major Third-Party Payer Agreements had expired and no new contracts were executed or on file.

### Cause:

It appears that GMHA did not properly monitor and manage its Third-Party Payer Agreements to ensure that such agreements were renewed in a timely manner.

### Effect:

GMHA is not in compliance with the Government of Guam Public Law 24-11- Health Insurance Companies Contracts with Government Agencies Providing Health Care Service Act.

### Recommendation:

GMHA should ensure compliance over maintaining contracts with all of its Third-Party Payer and all other Health Insurance Companies providing health services with the Hospital and adhere to Public Law 24-11. These contracts should be monitored to ensure that sufficient time is allowed to negotiate rates prior to contract expiration.

### Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Currently, contract renewals are submitted for legal review. Once the legal review of these contracts is completed, these contracts will be submitted to the Board of Trustees for approval.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No.** 04-18  
**Area:** Patient Affairs Department- Check Disbursement for Refunds and Overpayments  
**CFDA No.** N/A

### Criteria:

Refunds of Patient's overpayments should be distributed by the Accounting Department-Payable Section to ensure internal control over segregation of duties in accounts receivable area.

### Condition:

Based on our review of the check disbursements log, check payments for refunds of overpayments to patients are traditionally picked-up by the Patient Affairs Department/Business Office personnel who also have access and authority to process receivables and non-cash credits to patient accounts. Based on our inquiries, this was done for the convenience of requesting patients.

### Cause:

There is a lack of adherence to internal control and policies and procedures to ensure proper segregation of duties for handling the distribution of patient refunds and overpayments.

### Effect:

Because of the uncertainty of the refunds and overpayments, such was not quantifiable. There was no material effect in the financial statements as a result of this condition; however, misappropriation of cash may exist and not be detected in a timely manner.

### Recommendation:

We recommend that Patient Affairs Department and the Accounting Department-Payable section should adhere to internal control policies and procedures over processing and approval of patient's refunds of overpayments. The distribution of patient refunds and vendor payments should be provided directly to the payee or mailed out.

### Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Effective immediately distribution of all patient refunds and overpayment will occur in the Accounts Payable Department.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-19**

**Area: Accounting Department-Other Receivables**

**CFDA No. N/A**

Criteria:

Receivables due from other Government of Guam agencies and private entities should be collected in a timely manner.

Condition:

At September 30, 2004, GMHA had receivables (for catering and incineration services) over three years past due from the following government and private entities:

	<u>Catering Services &amp; Supplies</u>	<u>Incineration Services</u>	<u>Total Amount</u>
Department of Mental Health and Substance Abuse	\$ 206,811	\$ 1,622	\$ 208,433
Fire Department	214,507	-	214,507
Department of Public Health and Social Services	-	9,823	9,823
Control Acct. No.1023-4050(1)	-	47,136	47,136
Control Acct. No.1023-4050(2)	-	<u>7,540</u>	<u>7,540</u>
Total	<u>\$ 421,318</u>	<u>\$ 66,121</u>	<u>\$ 487,439</u>

Cause:

There appears to be a lack of internal control over collection procedures on past due accounts.

Effect:

The potential exists that accounts may no longer be collectible. Amounts classified as Other Receivables may be overstated as a result of this condition.

Prior Year Status:

The above condition was cited as finding in the prior year audit of GMHA.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-19, Continued**

**Area: Accounting Department-Other Receivables**

**CFDA No. N/A**

Recommendation:

The Accounting Department should review past due balances on other services rendered on account. Outstanding balances should be investigated and resolved with the above agencies and third parties to determine collectibility and negotiate repayment terms for the amounts past due.

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Chief financial officer will coordinate with the Accounting Department and Business Office a diligent effort to collect amounts due from other governmental agencies.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-20**  
**Area: Property Management and Accounting Department-Physical**  
**Inventory of Fixed Assets**  
**CFDA No. All**

Criteria:

In accordance with Section 34(f)(3) of the Common Rule, Equipment Management Requirements, governmental agencies that acquire equipment with Federal Funds are required to perform a physical inventory and the results reconciled with the equipment records at least once every two years.

Condition:

GMHA did not conduct a physical inventory of fixed assets during the year. Furthermore, for twelve (12) or 27%, of forty-five (45) movable equipments tested for physical existence, the equipment had been surveyed-out to the General Services Agency (GSA) in prior years; however, the fixed assets register system in the AS-400 had not been updated to remove the disposed equipment from the system, as follows:

<u>Acquisition Date</u>	<u>Asset Number</u>	<u>Description</u>	<u>Acquisition Cost</u>	<u>Location</u>
8/1996	3522	Mark 1 Tube	\$ 32,545.00	Radiology
5/1991	1383	Computer, Vitek J Microbiology	43,797.50	Laboratory
9/1991	1483	Sureview ATS	77,500.00	Radiology
7/1986	795	Forklift, 5000 lbs.	12,907.00	Plant Maintenance
6/1998	4275	Forklift, Yale	19,999.00	Facilities Warehouse
12/1989	804	Pickup, Flatbed	33,332.00	Plant Maintenance
2/1999	4424	Wagon, 99 Elantra	13,495.00	Plant Maintenance
2/1999	4425	Sedan, 99 Mirage	11,332.00	Plant Maintenance
7/1999	4521	Pickup, Cargo	2,500.00	Plant Maintenance
7/1999	4522	Van, 8-Passenger	6,800.00	Plant Maintenance
7/1999	4523	Van, 8-Passenger	3,300.00	Plant Maintenance
7/1999	4524	Pickup, Cargo	<u>2,200.00</u>	Plant Maintenance
			<u>\$ 259,707.50</u>	

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-20, Continued**  
**Area: Property Management and Accounting Department-Physical  
Inventory of Fixed Assets**  
**CFDA No. All**

### Cause:

GMH lacks written internal control policies and procedures over the safeguarding of fixed assets to ensure that such assets are properly accounted for. Fixed asset registers are not properly maintained to remove surveyed damaged and obsolete assets from the system.

### Effect:

GMHA is not in compliance with applicable Federal Regulations. Additionally, there is the possibility that fixed assets, depreciation expense and accumulated depreciation are materially misstated. Misappropriation of assets may exist and not detected.

### Prior Year Status:

A similar condition was cited as a finding in the prior year audit of the GMHA.

### Recommendation:

The CFO, in conjunction with the Materials Management Department, should establish internal control policies and procedures to ensure the proper safeguarding of fixed assets. Physical inventory of fixed assets should be coordinated by the Accounting Department and conducted by the Materials Management Department. Significant discrepancies resulting from the physical inventory should be investigated and resolved. This procedure will provide the hospital with an accurate inventory of fixed assets. The resulting fixed assets listing will also provide a strong source of detail and control to establish a future system of safeguards for fixed assets and an accurate schedule from which to record future acquisitions and disposals. At a minimum, property records should include the following data:

1. Description and tag number assigned
2. Serial number of equipment
3. Location of property unit
4. Cost, purchase order number, and vendor name
5. Condition: new or used
6. Date placed in service
7. Useful life
8. Depreciation method and monthly provision for depreciation expense
9. Date retired or traded-in and/or survey report number

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-20, Continued**

**Area: Property Management and Accounting Department-Physical  
Inventory of Fixed Assets**

**CFDA No. All**

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Fiscal Services is in the process of recruiting a Fixed Asset Accountant who would be responsible for conducting annual physical inventory counts and maintaining the reconciliation of the Fixed Asset Subsidiary to the General Ledger.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-21**

**Area: Property Management Department- Loan of Hospital Equipment**

**CFDA No. N/A**

Criteria:

Pursuant to GMHA Policy Number 6450-1, borrowed equipment must be returned within 30 days; and borrowing party should promptly return such equipment and materials after scheduled use. Additionally, the Loan/Borrowing of Hospital Equipment and Material Form should be properly coordinated and documented by Materials Management Officer.

Condition:

On March 23, 2004, GMHA loaned computer equipment and peripherals for a period of one year to a private organization that renders radiology-consulting services to GMHA. The Loan/Borrowing of Hospital Equipment and Material Form was not signed by the Property Management Officer signifying its issuing authority, but instead, was signed by the Hospital Administrator. Furthermore, the equipment was returned on April 19, 2005, and was found incomplete of cables and peripherals. The equipment not tested upon return to determine if such was in an operable condition.

Cause:

There appears to be lack of internal controls over ensuring compliance to GMHA policy over loan and borrowing of equipments.

Effect:

GMHA is not compliance with its established policies and procedures over Loan/Borrowing of Equipment. There is no known effect on the financial statements as a result of this condition.

Recommendation:

The Materials Management Office should strengthen internal controls over ensuring policies and procedures on the Loan/Borrowing of Hospital equipment and materials are properly documented and adhered. As an additional internal control, the Fiscal Services Department should be advised of the movement or borrowing of all fixed assets to ensure that such are properly recorded and accounted for in the fixed asset register and general ledger.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-21, Continued**

**Area: Property Management Department- Loan of Hospital Equipment**

**CFDA No. N/A**

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Chief Financial Officer will ensure adherence to the current policies and procedures. The finding is the result of a management override by the previous administrator.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-22**  
**Area: Patient Affairs Department (Medical Records)- Late Charges of House Patient Doctor's Fee**  
**CFDA No. N/A**

Criteria:

In accordance to Guam Public Law 25-189, all claims for payments must be submitted by the Health Care Provider within ninety (90) days from the date that health services were rendered.

Condition:

For three (3), or 10% of thirty (30) physician invoices tested, the posting to the system exceeded the ninety (90) days limit for patient charges as follows:

<u>Patient No.</u>	<u>Service Date</u>	<u>No. of Days From The Service Date To Medical Records Receipt of Billings</u>	<u>Date Posted To System</u>	<u>No. of Days From The Service Date To Medical Records Receipt of Billings</u>	<u>Total Fees</u>
10470408	3/22/04	31 days	6/21/04	91 days	\$ 2,090.40
10419331	2/16-21/03	61 days	6/16/04	115 days	3,333.95
10398850	9/26-10/7/03	30 days	2/28/03	144 days	<u>1,550.13</u>
					<u>\$ 6,974.48</u>

At September 30, 2004, loss revenues resulting from GMHA's inability to adhere to the 90 days Prompt Billing Act totaled \$151,878.

Cause:

There are no established written internal control and procedures over ensuring that House Patient Doctor's services are captured at the date rendered and related billings reviewed in timely manner. Though House Patient Doctor billings maybe received by the Medical Records within 90 days, GMHA is not able to review all such billings in a timely manner due to lack of qualified staff in the Quality Management Office.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No.** 04-22, Continued  
**Area:** Patient Affairs Department (Medical Records)- Late Charges of House  
Patient Doctor's Fee  
**CFDA No.** N/A

Effect:

House Patient Doctors were paid by GMHA, but because these charges were posted after the ninety (90) days from the service date, the Hospital was not be able to charge patient accounts and thus resulting in a loss of revenue.

Recommendation:

The Patient Affairs Department should establish written internal control and procedures over ensuring that House Patient Doctor's fees are submitted to the Hospital within the reasonable time that would allow GMHA to review and post the charges in the system in a timely manner.

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Chief Financial Officer will establish policies and procedures to ensure that House Patient Doctor's fees are processed in a reasonable time frame.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-23**

**Area: Accounting & Patient Affairs Department - Accounts Receivable  
from the Department of Revenue and Taxation (Non-Payer)**

**CFDA No. N/A**

### Criteria:

Sufficient information/transmittal advice received from the Department of Revenue and Taxation (DRT) for levied tax refunds should be kept on-file to properly document and substantiate postings to patient accounts.

### Condition:

Levied amounts were credited in a lump-sum entry in the AR-Department and Revenue and Taxation (Non-Payer) general ledger account. At September 30, 2004, levied tax payment refunds approximating \$400,000 could not be matched to individual patient accounts in the receivable Revenue and Tax- (Non-Payer) because transmittal documents received from DRT could not be located.

### Cause:

There is a lack of internal control over the filing and safekeeping of supporting documents and payment substantiating documents.

### Effect:

Individual patient receivables accounted for in the AR-Department and Revenue Tax (Non-Payer) general ledger account, may already been paid by the Revenue & Taxation through tax levied; however, patient name and amount are still reflected as outstanding.

### Prior Year Status:

The above condition was cited as a finding in the prior year audit of the GMHA.

### Recommendation:

The CFO should establish a clear, written record-retention policy and ensure that supporting documents necessary for processing the Accounts Receivable are filed. These accounts should be analyzed to determine which patient accounts have been paid through tax levy and the account should be adjusted accordingly.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-23, Continued**

**Area: Accounting & Patient Affairs Department - Accounts Receivable  
from the Department of Revenue and Taxation (Non-Payer)**

**CFDA No. N/A**

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Assistant Chief Financial Officer will establish policies and procedures to ensure internal control over the documentation of the Department of Revenue and Tax levies.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-24**  
**Area: Accounting Department-Prepayments**  
**CFDA No. N/A**

Criteria:

In accordance with Chapter 5 of the Guam Procurement Code, no procurement shall be made which require advance payments.

Condition:

During the last quarter of fiscal year 2004, GMHA experienced a shortage of pharmaceutical and medical supplies due to non-payment to vendors. Consequently, vendor #9620 received advance payments before all items were received by the Hospital. It was later determined that an overpayment was made to vendor #9620.

Check No. 100076 dated August 16, 2004 was paid to vendor #9620 for the following:

<u>Purchase Order No.</u>	<u>Check Amount</u>	<u>Date Item Received</u>	<u>Material Received</u>	<u>Overpayments</u>
24003158	\$ 7,143.82	8/17/04	\$ 2,473.28	\$ (4,670.54)
24003159	34,431.30	8/17 & 9/10/04	20,856.08	(13,575.22)
24003160	<u>14,958.00</u>	8/17/04	<u>10,261.47</u>	<u>(4,696.53)</u>
	<u>\$ 56,533.12</u>		<u>\$33,590.83</u>	<u>\$ (22,942.29)</u>

As of July 2005, the above overpayment had not been fully recovered or applied to subsequent purchases.

Cause:

There appears to be weak internal control in ensuring that prepayments are monitored in a timely manner. GMHA inability to meet its current obligations also contributed the above condition.

Effect:

GMHA is not in compliance with Chapter 5 of the Guam Procurement Code.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-24, Continued**  
**Area: Accounting Department-Prepayments**  
**CFDA No. N/A**

Recommendation:

Management should adhere to the policies of Government of Guam procurement Act. Necessary procedures should be taken to recoup the overpayments made to vendor 9620.

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

This finding is the result of a management override when the hospital was in desperate need of pharmaceuticals. GMHA will adhere to Chapter 5 of the Guam Procurement Code.

However, GMHA accounts payable staff calculated \$18,976.77 as the actual overpayment for this finding. GMHA recouped \$18,001 of the \$18,976.77 and will provide documentation to corroborate the actual overpayment amount and receipt of the overpayment from the vendor.

<u>Check Amount</u>	<u>Date Item Received</u>	<u>Materials Received</u>	<u>Overpayments</u>
\$ 7,143.82	8/17/04	\$ 2,473.28	\$ (4,670.54)
34,431.30	8/17 & 9/10/04	24,821.60 *	(9,609.70)
<u>14,958.00</u>	8/17/04	<u>10,261.47</u>	<u>(4,696.53)</u>
<u>\$56,533.12</u>		<u>\$37,556.35</u>	(18,976.77)
	Reimbursement		<u>18,002.01</u>
	Amount Due GMHA		\$ <u>(975.77)</u>

Auditor's Response:

The calculation appears to be incorrect. A cancelled item that was received in the amount of \*\$3,965.52 was inadvertently included in GMHA's calculation of the material received column. Additionally, we were not able to review the payment transmittal advice to substantiate the subsequent reimbursement of \$18,001. Therefore, this finding is unresolved.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-25**  
**Area: Property Management & Accounting Department –Fixed Asset Register Reconciliation**  
**CFDA No. All**

Criteria:

Fixed assets balances reported in the general ledger control account should be reconciled to the detailed fixed asset register. Fixed assets module should be updated to reflect assets been surveyed out, or transferred to other government agencies.

Condition:

There are no established written procedures for reconciling detailed fixed assets records on a regular and timely basis. GMHA did not conduct a physical count of its fixed asset inventory for the year ended September 30, 2004. During fiscal year 2004, approximately 140 items comprising of computer equipment and peripherals, and medical equipment were surveyed-out and transferred to GSA for disposition; however, none of those items were posted as disposed in the AS-400 fixed assets module system.

Furthermore, at September 30, 2004, the GMHA fixed assets balances per general ledger did not agree with that of the balances in the fixed assets register in the AS-400 system. The differences noted are as follows:

	Per General Ledger before Audit <u>Adjustments</u>	Per Fixed Asset <u>Register</u>	Difference Over <u>(Under)</u>
<u>Cost:</u>			
Hospital Buildings	\$ 54,885,257	\$ 49,419,074	\$ 5,466,183
Long-term care facility	10,660,987	10,675,491	( 14,504)
Movable equipment and AS-400 system upgrade	<u>23,891,658</u>	<u>26,126,005</u>	<u>( 2,234,347)</u>
Total	<u>\$ 89,437,902</u>	<u>\$ 86,220,570</u>	<u>\$ 3,217,332</u>
<u>Accumulated Depreciation:</u>			
Hospital buildings	( 25,466,573)	(25,234,842)	(\$ 231,731)
Long-term care facility	( 1,874,741)	( 1,885,565)	10,824
Movable equipment and AS-400 system upgrade	<u>( 21,265,913)</u>	<u>(21,730,294)</u>	<u>464,381</u>
Total	<u>(\$ 48,607,227)</u>	<u>(\$48,850,701)</u>	<u>\$ 243,474</u>

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-25, Continued**

**Area: Property Management & Accounting Department –Fixed Asset Register  
Reconciliation**

**CFDA No. All**

Cause:

There are no established written internal control policies and procedures to ensure that the detailed fixed assets register are reconciled to the general ledger on a periodic basis. There also appears a lack of well-trained staff to perform the reconciliation in a timely manner. Additionally, GMHA did not conduct a physical inventory count of its fixed assets at September 30, 2004.

Effect:

Fixed assets are misstated as of September 30, 2004. The possibility exists that the fixed asset account balance included items that have been disposed of or are no longer of future economic benefit. Depreciation expense could be misstated. Furthermore, GMHA is not in compliance with applicable Federal regulations to properly account for fixed assets acquired with federal funds.

Prior Year Status:

The above condition was cited as a finding in the prior years audit 2002 and 2003 of the GMHA.

Recommendation:

To prevent the need for major adjustments to the property accounts at the end of each year, it is recommended that the general ledger fixed assets accounts be reconciled to the detailed records on a monthly basis. Additionally, fixed assets should be properly tagged and inventoried bi-annually to ensure that all fixed assets are properly accounted for. The CFO should establish internal control polices and procedures to ensure that the fixed assets general ledger accounts balances are reconciled to the fixed assets register system on a periodic basis by well-trained employees. Discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Fiscal Services is in the process of recruiting a Fixed Asset Accountant who would be responsible for conducting annual physical inventory counts and maintaining the reconciliation of the Fixed Asset Subsidiary to the General Ledger.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-26**

**Area: Accounting Department – Inventory Reconciliation**

**CFDA No. N/A**

Criteria:

Results of physical inventories should be reconciled to and adjusted in the general ledger control account.

Condition:

During fiscal year 2004, the custody and accounting of pharmacy supplies was transferred from the Materials Management Department to the Pharmacy Department. The inventory issued during the transition period (June 2004 to July 2004) was not properly posted in the inventory system. The Pharmacy Department failed to submit the costed physical year-end inventory to the Materials Management Department for review of justification of variances, and to Accounting Department for year-end adjustments to reflect the actual count in the general ledger. Consequently, the physical count of the pharmaceutical inventory did not agree to general ledger at September 30, 2004. The general ledger was overstated by the variance of \$213,105 as compared to the actual physical count.

Cause:

The cause of the above condition is a lack of internal control in the Pharmacy Department over ensuring accuracy of inventory control on a periodic basis.

Effect

Inventory per general ledger was overstated by \$213,105. An audit adjustment was made to correct the misstatement.

Prior Year Status:

The above condition was cited as a finding in the prior year audits 2002 and 2003 of the GMHA.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-26, continued**

**Area: Accounting Department – Inventory Reconciliation**

**CFDA No. N/A**

### Recommendation

The Materials Management Department, in consultation with the CFO, should establish internal control policies and procedures to ensure that all inventories are properly accounted for and that physical inventories (spot-checks) are conducted periodically throughout the fiscal year to mitigate potential theft, pilferage, and obsolescence due to the expiration of shelf life. Internal controls should also provide for the complete reconciliation of the general ledger to the physical count. The CFO, or his designee, should make periodic reviews to ensure compliance with the internal controls and that accounts are reconciled timely. Any discrepancies noted should be independently investigated and resolved.

### Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The responsibility of the pharmacy inventory has reverted back to the Materials Management Department. A pharmacy task force was formed to ensure accountability and establish internal controls over the pharmacy inventory. The task force implementation date for revised procedures is March 1, 2006.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-27**

**Area: Accounting Department - Accounts Payable**

**CFDA No. N/A**

### Criteria:

Generally accepted accounting principles in the United States of America require the reconciliation of the accounts payable general ledger control account to the subsidiary ledgers on a periodic basis.

### Condition:

The accounts payable subsidiary ledgers did not agree to the general ledger by \$1,194,443, representing invoices from the Retirement Fund and prior year audit adjustments not properly posted. However, reconciliation and necessary adjustments were provided to us during our audit. We reviewed the necessary post adjusting entries without exception.

### Cause:

There is a lack of internal control policies and procedures to ensure that the accounts payable control account is reconciled to the subsidiary ledger on a monthly basis.

### Effect:

There is no effect in the financial statements. However, if accounts are not properly reconciled on a periodic basis, material errors could exist and not be detected.

### Prior Year Status:

The above condition was cited as a finding in the prior year audits 2002 and 2003 of the GMHA.

### Recommendation:

The CFO should establish internal control policies and procedures to ensure that the accounts payable control account and subsidiary ledger are reconciled on a monthly basis by accounting personnel. All discrepancies should be reported to the CFO, or his designee, investigated, and resolved in a timely manner.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-27, Continued**

**Area: Accounting Department - Accounts Payable**

**CFDA No. N/A**

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Fiscal Services is in the process of recruiting an Accountant III who would be responsible for the reconciliation of balance sheet accounts including cash, accounts receivable and accounts payable.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-28**

**Area: Accounting Department -Timely Reconciliation of Accounts**

**CFDA No. N/A**

Criteria:

The general ledger control accounts should be reconciled to subsidiary ledgers and related underlying supporting schedules and documentation on a monthly basis.

Condition:

GMHA did not reconcile numerous general ledger accounts throughout the fiscal year in a timely manner. We noted that accounts payable, non-operating revenue, notes payable and expenditures of federal awards account reconciliations were prepared during the performance of our audit. We further noted that the books were not properly closed in a timely manner as year-end accruals and related post-closing adjustments to the general ledger were prepared and analyzed subsequent to the commencement of our audit. Furthermore, GMHA has not been able to reconcile its patient accounts receivable and fixed asset register to the AS-400 system as of September 30, 2004.

Cause:

There appears to be a lack of internal control over ensuring that general ledger accounts are reconciled to subsidiary ledgers on a periodic basis. Additionally, above condition may be a result of the lack of staff to perform related tasks.

Effect:

Fixed assets and patients accounts receivable are materially misstated at September 30, 2004. The GMHA Administration may be making managerial and financial decisions on unreliable data. Consequently, it is extremely difficult to manage cash flows with unreliable data. Additionally, the potential for fraud greatly increases when known account balance differences are not reconciled in a timely manner. Errors and fraud could exist and not be detected.

Recommendation:

The Chief Financial Officer should establish and implement policies and procedures to ensure the completeness and accuracy of the underlying supporting documentation for the amounts reported in GMHA's financial statements.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-28, Continued**

**Area: Accounting Department -Timely Reconciliation of Accounts**

**CFDA No. N/A**

Auditee's Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Fiscal Services is in the process of recruiting an Accountant III who would be responsible for the reconciliation of balance sheet accounts including cash, accounts receivable and accounts payable.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-29**

**Area: Administration – Late Submission of Medicare Cost Report**

**CFDA No. N/A**

Criteria:

GMHA is required to establish and maintain internal control policies and procedures to ensure that periodic report documents submitted to Health Care Financing Administration (HCFA) are prepared based on timely and accurate financial data; and the review and documentation of appropriate action on reports of regulatory agencies have been properly undertaken.

Condition:

The annual reporting regulatory requirement under title 42 of Code of Federal Regulations for Medicare Cost Report submission to HCFA was not met by the Hospital during the deadline on February 28, 2005. The Medicare Cost Report was filed subsequently on April 29, 2005.

Cause:

It appears that data from the system was not retrievable due to software problems.

Effect:

The Medicare reimbursement under the facility was temporarily suspended which contributed to GMHA's additional cash flow problems during fiscal year 2005.

Prior Year Status:

Prior year finding cited GMHA's lack of internal control over ensuring Medicare assessments appeal for fiscal year 2003 of \$3,629,816.

Recommendation:

The CFO should establish internal control procedures to ensure that reporting requirements submitted to the HCFA are prepared based on timely and accurate information, and consider request for appeals and adjustments as may be necessary.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-29, Continued**

**Area: Administration – Late Submission of Medicare Cost Report**

**CFDA No. N/A**

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Chief Financial Officer will establish policies and procedures to ensure the timely submission of the Medicare Cost Report.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-30**

**Area: Notes Payable in arrears and Unpaid Contributions with Government of  
Guam Retirement Fund**

**CFDA No. N/A**

Criteria:

Title 4 of Guam Code Annotated, Section 8113.3 prohibits recognizing credit for retirement purposes until all employee and employer contributions are fully paid to the Government of Guam Retirement Fund.

Condition:

At September 30, 2004, GMHA outstanding liabilities with the Government Retirement Fund totaled \$16,500,409 for unpaid contributions and notes payable in arrears including interest and penalties of \$2,606,945. Additionally, during the second quarter of fiscal year 2005, GMHA continued to be delinquent on its current fiscal year contributions to the Retirement approximating \$1.2 million.

In June 2005, the Guam Legislature passed Public 28-38 which mandated the Treasurer of Guam to make “interest only” payments of \$190,501 to the Government of Guam Retirement Fund for GMHA’s deficiency, and to make such payments until the deficiency is satisfied. However, should GMHA fail to stay current on the applicable fiscal year retirement contribution obligations, and the Treasurer of Guam fail to make the interest only payments, certain GMHA employees may not be allowed to receive retirement benefits.

Cause:

GMHA failed to remit required payments due to insufficient cash flow from operations attributed by sluggish collections of accounts due from Self-Pay accounts receivable.

Effect:

GMHA employees eligible for retirement may not be allowed to receive retirement benefits upon retirement until contributions plus penalties and interest are paid to the Retirement Fund.

Prior Year Status:

The above condition was cited as a finding in the prior year audits of 2002 and 2003 of the GMHA.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-30, Continued**

**Area: Notes Payable in arrears and Unpaid Contributions with Government of  
Guam Retirement Fund**

**CFDA No. N/A**

Recommendation:

Considering the subsequent appropriations and subsidies received from Government of Guam, it is expected that GMHA will ensure compliance pursuant to Public Law 28-38 issued in June 2005. GMHA should ensure retirement contributions are made within the required time frame. Additionally, Management should intensify its efforts to collect on past due outstanding accounts receivables.

Auditee's Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Currently GMHA is current with respect to employee retirement deductions for fiscal years 2004 and 2005.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-31**  
**Area: Pharmacy Department - Loan and Borrowing of Pharmaceuticals and Supplies**  
**CFDA No. N/A**

### Criteria:

GMHA should maintain written internal control policies and procedures for the loan and borrow of pharmaceuticals and supplies.

### Condition:

There are no defined written internal control policies and procedures in place for the loan and borrowing of pharmaceutical and supplies in Pharmacy Department and in Materials Management Department. The current control forms used by the Pharmacy Department are not sequentially numbered and are controlled only by date. There is no periodic monitoring of these transactions and proper recording in the AS-400 system. Based on available documentation, the excess of cost of pharmaceuticals loaned over the cost of pharmaceuticals borrowed was \$138,818, as of December 2004.

### Cause:

There is a lack of written internal control policies and procedures in the safeguarding of the assets to ensure that pharmaceuticals are properly controlled, accounted for and recorded in the general ledger.

### Effect:

There is the possibility that pharmaceuticals and IV Solutions expenses may be overstated. Because control forms currently used are only tracked by date, the possibility exists that the loan and borrowed documents compiled may be incomplete. Misappropriation of assets may exist and not detected.

### Prior Year Status:

The above condition was cited as a finding in the prior year audit of the GMHA.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-31, Continued**

**Area: Pharmacy Department - Loan and Borrowing of Pharmaceuticals and Supplies**

**CFDA No. N/A**

Recommendation:

GMHA should establish written internal control policies and procedures for monitoring the loan and borrowing of pharmaceuticals and related supplies and ensure that such are properly safeguarded against fraud and misappropriation of assets.

Auditee Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Pharmacy will create a policy and procedures together with Materials Management as soon as possible.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No.** 04-32  
**Area:** Notes Payable in Arrears - Guam Power Authority  
**CFDA No.** N/A

### Criteria:

GMHA should maintain written formal promissory notes or payment arrangement for the amounts in arrears with Guam Power Authority.

### Condition:

During 2003 and 2004, GMHA defaulted on its promissory note payable to the Guam Power Authority (GPA) resulting in \$551,581 in arrears. Subsequent to September 30, 2004 a new note was negotiated; however; it was not properly executed and signed by the authorized parties from GPA.

### Cause:

The Hospital failed to remit required payments due to insufficient cash flow from operations.

### Effect:

GMHA is not in compliance to its debt agreements with Guam Power Authority.

### Prior Year Status:

The above condition was cited as a finding in the prior year audit of the GMHA.

### Recommendation:

GHMA should intensify its efforts to collect on past due outstanding accounts receivables, seek additional appropriations from the Legislature to satisfy the debt, or consider renegotiating the promissory with GPA.

### Auditee's Response and Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The note with the Guam Power Authority was recalculated in conjunction with the Office of Bureau Budget and Management Resources in fiscal year 2004.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-33**  
**Area: Worker's Compensation**  
**CFDA No. N/A**

Criteria:

Pursuant to Public Law 19-35:6 of the Worker's Compensation Law, the total compensation, excluding medical services and supplies, for any injury or death shall in no event exceed the sum of one hundred thousand dollars (\$100,000). Furthermore, in cases of disability compensable under Section 9109(c.) of Chapter 9 of Title 22 GCA, the total compensation for such disability and for any partial disability sustained in addition therein shall not exceed the aggregate sum of one hundred thousand dollars (\$100,000).

Condition:

The cumulative amount of compensation received since the time of injury exceeded the maximum amount of \$100,000 for the following employees:

<u>Employee #</u>	<u>Date of injury</u>	<u>Compensation received (FY1995 – FY2005)</u>	<u>Overpayment</u>
1. 557485	7/18/1992	\$ 121,918.94	\$ 21,918.94
2. 281740	4/11/1990	\$ 123,211.65	<u>23,211.65</u>
		Total	<u>\$ 45,130.59</u>

The total worker's compensation noted above could be understated due to inadequacies of records prior to fiscal year 1995. Therefore, the overpayment may be more than the amounts reported above.

Questioned Costs:

Known questioned costs of \$45,130.59 exist as a result of this condition.

Cause:

There appears to be a lack of internal controls in regards to monitoring the payments made for employee's worker's compensation. GMHA's accounting system does not have any system controls to place maximum limits on the amount worker's compensation that can be paid to an individual.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No.** 04-33, Continued  
**Area:** Worker's Compensation  
**CFDA No.** N/A

### Effect:

GMHA is not in compliance with the Guam Public Law 19-35:6. Furthermore, the disbursements made to these employees may affect the financial statements if this condition persists.

### Recommendation:

An investigation should be launched to determine the exact amount of the overpayment and seek reimbursement from the employees noted above. Since records prior to fiscal year 1995 are not accessible in the system, a thorough review should be done to determine the amount of compensation given to each employee since the time of their injury and the overpayments made should be sought and paid back to GMHA.

GMHA should enforce the policy set forth under Public Law 19-35:6 and closely monitor payments made to employees eligible for workmen's compensation. The Human Resources Department should establish and implement internal control policies and procedures to ensure that the worker's compensation is paid to eligible employees in accordance with Public Law 19-35:6. Furthermore, the CFO along with the MIS and Payroll Departments should establish system parameters to set maximum limits on the amount of worker's compensation that can be paid to GMHA personnel.

### Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Currently, Fiscal Services staff is attempting to locate documentation related to this finding in order to ascertain the correct amount of the overpayment.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-34**

**Area: Procurement: Paid Invoices in Excess of Purchase Order**

**CFDA No. 15.875**

Criteria:

Pursuant to GMHA's procurement procedures, payments made to vendors must not exceed the authorized amount stated on the purchase order. However, if there are additional purchases and/or services required under the specifications of the purchase order, either a new purchase order or an amendment to the purchase order must be issued noting the additional amount recertified and approved by the Budget Office.

Condition:

For three (3) or 6% of the fifty (50) purchase orders tested, payments made to vendors in excess authorized Purchase Orders are as follows:

	<u>PO No.</u>	<u>Vendor No.</u>	<u>Total amount of Invoices paid</u>	<u>Amount on Purchase Order</u>	<u>Variance</u>
1.	24000016	1031	\$ 1,132,146.58	\$ 1,051,291.29*	\$ 80,855.29
2.	24000326	2004	35,630.25	25,883.26	9,746.99
3.	24000426	1024	<u>467,804.79</u>	<u>456,000.00</u>	<u>11,804.79</u>
		Total	<u>\$ 1,635,581.62</u>	<u>\$ 1,533,174.55</u>	<u>\$102,407.07</u>

\* Federal procurement

Questioned Costs:

A questioned cost exists as follows:

CFDA No. 15.875	\$ 80,855.29
General Procurement	<u>21,551.78</u>
	<u>\$102,407.07</u>

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-34, Continued**

**Area: Procurement: Paid Invoices in Excess of Purchase Order**

**CFDA No. 15.875**

Cause:

There is a lack of internal controls to ensure that the correct procurement procedures are adhered.

Effect:

GMHA is not in compliance with its procurement rules and regulations. Furthermore, there may be a material effect on the financial statements if this condition persists.

Recommendation:

The Accounting Department should reconcile the accounts payable balance in the general ledger to the open invoices on a monthly basis to verify whether there are sufficient funds remaining per each purchase order prior to processing payment. This reconciliation should be reviewed by the General Accounting Supervisor and approved by the CFO.

The above-mentioned purchase orders should be reviewed by Materials Management and Accounts Payable departmental personnel to determine why original amounts were exceeded and not properly documented.

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Accounting Department must inform Materials Management on any discrepancies found on the invoices versus the purchase order. The necessary amendments will be processed upon further investigation from Materials Management and the vendor.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-35**  
**Area: Procurement: Period of Availability**  
**CFDA No. 93.003, 97.039**

Criteria:

Pursuant to GMHA's procurement procedures, a purchase order is cancelled upon expiration date and any remaining funds are closed-out. However, for special orders such as construction projects, an amendment to the existing purchase order may be issued and authorized to use the remaining funds.

Condition:

For two (2) or 4% of the fifty (50) purchase orders tested, vendor invoices were paid subsequent to the purchase order's expiration date on September 30, 2004, as following:

	<u>PO No.</u>	<u>Expiration Date</u>	<u>Vendor No.</u>	<u>Total amount of Invoices paid</u>
1.	24001494	9/30/2004	5683	\$ 104,052.81
2.	24001367	9/30/2004	4272	<u>14,865.00</u>
			Total	<u>\$ 118,917.81</u>

Questioned Costs:

Questioned costs of \$118,917.81 exist as a result of this condition.

Cause:

There is a lack of internal controls to ensure that the correct procedures are in effect once a purchase order expires. Furthermore, vendor invoices may have been received later than usual which may go beyond the expiration date and therefore result in payments being processed late.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-35, Continued**  
**Area: Procurement: Period of Availability**  
**CFDA No. 93.003, 97.039**

### Effect:

GMHA is not in compliance with its procurement rules and regulations. Furthermore, the total payments made for vendor invoices under a particular purchase order may exceed the authorized amount approved by the Budget Office that should account for either the items purchased or services rendered for that specific period.

### Recommendation:

The Supply Management Administrator should generate an open purchase order report at the end of the fiscal year to ensure that any funds remaining are accounted for and proper procedures are taken to prepare amendments to the existing purchase orders, especially for items that have not been received or services not completed by fiscal year end.

### Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

The Accounting Department must inform Materials Management on any discrepancies found on the invoices verses the purchase order. The necessary amendments will be processed upon further investigation from Materials Management and the vendor.

At the end of each fiscal year, a list of open purchase orders will be forwarded to Accounting Department to advise if any invoices were received for payment request. If there is none, Materials Management will then process an amendment to cancel those open purchase orders.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No.** 04-36  
**Area:** Procurement: Requisition Orders  
**CFDA No.** N/A

Criteria:

Pursuant GMHA's procurement procedures, prior to preparing a purchase order, a requisition form must be prepared by the requesting department stating the specific items or services needed and the total cost of the item/service based on the best selection from the vendor quotes received. Furthermore, there should be an authorization from the Budget Office approving the total amount of funds requested. Thereafter, the purchase order is prepared and signed by the Hospital Administrator in which the details noted within should agree to the requisition order.

Condition:

For two (2) or 4% of the fifty (50) purchase orders tested, documentation deficiencies were noted for the following:

The PO #24000552 totaling \$56,225 did not agree to the requisition order amount of \$51,302, resulting in a variance of \$4,923.

There was no requisition on file for PO #24000112 for \$86,597.30.

Questioned Costs:

A questioned cost of \$91,520.30 exists as a result of this condition.

Cause:

There is a lack of internal controls to ensure that the correct procurement procedures are in effect.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-36, Continued**  
**Area: Procurement: Requisition Orders**  
**CFDA No. N/A**

### Effect:

GMHA is not in compliance with its procurement procedures. Furthermore, there is no assurance that there are adequate funds available if there is no approval from the Budget Office authorizing the funds for the particular requisition order.

### Recommendation:

The Supply Management Administrator should develop and use a checklist to ensure that the proper information and authorized signatures are present in preparing the purchase orders.

### Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Effective April 2005, all Stock, Pharmaceutical and Dietary requisitions are now being forwarded to the Budget Office for certification. The Buyer Supervisor, Assistant Supply Administrator and Administrator for Materials Management will review all purchase orders being processed to ensure the purchase orders do not exceed the requisition amount. If so, they must return to Budget Office for re-certification.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-37**

**Area: Procurement: Bid Invitation and Award / RFP forms**

**CFDA No. 97.039**

Criteria:

Pursuant to Section 3-202.16 of GMHA's Procurement Rules & Regulations, following an award of a bid or request for proposal (RFP), a record showing the basis for determining the successful bidder shall be made and included as part of the procurement file.

Condition:

For twelve (12) or 24% of the fifty (50) purchase orders tested, the Bid Invitation and Award or the Request for Proposal form was either not on file or not signed by the Hospital Administrator for the following:

	<u>PO No.</u>	<u>Vendor No.</u>	<u>Amount on purchase order</u>
1.	24000005	5002	\$ 769,999.92
2.	24002644	5683	449,950.00*
3.	24003111	4275	240,000.00
4.	24001383	8352	148,000.00*
5.	24001687	4369	145,833.31
6.	24001494	8068	144,900.00*
7.	24001870	5163	144,000.00
8.	24000083	6010	122,895.91
9.	24002180	8991	80,640.00
10.	24003130	8991	70,000.00
11.	24001464	8258	64,000.00
12.	24000073	6010	<u>34,395.00</u>
		Total	<u>\$2,414,614.14</u>

\*Federal procurement

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-37, Continued**

**Area: Procurement: Bid Invitation and Award / RFP forms**

**CFDA No. 97.039**

Cause:

There is a lack of internal controls to ensure that procurement documentation procedures are followed.

Effect:

GMHA is not in compliance with its procurement procedures.

Recommendation:

The Materials Management Department should complete its checklist to ensure that the proper information and authorized signatures are present during the awarding of a bid or RFP. Furthermore, an amendment to the purchase order should be prepared annotating the revised amount and period of service if there are purchases and/or services required which extend from the preceding years following the original bid or RFP.

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Materials Management has created a check list for step-by-step processing and documentation requirements for RFP and Formal Bids.

Effective FY2006, the packets for RFP or Formal Bids will be forwarded to the Hospital Administrator for signature with the amount of the award. In addition, all contracts for services and construction are forwarded to the Legal Counsel for further review before the contracts are signed.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-38**  
**Area: Procurement: Sole Source Procurement Method**  
**CFDA No. N/A**

Criteria:

Pursuant to Sections 3-205 and 3-205.02 of GMHA’s Procurement Rules and Regulations, a contract may be awarded for a supply, service, or construction item without competition when the provisions of this section are met, provided that the Hospital Administrator or his designee above the level of GMHA Supply Management Administrator, determines in writing, that there is only one source for the required supply, service or construction item.

Condition:

For two (2) or 4% of the fifty (50) purchase orders tested, there was no documentation on file to justify reason why vendor #2004 was selected using the sole source procurement method for the following purchase orders:

	<u>PO No.</u>	<u>Vendor No.</u>	<u>Purchase Order amount</u>
1.	24000326	2004	\$ 155,299.56
2.	24000780	2004	<u>130,089.80</u>
		Total	<u>\$ 285,389.36</u>

We were subsequently advised by Materials Management Department that the above procurement type cited was incorrect resulting from an error made. However, GMHA still failed to advertise to solicit competitive bidding to procure the equipment lease.

Cause:

There is a lack of internal controls to ensure compliance with applicable procurement rules and regulations.

Effect:

A questioned cost of \$285,389.36 exists as a result of this finding. GMHA is not in compliance with its procurement rules and regulations. Furthermore, there may be a material effect on the financial statements if this condition persists.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-38, Continued**

**Area: Procurement: Sole Source Procurement Method**

**CFDA No. N/A**

Recommendation:

The Supply Management Administrator should ensure that all sole source or emergency procurements are documented in sufficient detail and in compliance with the applicable procurement requirements. The Procurement Officer should not approve Purchase Orders to procure goods and/or services unless such procurement documents are documented on file to detail the significant history of the procurement. All equipment leases should be procured through a documented competitive bidding process.

Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Amendment was made in file to record the change authority from Section 3-205-10 to 3-501-10. The purchase orders in question were not sole source but for equipment lease.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Finding No. 04-39**  
**Area: Procurement: Qualified Bidders List**  
**CFDA No. 15.875, 93.003, 97.039**

Criteria:

As per Section 3-206 of GMHA's Procurement Rules & Regulations, emergency procurements shall be made with such competition as is practicable under the circumstances, and further provided that the procurement agent must solicit at least three (3) informal price quotations, and if time allows must give notice to all contractors from the qualified bidders list who have provided the needed supplies and services to the Hospital within the preceding twelve (12) months. Furthermore, according to Section 5-201.04.3, in respect to all of the potential contractors, it is important to consider the amount of competition current in the market for the particular type of Hospital contract and whether a price can be obtained that is fair and reasonable when considered together with the benefit to the Hospital potentially obtainable from such a contract.

Condition:

For four (4) or 8% of the fifty (50) purchase orders tested, the same three (3) vendors (Vendor #8068, #8352 and #8528) were contacted for bid proposals for emergency procurements made by the Hospital Administrator:

	<u>PO No.</u>	<u>Vendor No.</u>	<u>CFDA No.</u>	<u>Purchase Order Amount</u>
1.	24001367	8352	93.003	\$ 51,800
2.	24001494	8068	97.039	144,900
3.	24002642	8258	15.875	448,000
4.	24002644	8068	97.039	<u>449,950</u>
			Total	<u>\$ 1,094,650</u>

Furthermore, there was no qualified bidders list on file that would list all of the potential vendors who have provided construction services for the Hospital in the past. There was no rational basis to determine how the three particular vendors were recommended for submitting bid proposals for the requested construction projects.

Cause:

There is a lack of internal controls over ensuring compliance with GMHA's procurement rules and regulations.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

**Finding No. 04-39, Continued**  
**Area: Procurement: Qualified Bidders List**  
**CFDA No. 15.875, 93.003, 97.039**

### Effect:

It appears that the Hospital did not attempt to contact other potential vendors to ensure fair and equitable treatment for all contractors. Possibility of collusion exists for potential bribes and kickbacks as a result of this condition.

### Recommendation:

The Supply Management Administrator should ensure that all special procurements such as construction projects are documented in sufficient detail and in compliance with the applicable procurement regulations. The Procurement Officer should not approve purchase orders for goods and/or services unless such procurement documents are documented on file to detail the significant history of the procurement.

### Auditee Response/Corrective Action Plan:

Management acknowledges and agrees to the finding for FY 2004. Our corrective action is as follows:

Materials Management will make sure a bidder's list is provided in the bid packets.

Although the list was not provided, the requesting department had done its research and only selected the vendors that have provided similar services to the Hospital in the preceding 12 months.

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**GUAM MEMORIAL HOSPITAL AUTHORITY**

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**SUMMARY SCHEDULE OF UNRESOLVED  
PRIOR YEAR AUDIT FINDINGS**

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**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2003 Audit Findings**

Finding No. 2003-01—Patient Affairs Dept.-Checks Received By Mail

Condition: There are no standard operating procedures for receiving checks received by mail. Currently, incoming checks received by mail are forwarded to the Cashier from the Administrative Assistant with no control listing and/or restrictive endorsement. Additionally, there was no segregation of duties within the cash receipts area. Cashiers prepare the deposit slip of the checks received by mail and post the payments to the accounts receivable subsidiary ledger.

Corrective Action & Current Response:

GMHA Management agrees with this finding. The Assistant Chief Financial Officer will initiate internal control policies and procedures to include the documentation of checks received by mail and the independent verification of bank deposits slips.

Beginning in May 2005, the Patient Affairs Administrative Assistant logs mail receipts on a “Collection by Mail Form” on a daily basis. When logging checks received in the mail, the Administrative Assistant records check dates, amounts, number, and total of all checks received. The Patient Affairs Administrative Assistant transfers the information recorded on the “Collection by Mail Form” to a bank deposit slip. Once the bank deposit slip is completed the Administrative Assistant submits the completed package to the Cashier, obtaining the Cashier’s signature to document the transfer of checks.

Current

Status: A similar finding was cited in the current year as Finding No. 04-01. Therefore, this condition is considered unresolved.

Finding No. 2003-02—Patient Affairs Dept.-Cash Receipts System

Condition: There are no established written internal control policies and procedures on the use of the cash receipts system. Of the 35,922 official receipts issued for payment transactions, fifty percent (50%) or 18,139 did not state the mode of payments (i.e., cash, check, credit card, bank), 40% or 14,139 showed no detail at all for both method of payments and reference of payments made.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-02—Patient Affairs Dept.-Cash Receipts System, Continued

###### Corrective Action & Current Response:

Management will assign the task of implementing internal control policies and procedures concerning the cash receipts system to the Assistant Chief Financial Officer. The Assistant Chief Financial Officer will ensure the type of payment is delineated, payments are posted in a timely manner and there is management oversight of the new process.

The Assistant Chief Financial Officer developed a process to document the type of payment received in the hospital.

###### Current

Status: A similar finding was cited in the current year as Finding No. 04-02. Therefore, this finding is considered unresolved.

##### Finding No. 2003-03—Patient Affairs Dept.-Accounts Receivable Suspense Account

Condition: A significant amount of third party payor payments were not posted to individual patient accounts and were temporarily recorded in the accounts receivable suspense account, pending sufficient information for proper posting. However, some of these unmatched cash receipts pending payment back-up advice information have been in the suspense account for over a year and remain unposted.

###### Corrective Action & Current Response:

GMHA concurs with this finding. The Assistant Chief Financial Officer will initiate new policies and procedures regarding the accounts receivable suspense account. New policies and procedures will include the timely posting of cash receipts and maintaining proper documentation for unmatched receipts. This finding will require the involvement of personnel from the accounting section to facilitate the timely reconciliation of the accounts receivable suspense account.

The Assistant Chief Financial Officer has revised policies and procedures regarding the Accounts Receivable Suspense Account. This was completed on December 23, 2005 and is on-going.

###### Current

Status: A similar finding was cited in the current year as Finding No. 04-03. Therefore, this condition is considered unresolved.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-04—Patient Affairs Dept.-Cash Receipts Collection

**Condition:** Materially significant collections posted to accounts receivable suspense accounts generally are not controlled by the use of official receipts control techniques. Of the 82 materially significant items receipts examined, twenty-seven (27), or 33% totaling \$12,308,164 did not have official receipts issued. While we concur that the use of computer technology eliminates the use of manual cash receipts, it is critical that the same elements of control available in the system be used and that those controls account for all cash receipts received.

##### **Corrective Action & Current Response:**

GMHA concurs with this finding. The Assistant Chief Financial Officer will revise policies and procedures to ensure that receipts are prepared and issued for all cash receipts. The Assistant Chief Financial Officer will also ensure that there is proper segregation of duties between deposit slip preparation and the recording of cash in the accounts receivable system.

GMHA initiated the issuance of a receipt to document receipt of all cash coming into the hospital including monies received from Department of Administration and insurance payers. Receipts are prepared and kept in the Billing office. The item was initiated in May 2005 and is on-going.

##### **Current**

**Status:** A similar finding was cited in the current year as Finding No. 04-02. Therefore, this condition is considered unresolved.

##### Finding No. 2003-05—Accounting Department-Cash Disbursements

**Condition:** For four (4) or 7% of sixty (60) key item disbursements (including payroll transfers) tested, disbursements over \$25,000 were noted to have the check payment only having the Hospital Administrator's signature. Therefore, a questioned cost in the amount of \$818,813 resulted due from this condition.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2003 Audit Findings, Continued**

Finding No. 2003-05—Accounting Department-Cash Disbursements, Continued

Corrective Action & Current Response:

We agree with this finding. The Chief Financial Officer will ensure that personnel in the related areas adhere to the GMHA policies and procedures. Management will also review the corresponding policy and procedure and revise if deemed necessary.

This finding is a result of administrative override. Beginning April 2005, the Chief Financial Officer is not allowing the forwarding of disbursements without two required signatures.

Current

Status: The questioned cost of \$818,813 remained as of September 30, 2004. Therefore, this finding is considered unresolved.

Finding No. 2003-06—Accounting Department-Fund Transfers to Payroll Account

Condition: For twenty-six (26), or 43% of sixty (60) payroll disbursement transfers tested, the amount approved for transfer to the Payroll Account did not agree to the amount per payroll register. The aggregate total of the payroll register was \$13,546,313.58 compared to the aggregate authorized amount of \$13,552,000.00. Therefore, a questioned cost of \$5,686.42 exists from this condition.

Corrective Action & Current Response:

We agree with this finding. The Chief Financial Officer will ensure that personnel in the related areas adhere to the GMHA policies and procedures. Management will also review the corresponding policy and procedure and revise, if deemed necessary.

Current

Status: This finding is resolved. Beginning in May 2005, the Chief Financial Officer mandated that transfers from the GMHA General Operating account to the Payroll account reflect the actual amount of net payroll.

## **GUAM MEMORIAL HOSPITAL AUTHORITY**

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-07—Payroll Department-Timekeeping Maintenance

**Condition:** For two (2), or 3% of sixty (60) timesheets tested, supervisors who are also designated timekeepers, maintain the manual changes of their own time sheets. Manual maintenance refers to the correction of failure to time-in (TI) or failure to time-out (TO).

**Corrective Action & Current Response:**

We agree with this finding. The Chief Financial Officer immediately relieved these two supervisors of their access to the time keeping system in fiscal year 2005. Policies and procedures related to this issue are being prepared.

**Current**

**Status:** This finding is considered resolved. In February 2005, the Chief Financial Officer immediately relieved these two supervisors of their access to the timekeeping system. Designated timekeepers were identified and no change in current policies and procedures was required.

##### Finding No. 2003-08—Personnel-Pertinent Documentation

**Condition:** For thirty-nine (39), or 65% of sixty (60) personnel files tested, employees' current W-4 were not in the personnel file. According to the Personnel Department, the Payroll Department kept the updated W-4 after the initial hiring.

**Corrective Action & Current Response:**

We agree with this finding. In response to this finding with respect to the Personnel Department not adhering to the personnel policies and procedures and Federal requirement compliance with the Drug-Free Workplace Act, the following action shall be taken. The Personnel Department shall enforce the internal policies and procedure to ensure compliance. Completion of new hire processing shall be monitored and signed off by Personnel Specialist prior to the filing of personnel jacket and will conduct periodic reviews.

## **GUAM MEMORIAL HOSPITAL AUTHORITY**

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-08—Personnel-Pertinent Documentation, Continued

###### Corrective Action & Current Response, Continued:

The Human Resources Office in an effort to correct the deficiencies conducted an audit on all employees personnel files in July 2005. The audit identifies that approximately fifty percent (50%) of the files did not have all three forms filed. On October 27, 2005 a memorandum to all employees was issued by the Human Resources Office to update and obtain the necessary documents. A deadline of November 18, 2005 was given to all departments. The count received by the Human Resources Office for completed documents was exactly 50% received or 459 of the 918 employees. A second reminder notice was issued on January 27, 2006.

###### Current

Status: A similar finding was cited in the current year as Finding No. 04-05. Therefore, this condition is considered unresolved.

##### Finding No. 2003-09—Personnel Department-Random Drug Testing

Condition: Of the sixty (60) personnel files tested, which generally covers employees with direct patient responsibility, there was no evidence that a Notice of Random Drug Testing under the Drug-Free Workplace Program was performed on Designated Positions after the initial implementation of the Drug-Free Workplace Act Policy in 1999.

###### Corrective Action & Current Response:

We agree with this finding. In response to this finding with respect to the Personnel Department not adhering to the personnel policies and procedures and Federal requirement compliance with the Drug-Free Workplace Act, the following action shall be taken. The Personnel Department shall enforce the internal policies and procedures to ensure compliance. Completion of new hire processing shall be monitored and signed off by Personnel Specialist prior to the filing of personnel jacket and will conduct periodic reviews.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2003 Audit Findings, Continued**

Finding No. 2003-09—Personnel Department-Random Drug Testing, Continued

Corrective Action & Current Response, Continued:

The Random Drug Testing is scheduled for FY2006. The Personnel Administrator is reviewing the current Drug Free Workplace policy. The current policy requires some modifications and additions to the Test Designated Personnel listing. The Personnel Administrator is preparing a Request for Proposal for a Medical Review Officer (MRO) as the hospital does not have one in place at this time. Currently, positive test results are reviewed by the Guam Medical Examiner.

Current

Status: A similar finding was cited in the current year as Finding No. 04-06. Therefore, this condition is considered unresolved.

Finding No. 2003-10—Payroll Department-25% Specialty Pay

Condition: There are no documented policies and procedures relative to the basis of the calculation of the 25% Specialty Pay on Allied Health Care Professional pay. The Payroll and Personnel Departments have manually shown its calculation. The Payroll Department has made its calculations based on the verbal directive from the prior Personnel Administration.

Additionally, of the sixty-two (62) employees selected for testing under allied health professionals, twenty-one (21), or 33% of the Notification of Action files reviewed were subject to post-audit by the Civil Service Commission.

Corrective Action & Current Response:

The General Accounting Supervisor in conjunction with the Personnel Department will establish internal control policies and procedures to document procedures to calculate Specialty Pay and document employees eligible to receive such pay.

Current

Status: This finding is considered unresolved as documentation on the policies and procedures was not received to determine who is eligible for specialty and the attendant calculation.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-11—Payroll Department-Payment of Leave while Leave Record indicates a Negative Balance

Condition: Documentation to support leave donation and substantiation of leave absences were either lost or removed from GMHA upon investigation of the personnel file for employee #519608. Furthermore, extended testing disclosed that the accumulated negative sick leave balance of the employee was cured through a subsequent leave donation of approximately 600 days after the negative balance started to accrue. Also, the leave donation was inconsistent with the Leave Sharing Policy, as the donated hours were an annual leave and not sick leave hours. Therefore, a questioned cost of \$5,054 exists from this condition.

##### Corrective Action & Current Response:

The Chief Financial officer will establish policies and procedures to prevent the payment of leave while accumulated leave balance is negative. The Chief Financial Officer will review leave balances each pay period end prior to the calculation of the subsequent payroll.

The Chief Financial Officer will require strict adherence to policies and procedures regarding leave documentation and leave sharing.

##### Current

Status: The questioned cost of \$5,054 for this finding remain at September 30, 2004, therefore, unresolved.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-12—Payroll Department-Accrued Leave

**Condition:** For four (4), or 13% of thirty (30) employees selected, the recalculated accrued leave hours did not agree to the leave report as of September 30, 2003, and documents to substantiate the differences were not provided.

**Corrective Action & Current Response:**

Chief Financial Officer will administer internal audit procedures to audit annual leave balances by staff persons segregated from the payroll function. Furthermore, Chief Financial Officer will ensure that accrued leave is recorded correctly in the General Ledger System. Lastly, efforts will be made to ensure that proper documentation for all leave requested will be filed accordingly.

The Chief Financial Officer reviews leave balances on a monthly basis. This function will be transferred to an Accountant III upon successful recruitment of this position. Candidates for the Accountant III were interviewed but the positions were reopened due to the lack of basic accounting skills of the candidates interviewed.

**Current**

**Status:** The documents to substantiate the differences were provided subsequently by the Management and was reviewed accordingly, therefore, this finding is considered resolved.

##### Finding No. 2003-13—Payroll Department- Supporting Documents

**Condition:** Documentation for overtime authorizations and annual leave were not provided.

**Corrective Action & Current Response:**

This matter will be investigated to determine the propriety of the overpayments and funds will be recovered from the attendant employees. The Chief Financial Officer will ensure that policies and procedures are followed by obtaining proper documentation prior to the calculation of payroll. Lastly, efforts will be made to ensure that proper documentation for all leave requested will be filed accordingly.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2003 Audit Findings, Continued**

Finding No. 2003-13—Payroll Department- Supporting Documents, Continued

Current

Status: All documentation was provided subsequent to the completion of the auditor’s fieldwork; therefore this condition is considered resolved. However, a similar finding was cited in the current year as Finding No. 04-11.

Finding No. 2003-14—Fiscal Department – Travel Authorization

Condition: There were only fourteen (14) authorized travel vouchers approved in fiscal year 2003. Three quotations were not obtained for any of the 14 travel vouchers tested. Upon examination of the travel control checklist and travel authorizations (TA), the itinerary report, travel report or original boarding pass had not been submitted for the following:

<u>Employee #</u>	<u>TA Number</u>	<u>Travel Date</u>	<u>Amount</u>
948650	TA 06-03	June 4-6, 2003	\$5,113.26

Corrective Action & Current Response:

The Chief Financial Officer will ensure that policies and procedures are strictly enforced as related to the proper travel authorization. The quotations will be obtained and travelers will be required to submit travel documents within ten days of return.

The Chief Executive Officer will issue a memorandum emphasizing the adherence to the travel policies to include obtaining three quotes and securing proper authorization by March 1, 2006. The Chief Financial Officer sent memorandums to the employees listed in the finding requesting immediate submissions of travel reports on January 12, 2006.

Current

Status: The questioned cost of \$ 5,113.26 on this finding remains unresolved. A similar finding was cited in the current year as Finding No. 04-10.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-15—Accounting Department – Other Receivable

**Condition:** At September 30, 2003, GMHA had receivables (for catering and incineration services) over two years past due from government and private entities.

**Corrective Action & Current Response:**

The Chief financial officer will coordinate with the Accounting Department and Business Office, a diligent effort to collect amounts due from other governmental agencies and private entities.

Effective immediately, the Accounting Department and Business Office have stepped up efforts to collect amounts due from other governmental agencies. This procedure is on-going.

**Current**

**Status:** A similar finding was cited in the current year as Finding No. 04-19. Therefore, this finding is considered unresolved.

##### Finding No. 2003-16—Accounting & Patient Affairs Dept. – Patients' A/R

**Condition:** The accounts receivable subsidiary ledger on the AS-400 System was not reconciled to the general ledger on a monthly basis.

**Corrective Action & Current Response:**

We agree with this finding. Management is currently working to correct the possible misstatement in the Accounts Receivable. Management has promoted an Internal Auditor II to manage areas that directly affect GMHA's Accounts Receivables (i.e. Business Office, Medical Records and Patient Registration). Management reassigned job functions of staff persons, lacking knowledge of accounts receivable that may have contributed to the discrepancy noted. The reassignments mentioned above occurred in Accounting and Business Office. Management hired a Chief Financial Officer to aid in the correct presentation of Accounts Receivable and other major accounts in the GMHA financial statements. The current Management of GMHA will implement corrective action in fiscal year 2005.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-16—Accounting & Patient Affairs Dept. – Patients' A/R, Continued

###### Corrective Action & Current Response, Continued:

The Fiscal Services Department has formed a task force to aggressively correct the past practices of accounting for Accounts Receivable. Currently, the task force is working daily to document current systemic flaws in order to identify where and how to implement improvements in accounts receivable.

The number one goal of the task force is to develop procedures where the reconciliation of the subsidiary ledger to the General Ledger occurs on a more frequent and timely basis. The task force's goal is to implement changes into the Accounts Receivable system by March 1, 2006.

GMHA is also in the process of engaging consultants to complete a Financial Management Improvement Program, which will also provide an evaluation of the current systems, processes and computer software and hardware. The target date is around May through June of 2006.

###### Current

Status: A similar finding was cited in the current year as Finding No. 04-16. Therefore, this condition is considered unresolved.

##### Finding No. 2003-17—Patient Affairs Dept. – Detailed Aging of A/R & Subs. Ledgers

Condition: There were no immediate available print-out or schedules of the aging of the accounts receivable as of September 30, 2003. The CFO had to extract the Master File records from the AS-400 System and perform the aging report on a spreadsheet. The extracted data did not agree to that of the summary accounts receivable as of September 30, 2003, as the difference was \$1,849,541.

###### Corrective Action & Current Response:

The Chief Financial Officer will establish and implement policies and procedures to ensure that all required monthly and annual financial reports are printed and readily available for analysis. These policies and procedures will delineate the number of years these and other financial records should be retained.

The Management's Current Response is addressed in Finding No. 2003-16.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2003 Audit Findings, Continued**

Finding No. 2003-17—Patient Affairs Dept. – Detailed Aging of A/R & Subs. Ledgers, Continued

Current

Status: This finding is considered unresolved.

Finding No. 2003-18—Accounting & Patient Affairs Dept. – A/R from the Department of Revenue and Taxation (Non-Payer)

Condition: At September 30, 2003, we noted unsubstantiated debits to Accounts Receivable- Revenue and Taxation (Non-payer) totaling \$619,841.52. These charges represent delinquent self-pay accounts extracted from the Patient's Accounts Receivable System in the AS-400, where probability of collections is through tax-levied procedures.

Corrective Action & Current Response:

We agree with this finding. The Assistant Chief Financial Officer will establish policies and procedures to ensure that all supporting documentation for processing accounts receivable.

The Management's Current Response is addressed in Finding No. 2003-16.

Current

Status: A similar finding was cited in the current year as Finding No. 04-23. This finding is considered unresolved.

Finding No. 2003-19—Patient Affairs Dept. – Allowance for Bad Debts and Contractual Adjustments

Condition: At September 30, 2003, the bad debts receivable in the detailed schedule did not agree to the general ledger allowance for bad debts.

At September 30, 2003, the adequacy of allowance for contractual adjustments provided in the general ledger were not substantiated by an overall evaluation of the receivables from third-party payor accounts.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2003 Audit Findings, Continued**

Finding No. 2003-19—Patient Affairs Dept. – Allowance for Bad Debts and Contractual Adjustments, Continued

Corrective Action & Current Response:

We agree with this finding. Management is currently working to correct the possible misstatement in the accounts receivable. Management has promoted an Internal Auditor II to manage areas that directly affect GMHA's accounts receivables (i.e. Business Office, Medical Records and Patient Registration). Management reassigned job functions of staff persons, lacking knowledge of accounts receivable that may have contributed to the discrepancy noted. The reassignments mentioned above occurred in Accounting and Business Office. Management hired a Chief Financial Officer to aid in the correct presentation of accounts receivable and other major accounts in the GMHA financial statements. The current Management of GMHA will implement corrective action in fiscal year 2005. Furthermore, Management will conduct a historical and current analysis of bad debts and contractual adjustments to determine a reasonable allowance percentage.

The Management's Current Response is addressed in Finding No. 2003-16.

Current

Status: A similar finding was cited in the current year as Finding No. 04-14. Therefore, we consider this finding unresolved.

Finding No. 2003-20—Patient Affairs Dept. – Collection Effort on Self-Pay Accounts

Condition: At September 30, 2003, a significant portion of bad debts receivables consisting of self-pay accounts and those that have been denied by third-party payors and consequently referred to collection agencies totaled approximately \$76 million. Additionally, the self-pay accounts included in the current account receivables referred to the Department of Revenue and Taxation approximated \$8,898,620 is two years past due. The collectibility of the amounts due cannot be determined due to a lack of the overall evaluation of these accounts performed by accounting personnel.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2003 Audit Findings, Continued**

Finding No. 2003-20—Patient Affairs Dept. – Collection Effort on Self-Pay Accounts, Continued

Corrective Action & Current Response:

The Assistant Chief Financial Officer has established a workable plan to increase collection efforts of self-pay accounts. Also, GMHA received a \$4 million government subsidy for self-pay accounts for fiscal year 2005. Self-pay accounts prior to fiscal year 2005 are covered by this subsidy

The Management’s Current Response is addressed in Finding No. 2003-16.

Current

Status: This finding is unresolved.

Finding No. 2003-21—Property Management & Accounting Dept.- Fixed Asset Register Reconciliation

Condition: There are no procedures for reconciling detailed fixed records to the general ledger on a regular and timely basis. The lack of such procedure has led to the inaccurate reporting of fixed asset cost and depreciation expense in the monthly financial statements. At September 30, 2003, the fixed assets balances per general ledger did not agree with that of the balances in the fixed assets register in the AS-400 system.

Corrective Action & Current Response:

The Chief Financial Officer will establish policies and procedures to ensure that fixed assets are reconciled on a monthly basis. Detailed governmental employees from other agencies are helping the hospital reconcile the subsidiary to the general ledger.

Reconciliation of Fixed Assets, Construction in Progress, Physical Inventory, Accounts Payable and other General Ledger Accounts will be the responsibility of an Accountant III. Four positions for Accountant III were in the FY 2006 budget and four individuals were interviewed. These positions were reopened due to the lack of basic accounting skills of the candidates interviewed.

Current

Status: A similar finding was cited in the current year as Finding No. 04-25. Therefore, this finding is considered unresolved.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-22—Property Management and Accounting Dept.- Physical Inventory of Fixed Assets

Condition: GMHA did not conduct a physical inventory of fixed assets during the year.

Twelve (12), or 46%, of twenty-six (26) movable equipments tested for physical existence could not be located.

##### Corrective Action & Current Response:

The Chief Financial Officer will establish internal control policies and procedures to ensure that fixed assets are reconciled on a monthly basis. Government of Guam from other agencies have been assigned to assist hospital reconcile the detailed fixed asset subsidiary ledger to the general ledger.

The Management's Current Response is addressed in Finding No. 2003-21.

##### Current

Status: A similar finding was cited in the current year as Finding No. 04-20. Therefore, this finding is considered unresolved.

##### Finding No. 2003-23—Accounting Department – Construction in Progress

Condition: At September 30, 2003, project number 034-2001 (Enclosure of Courtyard and Solarium), which was completed in March 2003, was not removed from the construction in progress account in the amount of \$2,715,777.

##### Corrective Action & Current Response:

The Chief Financial Officer will establish internal control policies and procedures whereby the construction in process is analyzed on a periodic basis.

The Management's Current Response is addressed in Finding No. 2003-21.

##### Current

Status: The fixed assets AS-400 system control register remains not reconciled as of September 30, 2004. Therefore, this finding is considered unresolved.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-24—Accounting Department – Cost of AS-400 System Upgrade

**Condition:** GMHA acquired an AS-400 system software upgrade in 1996. The acquisition cost recorded in the general ledger did not agree with the amount recorded in the fixed asset register system.

**Corrective Action & Current Response:**

The Chief Financial Officer will establish internal control policies and procedures to ensure that fixed assets are reconciled on a monthly basis.

The Management's Current Response is addressed in Finding No. 2003-21.

**Current**

**Status:** The fixed assets AS-400 system control register remains not reconciled as of September 30, 2004. Therefore, this finding is considered unresolved.

##### Finding No. 2003-25—Accounting Dept. – Inventory Reconciliation

**Condition:** The general ledger control accounts for inventory were not reconciled with the physical count as of September 30, 2003.

**Corrective Action & Current Response:**

The Chief Financial Officer will establish internal control policies and procedures to ensure that all inventories are reconciled on a periodic basis throughout each fiscal year.

The Management's Current Response is addressed in Finding No. 2003-21.

**Current**

**Status:** A similar finding was cited in the current year as Finding No. 04-26. Therefore, this finding is considered unresolved.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2003 Audit Findings, Continued**

Finding No. 2003-26—Accounting Department – Accounts Payable

Condition: The accounts payable general ledger control account was not reconciled to the accounts payable subsidiary ledger.

Corrective Action & Current Response:

The Chief Financial Officer will establish internal policies and procedures to ensure that the accounts payable are reconciled on a monthly basis.

The Management's Current Response is addressed in Finding No. 2003-21.

Current

Status: A similar finding was cited in the current year as Finding No. 04-27. Therefore, this finding is considered unresolved.

Finding No. 2003-27—Accounting Department – Timely Reconciliation of Accounts

Condition: Detailed schedules supporting the general ledger accounts did not always agree with the general ledger balances for cash, receivables, fixed assets, accounts payable, equity, and various other major accounts. Additionally, year-end required account analyses schedules were concurrently prepared and reconciled during the audit.

Corrective Action & Current Response:

The Chief Financial Officer will establish a policy and procedure where the appropriate balance sheet accounts are reconciled on a monthly basis. Employees from other governmental agencies have been assigned to assist the hospital reconcile the subsidiary to the general ledger, for the accounts receivable, fixed assets, inventory, and accounts payable accounts.

The Management's Current Response is addressed in Finding No. 2003-21.

Current

Status: A similar finding was cited in the current year as Finding No. 04-26. Therefore, this finding is considered unresolved.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-28—Planning/Finance – Efficiency in Managing Federal Grants

**Condition:** In reviewing of the Compact Impact Grant carryover fiscal years 2000 and 2001 activity in fiscal year 2003, we noted slow to dormant procurement procedures in administering this grant. In fiscal year 2003, only 35% or \$379,741 of \$1,095,600 of the available grant was expended from the carryover grant. For eight (8), or 50% of the sixteen (16) Compact Impact grant requisitions tested, conversion of requisitions from the date of receipt by the Material Management Office (MMO) to the Purchase Order date exceeded 90 days, thus, funds were not obligated immediately.

**Corrective Action & Current Response:**

The Planning Department will implement policies and procedures to ensure the monitoring of federal grant programs and take advantage of obligated funds in the year received. The Finance Department will ensure that all assets purchased under federal grants are recorded in the financial statements.

**Current**

**Status:** The Compact Grant 2000-2001 carryover grant was fully obligated in fiscal year 2004. Therefore, this finding is resolved.

##### Finding No. 2003-29—Cash Management – Temporarily Restricted Fund Balance

**Condition:** At September 30, 2003, the temporarily restricted cash maintained in the bank is greater than what has been accounted for as temporarily restricted fund balance.

**Corrective Action & Current Response:**

The Planning Department will implement policies and procedures to ensure the monitoring of federal grant programs and take advantage of obligated funds in the year received. The Finance Department will ensure that all assets purchased under federal grants are recorded in the financial statements.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-29—Cash Management – Temporarily Restricted Fund Balance, Continued

###### Current

Status: This finding is resolved. The temporarily restricted fund was released from restriction upon the substantial completion of the Back-up chiller in September 30, 2004. The Back-up chiller became operational in October 2004.

##### Finding No. 2003-30—Accounting System and Chart of Accounts

Condition: Based on the results of observations made during our audit, the existing chart of accounts is not prepared on an effective and efficient functional or cost center basis. The current chart of accounts consists of more than 5,300 general ledger accounts. The accounting system fails to produce accurate departmental profit and loss statements and fails to produce accurate financial information. The accounting system also fails to produce other financial reports, accounting information and alternative time-consuming procedures.

###### Corrective Action & Current Response:

The Chief Financial Officer is working with the software vendor to reestablish routine financial reports as noted in this finding. Restrictions have been placed on the ability to add or delete financial report from the financial system.

The Chief Financial Officer has developed a new chart of accounts that reduces the number of accounts and department numbers to facilitate the ability to produce system generated profit and loss statements. Intervention by the software vendor is needed to establish a new company file without compromising the historical data contained in the present company.

The software vendor states personnel in all areas of Fiscal, Materials Management, and Pharmacy will need training to implement the new chart of accounts. The projected implementation date is FY2007.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-30—Accounting System and Chart of Accounts, Continued

###### Current

Status: The corrective action plan is on-going. Therefore, we considered this finding unresolved.

##### Finding No. 2003-31—Prior and Current Year Accruals, Adjustments and Post Closing Adjustments

Condition: At September 30, 2003, there were material misstatements in the financial statements prior to the application of audit procedures and corrections through audit adjustments.

###### Corrective Action & Current Response:

The Chief Financial Officer will establish internal control policies and procedures to ensure that all appropriate prior and current year accruals, adjustments and post closing adjustments occur on an on-going basis.

The Chief Financial Officer to ensure that all prior and current year accruals, adjustments and post closing adjustments are posted. This task was completed and submitted to the external auditors on June 17, 2005. The Chief Financial Officer reviews the Fund Balance account on a monthly basis.

###### Current

Status: The beginning fund balance of fiscal year 2004 agrees to the prior year 2003 audited fund balance. Therefore, this finding is considered resolved.

##### Finding No. 2003-32—Medicare Overpayments

Condition: HCFA assessed the efficiency of the hospital for its outpatient and inpatient services, based on its Annual Medicare Cost Report submitted for fiscal year 2003, resulting in a Medicare overpayment to the Hospital in the amount of \$3,629,816. GMHA has not appealed to this lump-sum retroactive adjustment, nor made any documentation of its agreeing to the assessment validity, which requires acceptance and resolution by the Board of Trustees.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-32—Medicare Overpayments, Continued

###### Corrective Action & Current Response:

The Chief Financial Officer will establish internal control policies and procedures to ensure that the timely recording of adjustments initiated by Medicare.

The Chief Financial Officer has insured that all Medicare Overpayment/Underpayments are posted once these amounts are known.

###### Current

Status: The Medicare (United Government Service) has fully recouped the overpayment amount in fiscal year 2004 through withholding from the Medicare program settlement. This condition is considered resolved.

##### Finding No. 2003-33—Planning/Finance Dept. – Compact Impact Grant for Fiscal Year 2003 under OIA Grant No. GR370141

Condition: The fiscal year 2003 Compact Impact Grant No. GR370141 passed through the Government of Guam in the amount of \$1.355 million that was awarded on November 12, 2003, does not appear to be efficiently administered based on the review of the grant activity as of January 18, 2005.

###### Corrective Action & Current Response:

The Planning Department will implement policies and procedures to ensure the monitoring of federal grant programs and take advantage of obligated funds in the year received. The Finance Department will ensure that all assets purchased under federal grants are recorded in the financial statements.

###### Current

Status: The Compact Impact Grant for 2003 was fully obligated in fiscal year 2005. Therefore, this finding is resolved.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-34—Notes Payable in Arrears and Unpaid Contributions with Government of Guam Retirement Funds

**Condition:** In March 2003, GMHA defaulted to pay the amount due in full for its notes payable originating from amounts in arrears with the Government of Guam Retirement Fund (the Retirement Fund). At September 30, 2003, GMHA had not taken action to consummate a new payment arrangement with the Retirement Fund for its notes payable in arrears approximating \$6.6 million of principal, interest, and penalties.

At September 30, 2003, the unpaid contributions to the Retirement Fund comprising of payroll periods for fiscal years 2000 through 2003 has no written formal promissory note or payment arrangement for the total of \$9.7 million.

##### **Corrective Action, Current Response:**

Management sought financial assistance from the Guam Legislature under PL 28-38.

##### **Current**

**Status:** In June 2005, the Government of Guam Legislature issued Public 28-38 to authorize the Treasurer of Guam to make “interest only” payments of \$190,501 for the GMHA for their deficiencies to the Government of Guam Retirement Fund of \$16.8 million. Pursuant to the Public Law 28-38, the “interest payments only” by the Treasurer of Guam on behalf of GMHA shall be made on the first day of the month following the enactment of Public Law 28-38, and every first day of every month thereafter, with grace period of no more than 10 days, through cash drawdown and shall continue within five years until the amount owed to GGRF is satisfied through the issuance of General Obligation Bond or alternate means. GMHA is required under the law to maintain current in the applicable fiscal year.

##### Finding No. 2003-35—Reporting

**Condition:** Amounts reported in the Financial Status Report (FSR-279) did not agree with actual recorded amounts general ledger. Additionally, the SF-272 for reporting period 01/01/03 through 06/30/03 reported zero disbursements, although actual expenditures totaled \$209,553.36.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-35—Reporting, Continued

###### Corrective Action & Current Response:

This finding can be completed with establishment of the new chart of accounts referenced in 03-30. GMHA has reporting software that will enable GMHA to meet the requirements of OMB Circulars A-133 and A-87 and/or SF-269A.

###### Current

Status: Starting fiscal year 2005, the Compact Impact Grants reporting requirements for sub-grantee of the Government of Guam will be handled by the Bureau of Budget and Management Research. As of September 30, 2004, this finding is considered unresolved as no documentation was provided to amend and correct the previously submitted FSR-269 and SF-272.

##### Finding No. 2003-36—Reporting

Condition: The SF-269 for CFDA #15.875 for reporting period from 01/01/03-06/30/03 was submitted November 10, 2003 or 103 days late.

The SF-269 for CFDA No. 97.039/83.548 for the quarter reporting period covering 10/01/02-12/31/02 was not submitted; however, a final report was submitted on March 7, 2003 inclusive of 10/1/02 to 12/31/02 final activities.

###### Corrective Action & Current Response:

The Chief Financial Officer will establish a policy and procedure to ensure the proper reporting in accordance with SF-269 and/or SF-269A.

The Management's Current Response is addressed in Finding No. 2003-35.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-36—Reporting, Continued

Current

Status: This finding is considered resolved as the reports were subsequently submitted.

##### Finding No. 2003-37—Worker's Compensation

Condition: The total cumulative amount of compensation received since the time of employee's injury exceeded the maximum amount of \$100,000.

Furthermore, the total worker's compensation could be understated due to inadequacies and unavailability of records prior to fiscal year 1995. Therefore, the overpayments of \$38,058.30 may be more than what is noted.

Corrective Action & Current Response:

The Chief Financial Officer will head an investigation to determine the amount of Worker's Compensation owed to GMHA. The Chief Financial Officer will ensure adherence to the policies set forth by established public laws and seek repayments from the employees mentioned in the finding.

The Personnel Department will establish policies and procedures to ensure Worker's Compensation is paid according to Public Law 19-35:6.

Current

Status: Management has ceased the payment of workman's compensation for Employee # 557485 after pay period ending 11/27/2004, and Employee # 281740 after pay period ending 1/22/2005. This finding is considered unresolved, as there was no action yet to recover overpayments made to these employees.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-38—Procurement – Period of Availability

**Condition:** For two (or 4%) of the forty-five purchase orders tested, there were vendor invoices paid subsequent to the purchase order's expiration date on September 30, 2003.

**Corrective Action & Current Response:**

The Materials Management Department will establish policies and procedures that involve informing the Accounting Department of open purchase orders prior to each fiscal year-end. These procedures should include steps to amend existing purchase orders for items that have not been received as of fiscal year end.

**Current**

**Status:** The corrective action plan was properly implemented for purchase order #23000072. However, management determined that purchase order #23000086 could not be extended since it was procured under sole source method and indicated that future sole source contracts would not be extended. Furthermore, a similar condition was cited in the current year as Finding No. 04-35. Therefore, this finding is considered unresolved.

##### Finding No. 2003-39—Procurement – Payments in Excess of Purchase Order Amount

**Condition:** For four (or 9%) of the forty-five purchase orders tested, the total amount of vendor invoices paid as of September 30, 2003 exceeded the authorized amount stated on the purchase order.

**Corrective Action & Current Response:**

The Materials Management Department will establish policies and procedures to monitor amounts on purchase orders as compared to invoices received from vendors. The Accounting Department will establish policies and procedures to reconcile general ledger accounts payable balance to open invoices on a monthly basis.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2003 Audit Findings, Continued**

Finding No. 2003-39—Procurement – Payments in Excess of Purchase Order Amount, Continued

Current

Status: At present time, Materials Management forwards a copy of the purchase order to the requesting department for receipt verification, and Materials Management has an informal policy with Accounting Department that all questionable invoices be forwarded to Materials Management for review with feedback to Accounting Department on the result of the investigation, and its resolution. However, a similar condition was cited in the current year as Finding No. 04-34. Therefore, this finding is considered unresolved.

Finding No. 2003-40—Procurement –Requisitions Order Form: No Authorizing Signature

Condition: For three (or 7%) of the forty-five purchase orders tested, the requisition orders attached to the purchase order file were not approved by the Budget Office authorizing the total amount of funds.

Corrective Action & Current Response:

The Materials Management Department will establish policies and procedures to ensure that all pertinent information and authorized signatures are present in the preparation of purchase orders. Furthermore, a Revolving Account was established under Procurement Rules & Regulations Section 2-109 to fund stock replenishment orders. Inventory is procured as a group on Invitations for Bids at the beginning of each fiscal year to reduce the number of purchase orders usually generated to procure these items and is found to be a more efficient means of procuring the volume of stock needed at the best prices.

Current

Status: Corrective action plan was properly implemented during the fiscal year ending September 30, 2003. However, there was a similar deficiency as evidenced in finding 04-37 for the fiscal year ending September 30, 2004. Therefore, the above corrective action plan does not resolve the above condition.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-41—Procurement- Bid Award: No Authorizing Signature

**Condition:** For two (or 4%) of the forty-five purchase orders tested, the Bid Invitation and Award or the Request for Proposal form was not signed by the Hospital Administrator which should also indicate the contract amount according to the selected bid or RFP.

**Corrective Action & Current Response:**

The Materials Management Department will ensure adherence to section 3-202.16 of GMHA's Procurement Rules & Regulations, which requires all pertinent information and authorized signatures are present in the awarding of a bid or request for proposal. Furthermore, Invitations for Bid and Request for Proposal documents showing the basis for determining the successful bidder or evaluation documents, recommendation letter, notice of intent letter and notice to proceed letter will be included with documents usually placed in the purchase order file.

**Current**

**Status:** This finding is considered unresolved as a similar condition was cited in the current year as Finding No. 04-37.

##### Finding No. 2003-42—Procurement – Pre-Award Bid Prior to Settlement of Protest

**Condition:** For purchase order #23000207, an initial protest was made to the Hospital Administrator for Bid No. 004-02, which is for trash hauling services for fiscal year 2003. The Supply Management Administrator sent a response and the bid protestor sent another request for reconsideration dated 2/15/02. The final response from Supply Management Administrator was sent on 2/22/02 with the same answer and initial selection of first vendor was kept. However, per review of Bid Invitation to Award, contract was awarded on 1/31/02, prior to the protest date.

**Corrective Action & Current Response:**

Initial protest from particular vendor occurred on 11/27/01 after the Bid Status letter was sent to unsuccessful bidders on 11/23/01. GMHA responded back to protestor with the opinion from their legal counsel on 1/24/02 with the decision to deny the protest and award contract to successful bidder without delay to protect substantial interests of GMHA. A purchase order was issued on 1/31/02 since the protest was deemed resolved.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2003 Audit Findings, Continued**

Finding No. 2003-42—Procurement – Pre-Award Bid Prior to Settlement of Protest,  
Continued

Corrective Action & Current Response, Continued:

Subsequently, the protestor submitted a “reconsideration letter” on 2/15/02; however, per legal advice, there were no new grounds for protest. In fact, it was a reposit of the same issues and was therefore also denied.

Current

Status: Corrective action plan was properly implemented during the fiscal year ending September 30, 2004. Therefore, we consider this finding resolved.

Finding No. 2003-43—Procurement – No Formal Contract

Condition: For purchase order #23003753, there is no original contract on file for consultation services of the Laboratory Director for the period covering from March 1, 2003 to September 30, 2003. The only documentation on file was a letter from Laboratory Director requesting to the Hospital Administrator to renew the contract for the subsequent period covering from October 1, 2003 to March 31, 2004

Corrective Action & Current Response:

The Materials Management Department will ensure adherence to section 2-111 of GMHA’s Procurement Rules & Regulations, which requires the Hospital Administrator to review and authorize all pending contract before any type of services is performed.

Current

Status: Upon review of the original contract, it stated that contract may be extended up to a total of three years, which should have ended on October 1, 2003. Hence, the contract covers period in question noted on above condition. Therefore, we consider this finding resolved.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-44—Pharmacy Dept. – Loan and Borrowing of Pharmaceuticals and Supplies

**Condition:** There are no defined written internal control policies and procedures in place for the loan and borrowing of pharmaceutical and supplies in Pharmacy Department and in Materials Management Supply. The current control forms in use in the Pharmacy Department are only controlled by the date and not by sequential number. There is no periodic monitoring of the balances of these transactions.

##### **Corrective Action & Current Response:**

The Material Management Department will establish policies and procedures regarding the loan and borrowing of pharmaceuticals and supplies. The Materials Management Department will report the loan and borrowing of pharmaceuticals and supplies to the Accounting Department, so these appropriate receivables or payables are recorded in the general ledger.

##### **Current**

**Status:** A similar condition was cited in the current year as Finding No. 04-31. Therefore, this finding is considered unresolved.

##### Finding No. 2003-45—Notes Payable in Arrears – Guam Power Authority

**Condition:** During 2003, GMHA defaulted on seven (7) monthly installments of \$45,965 and additional interest of \$4,079 totaling \$325,834 with Guam Power Authority promissory note agreement. These installments were for November 2002, January 2003, April 2003, May 2003, and July 2003 through September 2003.

##### **Corrective Action & Current Response:**

The note with the Guam Power Authority was recalculated in conjunction with the Office of Bureau Budget and Management Resources in fiscal year 2004.

GMHA and Guam Power Authority have restructured the note payable for past amounts due. The new installment payment agreement with Guam Power Authority has been in effect starting October 2005.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2003 Audit Findings, Continued**

##### Finding No. 2003-45—Notes Payable in Arrears – Guam Power Authority, Continued

###### Current

Status: The new note agreement of GMHA with the GPA is awaiting approving signatures from GPA that would signify their acceptance. Therefore, we considered this finding unresolved as of September 30, 2004.

#### **2002 Audit Findings**

##### Finding No. 2002-01—Cash Receipts

Condition: There was a duplication of effort and work performed. While testing revenues and cash receipts, it was noted that all medical encounters for services provided/performed by the Hospital recorded on the order communication form was manually transferred to charge vouchers. The order communication forms and the charge vouchers were then forwarded to the Business Office for input into the patient billing system.

###### Corrective Action & Current Response:

Management is in the process of reviewing the procedures to remove the redundancy. The current management of GMHA will implement corrective action in fiscal year 2005.

###### Current

Status: Corrective action is being addressed as part of management's task force efforts and is therefore unresolved.

##### Finding No. 2002-03—Cash Disbursements

Condition: For seven (7), or 6% out of 115 disbursements tested, it was noted that the payment request forms only had the Comptroller's signature and was missing the signature of the Hospital Administrator. A questioned cost of \$1,188,571 resulted from this condition.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2002 Audit Findings, Continued**

##### Finding No. 2002-03—Cash Disbursements, Continued

###### Corrective Action & Current Response:

Management will ensure that personnel in the related areas adhere to the GMHA Policies and Procedures. Management will also review the corresponding policy and procedure and revise if deemed necessary. The current management of GMHA will implement corrective action in fiscal year 2005.

Beginning April 2005, the Chief Financial Officer is not allowing the forwarding of disbursements without two required signatures.

###### Current

Status: This finding is considered unresolved as documentation was not provided to evidence that the request forms and checks were properly authorized.

##### Finding No. 2002-04—Operations: Payroll

Condition: For four (4), or 7% out of sixty (60) items tested, it was noted that the payment request forms for various payroll payables were not signed by the Hospital Administrator. The only signature present was from the Comptroller.

###### Corrective Action & Current Response:

Management will ensure that personnel in the related areas adhere to the GMHA Policies and Procedures. Management will also review the corresponding policy and procedure and revise if deemed necessary. The current Management of GMHA will implement corrective action in fiscal year 2005.

Beginning April 2005, the Chief Financial Officer is not allowing the forwarding of disbursements without two required signatures.

###### Current

Status: This finding is considered unresolved, as corrections made on the cited deficient documents were not provided for independent verification.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2002 Audit Findings, Continued**

##### Finding No. 2002-05—Personnel

**Condition:** For forty-seven (47), or 78% out of sixty (60) personnel files tested, there was no documentation of Drug Free Workplace Act Policy on file.

##### **Corrective Action & Current Response:**

The Personnel Department shall enforce the internal policies and procedure to ensure compliance. Completion of new hire processing shall be monitored and signed off by Personnel Specialist prior to the filing of personnel jacket and conduct periodic review.

The Random Drug Testing is scheduled for FY2006. The Personnel Administrator is reviewing the current Drug Free Workplace policy. The current policy requires some modifications and additions to the Test Designated Personnel listing. The Personnel Administrator is preparing a Request for Proposal for a Medical Review Officer (MRO) as the hospital does not have one in place at this time. Currently, positive test results are reviewed by the Guam Medical Examiner.

##### **Current**

**Status:** This finding is unresolved. A similar finding was cited in the current year as Finding No. 04-05.

##### Finding No. 2002-06—Payroll: Accrued Leave

**Condition:** For one (1), or 2% of sixty (60) personnel files tested, it was noted that there was no documentation to support remaining annual leave balance for employee in Radiology Department (Dept. No. 7630). A total of 378.30 hours of annual leave was donated as part of leave-sharing program. Out of the total hours accumulated, only 200 hours were accounted for after reviewing leave-sharing documentation. Therefore, there was no documentation to support the remaining 178.30 hours of leave-sharing.

##### **Corrective Action & Current Response:**

Management initiates procedures to prevent the overriding of the system of internal controls regarding accrued leave. Management will administer an audit procedure to audit annual leave balances by staff persons segregated from the payroll function. Furthermore, management will ensure that accrued leave is recorded correctly in the general ledger system. Lastly, efforts will be made to ensure that proper documentation for all leave requested will be filed accordingly.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2002 Audit Findings, Continued**

##### Finding No. 2002-06—Payroll: Accrued Leave, Continued

###### Current

Status: This finding is unresolved as the documentation for the leave hours being questioned was not provided due to lack of staff to retrieve the documents.

##### Finding No. 2002-07—Procurement: Sole Source Method

Condition: For one (1), or 3% out of thirty-five (35) purchase orders tested, it was noted that although the Hospital Administrator approved the purchase order (PO), there was no written justification on file to validate the reason for using the sole source method for PO #22000544 dated October 31, 2001 which totaled \$572,994.

###### Corrective Action & Current Response:

The supplies ordered on this purchase order were not interchangeable, and were equipment specific; therefore, this purchase order was required to continue the flow of supplies for the outgoing equipment, until the new equipment and supplies were in place. We should have cited the code to “extend an existing contract”, and not use the code for “Sole Source.” We have implemented a procedure to have several staff review the proper use of authorization codes to ensure that the appropriate code is cited in future.

###### Current

Status: This condition is considered resolved.

##### Finding No. 2002-09—Procurement

Condition: For four (4), or 11% out of thirty-five (35) purchase orders tested, it was noted that there was no documentation of vendor invoice and/or receiving report. Therefore, a questioned cost in the amount of \$26,177.24 resulted due from this condition.

###### Corrective Action & Current Response:

We will review and refine our receiving procedure to address receiving processes where Materials Management does not get notification of job performance by end users, or invoices from service provider upon work completion. The current Management of GMHA will implement corrective action in fiscal year 2005.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2002 Audit Findings, Continued**

##### Finding No. 2002-09—Procurement, Continued

Current

Status: This condition is considered resolved.

##### Finding No. 2002-10—Accounts Receivable

Condition: The accounts receivable subsidiary ledger was not reconciled to the general ledger on a monthly basis.

Corrective Action & Current Response:

Management is currently working to correct the possible misstatement in the Accounts Receivable. Management has promoted an Internal Auditor II to manage areas that directly affect GMHA's accounts receivables (i.e. Business Office, Medical Records and Patient Registration). Management reassigned job functions to staff persons, lacking knowledge of accounts receivable that may have contributed to the discrepancy noted. Management hired a Chief Financial Officer to aid in the correct presentation of accounts receivable and other major accounts in the GMHA financial statements. The current Management of GMHA will implement corrective action in fiscal year 2005.

The Management's Current Response is addressed in current year Finding No. 04-13 and prior year audit Finding No. 03-16.

Current

Status: This finding is considered unresolved.

##### Finding No. 2002-11—Accounts Receivable

Condition: The accounts receivable confirmations received from payors did not agree with subsidiary ledger summary report. Management was not able to reconcile the accounts to determine the correct balance.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2002 Audit Findings, Continued**

##### Finding No. 2002-11—Accounts Receivable, Continued

###### Corrective Action & Current Response:

Management is currently working to correct the possible misstatement in the Accounts Receivable. Management has promoted an Internal Auditor II to manage areas that directly affect GMHA's accounts receivables. Management will assign a staff person in accounting to conduct monthly reconciliations of the accounts receivable Subsidiary to the general ledger control account.

The Management's Current Response is addressed in current year Finding No. 04-13 and prior year audit Finding No. 03-16.

###### Current

Status: This finding is considered unresolved.

##### Finding No. 2002-12—Allowance for Bad Debts and Contractual Adjustments

Condition: As of September 30, 2002, the total allowance for bad debts and contractual adjustments with third party payors per general ledger did not agree to the subsidiary schedule.

###### Corrective Action & Current Response:

Management hired a Chief Financial Officer to aid in the correct presentation of accounts receivable and other major accounts in the GMHA financial statements. Management will conduct a historical and current analysis of bad debts and contractual adjustments to determine a reasonable allowance percentage.

The Management's Current Response is addressed in current year Finding No. 04-13 and prior year audit Finding No. 03-16.

###### Current

Status: This finding is considered unresolved.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2002 Audit Findings, Continued**

Finding No. 2002-13—Fund Balance/Net Assets

Condition: The beginning balance of the unrestricted fund balances did not agree to the audited financial statements as of September 30, 2001, the net difference of unposted entries being \$919,283.16. The variance was due to four prior year audit adjustments that were not posted to the beginning fund balance or to the subsequent fiscal year. Consequently, accounting personnel were not able to reconcile the general ledger to the audited financial statements.

Corrective Action & Current Response:

Management will ensure that personnel in the related areas adhere to the Government Accounting Standards Board (GASB) when recording journal entries to the fund balance account. Management will communicate to external auditors that the fund balance account balances to the adjusted trial balance provided upon completion of an audit.

Management will establish a policy and procedure regarding the recording of journal entries to the fund balance account. The current Management of GMHA will implement corrective action in fiscal year 2005.

The Chief Financial Officer has insured that all prior adjustments and current year accruals, adjustments and post closing adjustments are posted in a timely manner. This task was completed and submitted to the external auditors on June 17, 2005. The Chief Financial Officer reviews the Fund Balance account on a monthly basis.

Current  
Status: This finding is considered resolved.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2004

**2002 Audit Findings, Continued**

Finding No. 2002-14—Fixed Asset Register Reconciliation

Condition: Although immaterial, the fixed asset balances per the general ledger control account and fixed asset register were not reconciled as of September 30, 2002.

Corrective Action & Current Response:

Management will put policies and procedures into place to conduct monthly reconciliations of the fixed assets register to the general ledger control account. With the recent attrition of staff persons within accounting, management plans to hire a Fixed Asset Accountant. The current Management of GMHA will implement corrective action in fiscal year 2005.

The Management's Current Response is addressed in current year Finding No. 04-25 and prior year audit Finding No. 03-21.

Current

Status: This finding is considered unresolved.

Finding No. 2002-15—Accounts Payable

Condition: As of September 30, 2002, the accounts payable general ledger control account was not reconciled to the accounts payable subsidiary ledger.

Corrective Action & Current Response:

Management will put policies and procedures into place to conduct monthly reconciliations of the accounts payable subsidiary to the general ledger control account. The current Management of GMHA will implement corrective action in fiscal year 2005.

The Management's Current Response is addressed in current year Finding No. 04-25 and prior year audit Finding No. 03-21.

Current

Status: This finding is considered unresolved.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2002 Audit Findings, Continued**

##### Finding No. 2002-16—Notes Payable: Government of Guam Retirement Fund

**Condition:** As of September 30, 2002, GMHA outstanding liabilities on unpaid contributions with Government of Guam Retirement Fund totaled \$15,887,457 of which \$7,622,973 pertains to contributions in arrears prior to September 30, 2002, including interest and penalties approximating \$568,453, and a \$6,932,542 promissory note due on March 2003. GMHA defaulted to pay its obligation and the note has not been reconstructed. As of September 30, 2002, unpaid contributions for fiscal year 2002 payroll consisting of current and past due were \$1,331,942. GMHA currently does not have a new payment schedule agreement or promissory note on all of its outstanding liabilities with the Government of Guam Retirement Fund.

##### **Corrective Action, Current Response:**

Management sought financial assistance from the Guam Legislature under PL 28-38.

##### **Current**

**Status:** In June 2005, the Government of Guam Legislature issued Public 28-38 to authorize the Treasurer of Guam to make “interest only” payments of \$190,501 for the GMHA for their deficiencies to the Government of Guam Retirement Fund of \$16.8 million.

Pursuant to the Public Law 28-38, the “interest payments only” by the Treasurer of Guam on behalf of GMHA shall be made on the first day of the month following the enactment of Public Law 28-38, and every first day of every month thereafter, with grace period of no more than 10 days, through cash drawdown and shall continue within five years until the amount owed to GGRF is satisfied through the issuance of General Obligation Bond or alternate means. GMHA is required under the law to maintain current in the applicable fiscal year.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2002 Audit Findings, Continued**

##### Finding No. 2002-17—Contractual Allowances

**Condition:** GMHA lacks formal written internal control policies and procedures to evaluate reasonableness of contractual allowance estimates rates being applied to its third party payors.

##### **Corrective Action & Current Response:**

Management hired a Chief Financial Officer to aid in the correct presentation of accounts receivable and other major accounts in the GMHA financial statements. The current Management of GMHA will implement corrective action in fiscal year 2005. Furthermore, Management will conduct a historical and current analysis of bad debts and contractual adjustments to determine a reasonable allowance percentage.

The Management's Current Response is addressed in Finding No. 2003-16.

##### **Current**

**Status:** This finding is considered unresolved.

##### Finding No. 2002-18—Cash Management

**Condition:** Cash advances from Federal Emergency Management Agency (FEMA) received on November 1998 for public assistance for Typhoon Paka were expended beginning January 2002. The expenditures were for the repair of the backup chiller damaged by Typhoon Paka in 1998. There appears to be a prolonged period of time elapsed from the transfer date to the commencement of actual disbursements of funds.

##### **Corrective Action & Current Response:**

The remaining cost to complete the backup chiller project as of September 30, 2002 is \$558,374. The cash advance from FEMA in the amount of \$335,241 will offset this balance. Furthermore, Management will insure that personnel in the related areas adhere to the OMB Circular A-133 cash management requirements.

##### **Current**

**Status:** This finding is considered resolved. The temporarily restricted fund was released from restrictions upon the substantial completion of the Back-up chiller in September 30, 2004. The Back-up chiller became operational in October 2004.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2002 Audit Findings, Continued**

##### Finding No. 2002-19—Inventories

**Condition:** GMHA's general ledger control accounts of its inventories were not reconciled with the physical count as of September 30, 2002. The total inventory per general ledger was understated by \$93,670.89 due to this condition. However, an audit adjustment was made to the general ledger control account to agree balances to physical count as of September 30, 2002.

##### **Corrective Action & Current Response:**

Management will put policies and procedures into place to conduct monthly reconciliations of the Inventory Subsidiary to the General Ledger Control Account. The current Management of GMHA will implement corrective action in fiscal year 2005.

The Management's Current Response is addressed in Finding No. 2003-21.

##### **Current**

**Status:** A similar finding was cited in the current year as Finding No. 04-26 and 2003 Finding No. 2003-25. Therefore, this finding is considered unresolved.

##### Finding No. 2002-22—Safety Department: Patient Valuables in Safe Custody of GMHA

**Condition:** It was noted that four (or 20%) of the patient's valuable envelopes in safe custody of the hospital were found altered, and one (or 1%) had been sealed empty. Furthermore, envelopes had no controlling tags or numbers, nor embossed patient's addressograph card present in the valuable envelopes. GMHA had no written policy as to disposition of long unclaimed valuable envelopes in the safe custody of the hospital.

##### **Corrective Action & Current Response:**

Management is developing policies and procedures to establish internal controls against theft of patient valuables in the Patient Registration Department. The Assistant CFO and assistant audited the envelopes containing patient valuables not opened by the external auditors and ascertained that no additional valuables were missing. The current Management of GMHA will implement corrective action in fiscal year 2005.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2004

#### **2002 Audit Findings, Continued**

##### Finding No. 2002-22—Safety Department: Patient Valuables in Safe Custody of GMHA, Continued

###### Current

Status: This finding is considered unresolved until the full implementation of GMHA Plan of Corrective in fiscal year 2005.

##### Finding No. 2002-24—Inventory: Pharmaceuticals

Condition: During the observation of GMHA's physical count of its inventory, it was noted that syringes and hypodermic needles were located on bins in an exposed and unsecured area within the Material Management and Supplies warehouse. Additionally, we noted that other pharmaceuticals were stored behind a gate entrance, which could be easily assessed by climbing over the top of the gated entrance.

###### Corrective Action & Current Response:

At the time of this finding the pharmaceutical storage area in fact had several areas that need to be more secured. The situation has been addressed and all space that contains pharmaceutical or syringes have since been placed under lock and key. Pharmaceutical supplies have since been placed under the custody of Pharmacy Department, and are secured in a new location.

###### Current

Status: The finding is considered resolved.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

**SUMMARY OF UNRESOLVED QUESTIONED COSTS**  
**SEPTEMBER 30, 2004**

	<u>Beginning Questioned Costs</u>	<u>Costs Allowed</u>	<u>Costs Disallowed</u>	<u>Unresolved Questioned Costs</u>
Total unresolved questioned costs for fiscal year 2002	\$ 1,811,359	\$ 621,942	\$ -	\$ 1,189,417
Total unresolved questioned costs for fiscal year 2003	872,724	5,686	-	867,038
Questioned costs for fiscal year ending 2004	<u>682,771</u>	<u>-</u>	<u>-</u>	<u>682,771</u>
Total unresolved questioned costs At September 30, 2004	<u>\$ 3,366,854</u>	<u>\$ 627,628</u>	<u>\$ -</u>	<u>\$ 2,739,226</u>