GUAM MEMORIAL HOSPITAL AUTHORITY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE

FOR THE YEAR ENDED SEPTEMBER 30, 2007

J. Scott Magliari & COMPANY
CERTIFIED PUBLIC ACCOUNTANT

GUAM
P.O. BOX 12734 • TAMUNING, GUAM 96931
TEL: (671) 472-2680 • FAX: (671) 472-2686

SAIPAN
PMB 297 PPP BOX 10000 • SAIPAN, MP 96950
TEL: (670) 233-1837 • FAX: (670) 233-8214

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

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, 2007, and have issued my report thereon dated May 13, 2008. 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 as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GMHA's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of GMHA's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be *significant deficiencies or material weaknesses*. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects GMHA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of GMHA's financial statements that is more than inconsequential will not be prevented or detected by GMHA's internal control. I consider the deficiencies: 07-01 through 07-06 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by GMHA's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that Finding Numbers 07-01 through 07-06 of the significant deficiencies described above is a material weakness.

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 as Finding Numbers 07-01 through 07-06.

I noted certain matters that I reported to management of GMHA in a separate letter dated May 13, 2008. GMHA's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit GMHA's response and, accordingly, I express no opinion on it.

This report is intended for the information of the Board of Trustees and management of the Guam Memorial Hospital Authority, the Office of the Public Auditor of Guam, 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.

J. Scott Magliari & Company

Hagåtña, Guam
May 13, 2008

GUAM MEMORIAL HOSPITAL AUTHORITY

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARDS PROGRAM

FOR THE YEAR ENDED SEPTEMBER 30, 2007

J. Scott Magliari & COMPANY
CERTIFIED PUBLIC ACCOUNTANT

GUAM
P.O. BOX 12734 • TAMUNING, GUAM 96931
TEL: (671) 472-2680 • FAX: (671) 472-2686

SAIPAN
PMB 297 PPP BOX 10000 • SAIPAN, MP 96950
TEL: (670) 233-1837 • FAX: (670) 233-8214

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, 2007. GMHA's major federal programs are identified in the Summary of Auditor's Results section on page 72 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 Nonprofit 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.

In my opinion, 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, 2007. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding No. 07-06.

Internal Control Over Compliance

The management of GMHA is responsible for establishing and maintaining effective internal control over compliance with 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 the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the GMHA's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not be necessarily identify all deficiencies in GMHA's internal control that might be *significant deficiencies or material weaknesses* as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies and others that I consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects GMHA's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the GMHA's internal control. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding No. 07-06 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the GMHA's internal control. I did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The GMHA's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the GMHA's responses and, accordingly, I express no opinion on them.

Schedule of Expenditures of Federal Awards

I have audited the basic financial statements of GMHA as of and for the year ended September 30, 2007, and have issued my report thereon dated May 13, 2008. 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 68 is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of Guam Memorial Hospital Authority. 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 solely for the information of the Board of Trustees and management of the Guam Memorial Hospital Authority, the Office of the Public Auditor of Guam, 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 those specified parties.

J. Scott Magliari & Company

Hagåtña, Guam
May 13, 2008

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

Grantor/Pass-through Grantor/Program Title	CFDA Number	Program or Award Amount	Receivable from Grantor/ (Due to Grantor) 09/30/06	Deferred Balance/ Revenue FY 2007	Cash Receipts FY 2007	Expenditures FY 2007	Receivable and Deferred Balance/ (Due to Grantor) 09/30/07
U.S. Department of the Interior							
Passed Through the Government of Guam:							
Economic, Social, and Political Development of Territories and Freely Associated States:							
Compact Impact FY 2003-For facility repairs and equipments	15.875	1,355,000	$ 40,373	$ 96,826	$ (88,157)	$ 54,084	$ 103,126
Compact Impact FY 2004-For capital improvement and medical equipment	15.875	1,500,000	-	109,250	(143,883)	143,883	109,250
Compact Impact FY 2006- For medical equipment	15.875	2,478,986	-	506	(144,228)	211,534	67,812
Compact Impact FY 2006- For diabetes program	15.875	150,000	-	13,336	(94,709)	136,399	55,026
Compact Impact FY 2007- For pharmaceutical supplies and equipment	15.875	6,242,322	-	2,165,444	(4,076,877)	4,076,877	2,165,444
Compact Impact - Building Improvement Projects	15.875	1,815,000	-	1,815,000	-	-	1,815,000
		13,541,308	40,373	4,200,362	(4,547,854)	4,622,777	4,315,658
Technical Assistance Grant (MCI-11, Amendment 3) for GMHA's Financial Management Improvement Plan (FMIP)	MCI-11	250,000	164,101	-	(222,174)	58,073	-
U.S. Department of Interior Total		13,791,308	204,474	4,200,362	(4,770,028)	4,680,850	4,315,658
U.S. Department of Homeland Security							
Federal Emergency Management Agency (FEMA)							
Pass-through the Government of Guam:							
Hazard Mitigation Programs-Typhoon Pongsona (PW 5-1)	97.039	711,181	-	-	-	161,464	161,464
Hazard Mitigation Programs-Main lobby and front stairwell enclosure (PW 20)	97.039	1,359,553	-	1,136,496	-	87,102	1,223,598
Hazard Mitigation Programs-2nd floor wall hardening and window replacement (PW 27)	97.039	429,245	43,106	-	(387,174)	344,068	-
Public Assistance-Typhoon Pongsona (PW-5)	97.036	1,040,399	-	-	-	-	-
FEMA Total		3,540,378	43,106	1,136,496	(387,174)	592,634	1,385,062
U.S. Department of Health and Human Services							
Passed Through the Government of Guam:							
National Bioterrorism Hospital Preparedness Program							
Grant No. URH0C3852-01-03 (FY 2004)	93.889	738,414	-	-	(211,643)	211,643	-
Grant No. URHS05599-01-02 (FY 2005)	93.889	485,709	-	161,583	(82,342)	278,269	357,510
Grant No. UR3HS07604-01-01 (FY 2006)	93.889	491,833	-	384,326	(107,378)	107,507	384,455
Grant No. U3REP070061-01-01 (FY 2007)	93.889	457,390	-	457,390	-	-	457,390
U.S. Dept. of Health and Human Services Total		2,173,346	-	1,003,299	(401,363)	597,419	1,199,355
U.S. Department of Health and Human Services							
Passed Through the Government of Guam:							
Administration for Native American (ANA), Guam Medical Residency Program	41.51	293,000	35,895	-	-	-	35,895
Total Federal Awards Expended		$ 19,798,032	$ 283,475	$ 6,340,157	$ (5,558,566)	$ 5,870,903	$ 6,935,970

See accompanying notes to schedule of expenditures of federal awards.

(1) Source of Funding

The Guam Memorial Hospital Authority (GMHA), from time-to-time, is a subrecipient of Economic, Social and Politicial Development of the Territories (Compact Impact Fund) identified in the Catalog of Federal Domestic Assistance (CFDA) as number 15.875, funded by U.S. Department of the Interior, Hazard Mitigation Grant Program (CFDA No. 97.039) administered by the Guam Homeland Security/Office of Civil Defense and funded by the U.S. Federal Emergency Management Administration, and the National Bioterorism Hospital Preparedness Program (CFDA No. 93.889) funded by the U. S. Department of Health and Human Services. All these grants are passed through the Government of Guam are in the scope of the OMB Circular A-133 audit.

(2) Summary of Signficant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the grant activity of GMHA and is presented on the accrual basis of accounting. For purposes of this report, certain accounting procedures were followed which help illustrate the presentation of the federal cummulative amount of the grant award and federal funds received and disbursed. All program or award amount represent total allotment or grant awards received. All cash receipts relate to all cash received from the grantor agency and do not include matching funds from GMHA. All expenses and capital outlays are reported as expenditures. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations.*

B. Indirect Cost Allocation

The National Bioterrorim Hospital Preparedness Program allows upon prior approval, indirect cost allocation rate of 10% of certain administrative expenses to be charged against the grants.

(2) Summary of Signficant Accounting Policies, continued:

C. Matching Requirements

The allocation of matching requirements for project expenditures between the federal and local share is based on a specified percentage stated in the provision of the grant award, unless funds are specifically identified for a certain phase of the project.

D. Subrecipients

The GMHA administers Compact Impact grant funded by the U.S. Department of the Interior (CFDA No. 15.875) totaling $150,000 for the Diabetes Research Program. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how subrecipient outside the GMHA's control utilized those funds. Federal awards provided to subrecipients are treated as expenditures when paid to the subrecipient.

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, GMHA provided federal awards to subrecipient as follows:

Program Title	CFDA Number	Amount Provided to Subrecipient
Compact Impact Fund	15.875	$ 136,399

GUAM MEMORIAL HOSPITAL AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses were identified? __x__ yes _____ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? __x__ yes _____ none reported
- Noncompliance material to financial statements noted? _____ yes __x__ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes __x__ no
- Significant deficiency(ies) 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 an unqualified opinion.

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
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

SECTION II - SUMMARY OF AUDITOR'S RESULTS, Continued

Identification of major programs:

CFDA#	Description	Federal Expenditures
15.875	Economic, Social, and Political Development the Territories and the Freely Associated States	$ 4,622,777
97.039	Hazard Mitigation Grant Program	492,634
93.889	National Bioterrorism Hospital Preparedness Program	597,419
	Total major program expenditures	$ 5,712,830
	Total Federal expenditures	$ 5,870,903
	% of Federal expenditures tested as major	97%

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 07-01 through 07-06.

Reference Number	Findings
07-01	Patient Affairs Department - Medicare Billings with Medicare Legacy Identifiers (UPIN/PIN/NPI)
07-02	Timely evaluation and follow-up of Self-Pay patient accounts
07-03	Third-Part Payor's accounts receivable over 120 days old
07-04	Inventory in Pharmacy Department
07-05	Accounting Department- Prior and current year accrual, fixed assets physical to book adjustments, and post closing adjustments

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS, Continued

Reference Number	Findings
07-06	Accounting Department-Completeness in the presentation Of Schedule of Federal Awards Expenditures

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference Number	Findings	Questioned Costs
07-06	Accounting Department-Completeness in the presentation Of Schedule of Federal Awards Expenditures	$ -
	Total Questioned Costs	$ -

Finding No.: 07-01
Area: Patient Affairs Department - Medicare Billings with pending Medicare Legacy Identifiers (UPIN/PIN/NPI)
CFDA No.: N/A

Criteria:

The Centers for Medicare and Medicaid Services (CMS) requires all individuals and organizations who meet the definition of health care provider as described at 45 CFR 160.103 and bill Medicare for services are required to obtain a National Provider Identifier (NPI). Prior to May 23, 2007, Medicare billing for professional services rendered under Medicare require service providers to comply with the CMS Medicare Legacy Identifiers (Unique Physician Identification Number (UPIN) and Provider Identification Number (PIN)).

Condition:

GMHA have been incurring loss revenue from accounts receivable written for failure to comply with Medicare billing requirements for professional fees claims. The following is the five year annual trends of Accounts receivable written off for Medicare billings of professional fees:

Fiscal years ending September 30	Patient Number/ or Billing Count	Gross Professional Fees written-off
2007	4,468	$ 920,967
2006	3,685	599,338
2005	1,985	305,323
2004	3,142	365,692
2003	2,059	380,982
Total	15,339	$ 2,587,641

Of the $920,967 for Medicare professional billing charges pending compliance of NPI, $620,826 or $71% was attributed to 10 physicians, who are current and active Medicare service providers at the hospital. At September 30, 2007, four or these 10 physicians contributed approximately $530,306 in the above accumulation of receivable write off since 2004.

Finding No.: 07-01, continued
Area: Patient Affairs Department - Medicare Billings with pending Medicare Legacy Identifiers (UPIN/PIN/NPI)
CFDA No.: N/A

Context:

The condition above was noted during the analytical review of contractual write-offs of patient receivables.

Cause:

Various causes resulted to the above condition. The deficiencies of documentation/application generally were caused by:

- Physicians'/Medical staff incomplete/unavailable information;
- Delays in accessing physician's/medical staff's file from the department with direct contact;
- Physicians taking lengthy time in signing off on the applications; and
- Part-time physicians and off-island practitioners.

Effect:

GMHA is incurring losses from unbilled Medicare services and such is having a negative impact on the hospital's cash flows. Additionally, the potential exists for certain Medicare provider physicians to independently bill Medicare for their services rendered at GMHA. Unless GMHA becomes compliant with all Medicare billing requirements for professional services, write-off of this nature will continue and potentially increase.

Prior Year Status:

The condition above is a repeated finding of prior year.

Recommendation:

Management should develop written policies and procedures that specifically identify and the delegate the parties responsible for obtaining, completing, and credentialing applications and conduct timely follow up procedures to obtain all necessary information from medical staff and physicians to facilitate obtaining Medicare legacy identifiers needed to ensure Medicare professional services are properly completed and billed in accordance with 45 CFR 160.103.

Finding No.: 07-01, continued
Area: Patient Affairs Department - Medicare Billings with pending Medicare Legacy Identifiers (UPIN/PIN/NPI)
CFDA No.: N/A

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding. The Hospital provides the following background information in order to fully understand the nature of the finding. A Hospital bill consists of two components – the technical – medical supplies, room rates, other medical services (lab works, radiology services, rehab, and respiratory services) and the professional fee – physician fee such as the radiologist, Emergency Room physician services, Surgeon services, Anesthesiologist. The technical component is reimbursed on a perdiem basis while the professional component is reimbursed on the Medicare reimbursement scale for professional fees.

The Center for Medicare and Medicaid Services (CMS) has discontinued issuance of Unique Physician Identification Number (UPIN) since June 29, 2007. The National Provider Identifier (NPI) is the replacement for the UPIN. Medicare providers have until May 28, 2008 to obtain an NPI. The NPI serves as a form of Medicare identifier that is designed to follow the physician/other practitioner where ever they practice. It is awarded by the National Plan and Provider Enumeration System (NPPES).

The PIN acts as an identifier for the physician/other practitioner but is tied to the specific practice location. The Provider Identification Number (PIN) is a CMS requirement in order to bill for professional fees.

The Hospital has a period of eighteen (18) months from the date of service to bill for rendered medical services to qualified Medicare recipients. Any medical claims not billed within the eighteen (18) month allowable billing period cannot be submitted for reimbursement.

The requirement of both the PIN and NPI is only applicable to Medicare claims with professional fees for billing purposes.

For physicians/other practitioners who have never applied with Medicare, apply for a PIN is very stringent and rigorous process. The information provided on the application is cross referenced with data bases, such as the Social Security Administration, Drug Enforcement Agency, any deviations could result in further delay in the application process. Although the PIN and NPI is a CMS, the PIN is awarded by Noridian, provider for the professional portion of the claim. Noridian requires the provision of additional information outside the scope of the CMS 855R/CMS 855I (PIN application) (such as a copy of certified Guam medical license, certified proof of graduation from recognized medical institution, certified copy of divorce decree).

Finding No.: 07-01, continued
Area: Patient Affairs Department - Medicare Billings with pending Medicare Legacy Identifiers (UPIN/PIN/NPI)
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

The time period of receipt of the PIN for the physician is solely upon the discretion of Noridian. The Hospital understands the complex review process CMS must engage in prior to the issuance of the PIN or NPI. The rationale for the arduous application process is the preclusion of fraud. Also, the medical staff cannot apply for an NPI without first possessing a UPIN and or PIN.

The Hospital continues to work with existing privileged physicians/other practitioners to complete the appropriate PIN and/or NPI application. As for incoming physicians/other practitioners, the PIN/NPI application is a part of the credentialing application. Incoming physicians/other practitioners are also queried to determine if they already posses a NPI. The Medical Staff office has been assigned to work with the existing physicians/other practitioners and incoming physicians/other practitioners on ensuring 100% compliance.

It should be noted that the Hospital has made available computer terminals for physicians to apply on-line for an NPI at www.nppes.cms.hhs.gov/. Application of an NPI on line would result in obtaining an NPI within twenty four hours (24) as opposed to a paper application that, at a minimum would take three weeks.

Lastly, Medicare claims, containing both the technical and professional services/supplies, the devoid of the NPI and PIN does not prevent the reimbursement of the technical portion of the claim by CMS.

Finding No.: 07-01, continued
Area: Patient Affairs Department - Medicare Billings with pending Medicare Legacy Identifiers (UPIN/PIN/NPI)
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Hospital Privileged Physicians	-	To inform and provide NPI to the Hospital
	-	Fill out the appropriate CMS/NPI application on a timely basis and submit to the Medical Staff.
Medical Director	-	Communicate and work with noncompliant physicians in obtaining an NPI and/or PIN.
	-	Mandate noncompliant privileged physicians work towards obtaining and NPI and/or PIN.
	-	Work towards amending Hospital Medical Bylaws to require physicians to possess both an NPI and PIN as a part of being granted Hospital privileges.
Medical Staff	-	Include both the CMS 855R/CMS 855I and NPI application apart of the credentialing packet for new physicians.
	-	Submit completed PIN and NPI application to Patient Affairs.
	-	Provide NPI and PIN of privileged physicians to Billing Supervisor.
Billing Supervisor	-	Identify noncompliant physician(s) and work towards obtaining an NPI and or UPIN.
	-	Provide current and appropriate CMS applications.
	-	Compile and provide report of unbilled Medicare claims uto Chief Financial Officer, Medical Director, and Hospital Administrator on a quarterly basis.
	-	Provide data to Performance Improvement Committee as apart of Patient Affairs quarterly Performance Improvement report.

Finding No.: 07-01, continued
Area: Patient Affairs Department - Medicare Billings with pending Medicare Legacy Identifiers (UPIN/PIN/NPI)
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Business Office Manager	- Mail completed PIN and NPI applications to CMS. - Complete and provide CMS information as needed in the completion of the PIN and NPI application as requested by CMS. - Ensure unbilled Medicare claims are reported to non compliant physician, Medical Department Chairperson, Medical Director, Executive Medical Director, Chief Financial Officer, and Hospital Administrator on a monthly basis. - Ensure such unbillable Medicare claims are identified and written off when appropriate. - Develop policy and procedures that would govern the appropriate requirements of both PIN and NPI. - Upon approval of the policy, be responsible to monitor for compliance taking action as dictated in the approve policy. - Monitor and report to Performance Improvement Committee as apart of Patient Affairs quarterly Performance Improvement report the status of PIN/NPI compliance.

The Medical Director and Business Office Manager have been identified as the ultimate responsible Hospital personnel who will be working towards fully mitigating this repeat finding for the FY08 audit.

Finding No.: 07-02
Area: Timely evaluation and follow-up of Self-Pay patient accounts
CFDA No.: N/A

Criteria:

In accordance with existing GMHA policies and procedures outlined in 8530-1, the follow-up and evaluation of Self-Pay patient accounts should be done in an effective and timely manner.

Condition:

At September 30, 2007, the aging of current accounts receivable for Self-pay patient accounts receivable consists of numerous individual patient accounts outstanding over 120 days that represent potential write-offs in the near future as follows:

Self Pay receivable aged over 120 days	$ 35,703,344
% to total Self-pay patient receivable at September 30, 2007	80%

Additionally, the referral procedure to collection agencies for Self-pay patient accounts over 120 days was not performed during fiscal year 2007. At September 30, 2007, the analysis and evaluation of the Self pay patient receivable is as follows:

Self-pay patients receivable, 9/30/06	$ 48,208,645
Add: Current year Self-pay patient revenue	30,386,783
Total	78,595,428
Less: Self-pay collections during 2007	(6,188,807)
Collections from tax garnish	(2,069,602)
Bad debt referral and write-off adjustments	(26,026,002)
Self-Pay patient receivables, 9/30/07	44,311,017
Management estimated collectability based on historical analyis and existing conditions	(8,611,687)
Management estimated provision for uncollectability on Self-pay patients receivable	$ 35,699,330
% of provisions to total Self-pay patient receivable	80%

Finding No.: 07-02, continued
Area: Timely evaluation and follow-up of Self-Pay patient accounts
CFDA No.: N/A

Context:

The condition above was noted during the evaluation and analytical review of Self-pay patient accounts at September 30, 2007.

Cause:

There is a lack of internal controls and monitoring procedures for evaluating an collecting Self-pay patient accounts receivable in an efficient and timely manner. There were no executed contracts with the third-party collection agencies during fiscal year 2007. Additionally, insufficient patient billing information is obtained at the point of admission or prior to discharge to determine the patient's ability to pay via medical insurance coverage or alternative arrangements to ensure that medical services rendered by hospital are subsequently paid in a timely manner.

Effect:

The bad debt losses incurred for Self-pay patient accounts adversely impacted the operation of the hospital and management's objectives. The potential exists for a significant write-off that approximates the allowance for bad debts.

Prior Year Status:

The condition above is a repeated finding of prior year.

Recommendation:

GMHA should develop written policies and procedures to ensure that a reasonable repayment terms are agreed to between GMHA and self-pay patient prior to discharge and not at the end of billing process or long after the patient has left the Hospital, to minimize long-outstanding receivables. Sufficient patient billing information should obtained at the point of admission or prior to discharge to ensure that medical services rendered by hospital are subsequently paid in a timely manner.

Finding No.: 07-02, continued
Area: Timely evaluation and follow-up of Self-Pay patient accounts
CFDA No.: N/A

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding. The Hospital has utilized outside collection agencies and tax garnishment program which have proven to be effective to a point. The Hospital acknowledges the need to having to refine the existing referral process. The Hospital does realize the gravity of the increasing Self Pay accounts thus the urgency in implementing the following initiatives as illustrated in the corrective action plan to address our self pay patients. The auditors should find the initiatives to represent the beginning of internal controls to mitigate the finding in future audits. The Hospital plans to continuously review and make improvements based on monitoring by the Chief Financial Officer.

The Hospital in desiring to ensure all our patients receive the continued quality medical care has taken the following innovative measures. Traditionally, the Hospital has opted to begin the collection process at the "back" end of the billing process – long after the patient has left the Hospital. An interim bill is provided to the patient at the point of discharge and payment is requested. If the account is not paid in full at the point of discharge, the statement process (30, 60, & 90 day) is initiated. If the account is still not paid, the account is flagged for either tax garnishment or referral to a collection agency. Because of the volume of accounts the Business Office is responsible to review and analyze, the period between the receipt of the last statement and the flagging of account for tax garnishment or referral to a collection agency could well be over one (1) year from the date of service being rendered. It must be understood that the Hospital bills over $9 million worth of claims a month, close to $2 million, being Self Pay accounts. One can quickly do the math and the Hospital can easily see over $24 million of Self Pay accounts in one fiscal year. The Business Office has a staff of four (4) to review and analyze such accounts. Additional difficulties the Hospital has encountered in the collection process is incorrect patient demographics, old and invalid mailing address or contact phone numbers. These difficulties only serve to further reduce the viability of collecting on the bill and are beyond the control of the Hospital.

Realizing the need to "think outside of the box", the Hospital implemented the following innovative initiatives effective April 2008 that are geared towards collection at the "front" end of the billing process. Note that none of the initiatives involve the patient account being referred to tax garnishment or collection agency for further collection. The Hospital wishes to reserve such collection efforts as a last resort. The staff will instead focus immediate focus to remediate the outstanding claim directly with the patient before departing from the Hospital.

Finding No.: 07-02, continued
Area: Timely evaluation and follow-up of Self-Pay patient accounts
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

These initiatives are as follows:

1. The Hospital recognizes the need to refocus collection efforts from the traditional "tail end" to the beginning of the billing process. This fulfills the Hospital's obligation towards our patient and their right to know the total amount they are liable for as a result of the medical services provided at the point of discharge and not several months later.

2. Consolidation of collection staff. Previously, collection agents were situated in both Patient Registration and in Patient Affairs. Collection agents in Patient Registration were performing front end collection efforts while collection agents in Patient Affairs were performing back end collection efforts. Realizing the inefficiency of this setup, the collection agents from Patient Affairs were merged with the collection agents of Patient Registration resulting in the pooling of collection staff for front end collection efforts. The collection staffs are responsible to inform the patient of the pending charges, solicit the form of payment, and obtain payment at discharge. If this is not realized, there would be immediate follow up (day after discharge). During the collection call, the patient is informed of their total outstanding balance and not just that of the recent encounter at the Hospital.

3. Transfer of Data Entry staff. Following along the lines of front end collection efforts, the need for a complete and accurate bill at the time of discharge is a prerequisite. The Data Entry staff are now mobilized to fulfill this need. They work hand-in-hand with the collection agents for ensuring the completeness of the patient's bill.

4. The demands on Patient Registration staff to ensure the completeness and accuracy of the registration process is vital to the success of collecting from the patient. From obtaining the correct patient demographics, to identifying the correct and valid health insurance information, to ensuring the patient fills and understands all document involved in the registration process is entwined with the collection process. The Registration staff are the first people the patient encounters at the Hospital before proceeding to receive the medical services. Properly greeting the patient and delivering quality customer service during the registration process are intrinsic to the collection process.

Finding No.: 07-02, continued
Area: Timely evaluation and follow-up of Self-Pay patient accounts
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

5. Post Discharge Audit (PDA) of patient claims. This entails the utilization review of the patient claims during the four (4) day bill drop period. Presently, the Hospital has four (4) days to complete all billing requirements, inputting of all related patient charges, coding of medical records, and the provision of requested supporting medical documents. The Quality Management Department is responsible to review patient claims from a utilization position aimed at reducing the denial of the claim from the insurance provider, in other words, the Hospital is able to produce a "clean" claim. A clean claim is a true representation of the medical services/supplies as rendered to the patient during their encounter at the Hospital.

   The Hospital has instituted the PDA process in February 2008. The focus was initially with emergency room bills. The QM staff piloted the review of ED claims and has since focused on patient bills from the Operating Room. Billing and charging problems brought to light due to the PDA were reconciled with the ED supervisor. Such problems have since been resolved. Although QM has directed their focus on OR bills, there will be monitoring of the ED bills to ensure there has been no relapse of inappropriate billing and charging practices.

   The review was initiated with ED patient bills centered on volume of encounters at the ED. For FY08 (as with FY07), 60% of all encounters at the Hospital are through the ED. The review process resulted in the necessary changes in patient charge practices. The review process is now being focused on patient bills from the OR. OR was selected as the next area of Hospital generating departments due to the average amount a patient claims could easily amount to. One OR encounter can easily cost five thousand dollars and beyond, between the special supplies used, the surgeon(s), and the anesthesiologist.

   The challenge facing the Quality Management Administrator in continuing the PDA is the limited pool of quality review personnel on island. The department is under staffed by two (2). These professionals are highly sought after for recruitment by all health providers, insurance companies, clinics. The island only has so many and this staffs are often recruited to new employers based on their ability to offer higher wages. The Hospital is limited by the structure of the current Government of Guam Pay schedule and is unable to compete with the private sector. The Hospital recognizing the impact of issue of competitive compensation, it is currently being reviewed by both the Hospital's Human Resource department and the Board of Trustee Personnel Committee for possible resolution.

Finding No.: 07-02, continued
Area: Timely evaluation and follow-up of Self-Pay patient accounts
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

6. Continued collaboration with the Department of Public Health and Social Services in obtaining MIP and or MAP health coverage for qualified Self Pay patients. This is a program that was instituted over two years ago and has proven to be effective in reducing Self Pay financial class. Our patients are also able to utilize the MIP/MAP coverage obtained through the efforts of the Hospital at other qualified MIP/MAP health providers. The Hospital helps to identify possible candidates for the MIP and/or MAP program. The Hospital explains and at times, helps the patient to fill out the application. The patient submits the completed application to DPHSS. The Hospital assists in the follow-up. If obtained, the coverage information is applied to the applicable Hospital encounter (s). It should be noted that the MIP/MAP program is one that is solely administered by DPHSS. The Hospital merely serves as an intake point for the self-pay patient, providing the application and explaining the application process. The review and approval of the candidate for MIP and or MAP is exclusively determined by DPHSS.

7. The Hospital has reinforced its collection efforts of patients with insurance but possessing patient liabilities (the Hospital has termed these patients to be insured Self Pay). Work flow processes have been put into place to identify patient share and non-covered benefits based on the patient's health plan. This amount is duly relayed to the patient at the time of registration and the request is made as to how payment will be rendered. If the patient is unable to render payment, the patient is given the opportunity to render such payment at discharge. The patient is also given the opportunity to set up a payment agreement or payroll deduction.

Having all these procedures in place will help to start to focus on current collection of self pay patients and diminishing the need to refer to outside collection agencies or the use of the tax garnishment program. Patients are duly informed of their financial obligation and are given the opportunity to pay for such at the time of discharge. The likelihood of their credit rating being adversely affected by the Collection Agency or their tax refund being garnished would be reduced.

Finding No.: 07-02, continued
Area: Timely evaluation and follow-up of Self-Pay patient accounts
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Along with the above noted initiatives, the Chief Financial Officer is working on implementing the following that complements the Self Pay finding thus providing the much needed attention to existing Self Pay accounts:

1. Partitioning of Self Pay into True Self Pay (uninsured and not able to qualify for MIP and or MAP) and Insured Self Pay (patient share/deductible and non-covered benefits based on the patient's health insurance coverage). Dissecting the huge Self Pay category will help to Hospital in tailoring the appropriate collection effort accordingly.

2. Creating a policy identifying qualified patient accounts as "Charity Care" cases. Admittedly, this will take time to develop. The Hospital is consciously aware of the need to be careful in the creation of the policy and will work will the appropriate parties, DPHSS, CMS, other Hospitals to ensure that it is fair and equitable to the patient and the Hospital. The goal is to compile statistics on qualified Charity Care patient accounts for reimbursement from the Guam Legislature.

3. Enforcement of current and long term Accounts Receivable (AR). Accounts that aged two years or less will be classified as current AR. Accounts beyond the two year limit will be classified as long term AR and moved accordingly. If these accounts represent insurance claims, the account will be transferred to self pay and billed to the patient. If the accounts are already self pay, the accounts will be noted in the system for either tax garnishment or referral to a collection agency with the actual referral to occur no more than seven (7) business days.

Finding No.: 07-02, continued
Area: Timely evaluation and follow-up of Self-Pay patient accounts
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Responsible parties and expected deliverables:

Chief of Admission	-	Responsible to work with Registration staff in completion and accuracy of all patient registration processes.
	-	Identification of qualified charity cases in collaboration with the Collection Supervisor.
Program Coordinator II	-	Responsible to work with Collection Supervisor and supervise Data Control staff in the accomplishment of the above initiatives.
	-	Develop and implement policies and procedures designed to properly govern the collection and charge entry process.
Collection Supervisor	-	Responsible for implementation of the above initiatives, providing input as to the possible changes as needed to enhance the collection processes.
	-	Identification of qualified Charity cases in collaboration with the Chief of Admission.
	-	Compilation of qualified charity cases on a monthly bases to the Chief Financial Officer.
Data Control Supervisor	-	Responsible to ensure the completeness and accuracy of medical charges as represented in the patient's bill.
Quality Management Administrator	-	Responsible to continue (and possibly expansion) the Post Discharge Audit.

Finding No.: 07-02, continued
Area: Timely evaluation and follow-up of Self-Pay patient accounts
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Responsible parties and expected deliverables, continued:

Social Workers	-	Continued collaboration between the patient and DPHSS in securing MIP/MAP coverage for the Self Pay patient.
Chief Financial Officer	-	Oversee the proper and timely implementation of the above Self Pay initiatives amending as needed to satisfy patient and Hospital needs.
	-	Monitor, amend, add, and remove as needed the above listed initiatives.
	-	Presentation of qualified charity cases to the Board of Trustees for their acknowledgement.
	-	Compilation of the BOT acknowledged charity cases to the Guam Legislature for possible funding via appropriation.

The Hospital will do its due diligence to continue collection efforts up to and including referrals for tax garnishment to satisfy the patient obligation. Our patients (and third party payors) have a responsibility to reimburse the Hospital for services rendered. The policy-makers need to define the appropriate funding source to reimburse the Hospital for true charity case fulfilling the mandate to providing medical care to all.

Finding No.: 07-03
Area: Third-Party Payor's accounts receivable over 120 days old
CFDA No.: N/A

Criteria:

Pursuant to the Third-Party payor's contract with GMHA for establishing the payment due date, the Payer agrees to pay GMHA for all clean claims within forty-five (45) calendar days after confirmed receipt of the incurred billings. For disputed claims requiring an explanation of benefits, GMHA must meet with the payer within 90 days from the date of trasmittal of Request for Adjustment by the Payer and to GMHA. In no event may a claim be contested or denied for the lack of information that has no factual impact upon the payer's ability to adjudicate the claim.

Condition:

At September 30, 2007, the evaluation of the aging report for patient receivable due from the third-party payors disclosed a significant number of accounts outstanding over 120 days old and included accounts outstanding in excess of 18 months. At September 30, 2007, the third-party payor accounts outstanding in the current receivable with accounts aged over 120 days is as follows:

	Age over 120 days Outstanding in the Current Patient Receivable	Percent (%) to Total Third Party Payor Receivables at 09/30/07
Local Third-Party Payor	$ 2,292,580	4%
Medicare	3,725,973	8%
Medical Assistance Program (MAP)	7,132,850	15%
Medically Indigent Progarm (MIP)	6,147,965	13%
Commercial and other	4,904,805	10%
Total	$ 24,204,173	50%

Finding No.: 07-03, continued
Area: Third-Party Payor's accounts receivable over 120 days old
CFDA No.: N/A

Context:

The condition above was noted during the analytical review and evaluation of aging receivable report at September 30, 2007.

Cause:

The timely reconciliation with debtors to resolve these deficiencies are not performed regularly resulting to eventual write-off of accounts the debtors are not willing to pay. Outstanding and overdue Third-Party payer accounts receivable may be attributable to the following:

1. Deficiencies on providing Medicare Legacy identifiers;
2. Insufficient utilization review procedures prior to billing;
3. Billing errors;
4. Inadequate explanation of benefits;
5. Contested or disputed claims;
6. Charges outstanding beyond billing time frames; and
7. Claims returned and denied.

Effect:

The potential exist for material write-off of Third-Party payor accounts receivable and negative impact on the hospital's cash flows.

Prior Year Status:

The above finding is a reiterative condition of the prior year.

Finding No.: 07-03, continued
Area: Third-Party Payor's accounts receivable over 120 days old
CFDA No.: N/A

Recommendation:

GMHA should adopt internal control policies and procedures over monitoring and evaluating all delinquent receivables, and develop necessary controls to mitigate eventual write-off of delinquent patient accounts receivable. The collection of these receivables should be monitored on a monthly basis and followed up with the respective agencies to receive full or installment payments in a timely manner.

As part of management's monitoring efforts, the accounting department should start accumulating historical financial data on accounts written off relating to indigent/charitable care to assist its efforts setting up contractual adjustment rates for self-pay patients and seek subsidies from the government of Guam.

Efforts should be made to obtain sufficient patient billing information at the point of admission or prior to discharge to ensure that patient medical insurance covered benefits and uncovered (self-pay charges) are clearly identified by hospital for subsequent paid in a timely manner.

Utilization procedures should be performed in a timely manner and prior to submission actual billings to third-party payors to mitigate errors and denial of claims.

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding. The volume of patient billings generated on a monthly basis is substantial, with over $9 million a month in gross billings, (noting that the Hospital bills every work day) MIP and MAP billings represents over 15% of the total, local insurance representing a little less than 10%. Each payor has their own billing requirements.

The Hospital has been working on several corrective actions. First is transitioning towards electronic billing. The Hospital has the internal infrastructure as evident with Medicare that is 100% electronic, in terms of billing and receiving of payment. The Hospital is currently transmitting billings electronically to two local payors. Work has been underway with DPHSS to electronically transmit MIP and MAP claims. The importance of this would, of course, lend itself towards the Hospital being timely in its billing and reducing the cost of billing. The need to generate interim bills and billing protocol documents (UB04 and HCFA) would be removed. Lastly, there would be an electronic stamp authenticating receipt by the payor of the claims. To bring perspective to the importance of the capability of electronic billing, the current arrangement in order for the Hospital to be reimbursed by our payors is that the Hospital has to manually transmit the claims to these payors – literally having a staff drive to each of the payor's office to receive the claims.

Finding No.: 07-03, continued
Area: Third-Party Payor's accounts receivable over 120 days old
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

In addition to the Hospital striving towards 100% electronic transmission of claims, the Hospital has established scanning of supporting medical documents. The payor requires certain level of medical documents in order to substantiate patient charges as asserted by the Hospital (this is called utilization review). The payor will not process a claim until all such medical documents are provided. The Hospital is able to scan the required medical documents to a secure website which is accessible to the particular payor. This feature reduces the possibility that the payor can deny payment on the claim for lack of supporting medical documentation. This should be highlighted as a direct benefit to the payors. Prior practice required the payor's utilization review staff to review the patient's chart at the Hospital. With this feature, the payor does not have their staff at the Hospital to review the claim. They can be situated at their office. It should be conversely highlighted that this places the burden is on the Hospital to scan the documents to the payors.

The Hospital is committed to calling for regular reconciliation sessions with our payors. Meeting on the status of unpaid bills, coming to a clear understanding as to why payment has not been rendered has been occurring since the early 2006. For the aged outstanding claims, the Hospital is committed to working to bring equitable closure to such accounts. The Hospital has been working with the insurance companies in identifying what is patient share, non-covered benefits, contractual allowance, with the remaining portion being what is due to the Hospital.

Realizing the need to be proactive, the Hospital is working to bill on a net basis – bill to the payors what they are responsible for – which is less patient share, non-covered benefits, and contractual adjustment. This non-traditional stance of billing will be beneficial to the Hospital in terms of improving cash flow. The patient would also benefit from this move. Currently the patient is billed after their insurance company renders payment noting that time frame in which payment is rendered by the insurance company is inconsistent. Upon receipt of payment, the patient's share, non-covered benefit, and the portion of the claim identified as denied is eventually billed to the patient. When the Hospital is capable of identifying those criteria prior to the bill being transmitted, it will better serve our patients and payors.

Finding No.: 07-03, continued
Area: Third-Party Payor's accounts receivable over 120 days old
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Responsible parties and expected deliverables:

Business Office Manager	-	Responsible to begin and implement the review process of the Hospital's AR.
	-	Generate, implement, and effectuate the necessary policies and procedures required to maintain the results of the review process.
	-	Work with all parties, Hospital employees, payors, patients in educating and monitoring for compliance of approved policies and procedures.
Hospital MIS Manager	-	Work with Hospital's Information System provider in attaining the ability to generate Net AR claims.
	-	Work with Hospital's Information System provider and payors in attaining the ability to electronically transmit Hospital claims within in the guidelines of HIPAA.
Billing Supervisor	-	Work with MIS Manager in attaining Net AR capabilitity.
	-	Work with MIS Manager in attaining the ability and payors in attaining the ability to electronically transmit Hospital claims within in the guidelines of HIPAA.
Medical Records Administrator	-	Work with payors in ensuring the continued provision of required medical documentation for billing purposes.
Accounting Technician Supervisor	-	Continues regular reconciliation sessions with the payors in reaching an equitable understanding of outstanding AR accounts.
Chief Financial Officer-	-	Responsible to ensure the timely execution of the above corrective action plan, amending when necessary in order to remediate the finding.

Finding No.: 07-04
Area: Inventory in Pharmacy Department
CFDA No.: N/A

Criteria:

Perpetual inventory records should, at all times reflect the total inventory quantity on-hand. A reconciliation of inventory balances between the general ledger and subsidiary ledgers should be performed regularly and discrepancies, if any, should be investigated.

Condition:

The hospital increased the pharmaceutical inventory general ledger control account by $870,165 to reconcile and record an inventory adjustment based on the physical count conducted at September 30, 2007.

Except for the controlled drugs maintained in the manual record, GMHA does not have a formal monitoring and recording system whether manual or computerized that would ensure that all movement in inventory in the Pharmacy Department are recorded timely.

Although physical count was performed at year-end and the general ledger balance was adjusted to reflect the actual count, detailed reconciliation and investigation of differences was not performed due to the absence of a reliable perpetual inventory records.

Context:

The above condition was noted during observation of the fiscal year 2007 physical count at the Pharmacy Department related pharmaceutical inventory locations.

Cause:

There is no written internal control and procedures outlining the control over Pharmacy Department pharmaceutical drugs and inventories. The hospital automated system does not adequately track the movement of pharmaceutical inventory from the Material Management Department to the Pharmacy Department and to the Nurse Ward. When inventory is transferred from the Materials Management Department to the Pharmacy Department and the Nursing Stations, the automated accounting system records an expense rather than a transfer until the pharmaceuticals are actually dispensed. Consequently, there is no software interface to properly transfer pharmaceutical inventory within the hospital and properly account for its movement absent of maintaining a perpetual inventory or by conducting periodic physical inventories.

Finding No.: 07-04, continued
Area: Inventory in Pharmacy Department
CFDA No.: N/A

Effect:

Actual pharmaceuticals inventory on-hand at a certain date could not immediately be determinable. The potential exists for the misappropriation of assets and not be prevented or detected in timely manner.

Prior Year Status:

The above condition was cited as a finding in the prior year audits 2005 through 2006.

Recommendation:

GMHA should contact its software vendor and obtain the proper interface for its inventory module and develop and implement procedures for controlling pharmacy inventories located in the pharmacy departments to ensure the following:

1. Record drugs transferred from the Pharmacy Warehouse (Materials Management) in inventory records.

2. Record drugs transferred to various floors (divisions) of the Hospital maintain drugs and pharmaceutical inventory.

3. Record drugs dispensed in inventory records

4. Physically control drugs on-hand including all floors.

5. Periodically count inventory items and compare those counts to recorded amounts.

Finding No.: 07-04, continued
Area: Inventory in Pharmacy Department
CFDA No.: N/A

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding. Maintaining satisfactory pharmaceutical levels is essential to the continued operations of the Hospital and the delivery of the quality medical care. The Hospital also has the fiduciary responsibility to ensure the protection of government procured property. The Hospital has directed both the Pharmacy Director and Materials Management Administrator to develop policies and procedures to document the proper internal controls addressing the concerns listed above working with the Nursing Services Administrator in response to the Nurse's expected responsibilities. The Hospital also will be scheduling its annual inventory of pharmaceuticals for the fiscal year as a part of its internal control of pharmaceuticals. The Hospital is in the process of recruiting for an internal auditor in FY08. This incumbent will be responsible to develop a comprehensive and all-inclusive corrective plan of the proper and timely handling of the Hospital's pharmaceuticals. Until such time, the Materials Management Administrator, Pharmacy Director, and Nursing Services Administrator will be working on refining existing inventory control processes.

The Hospital has begun to address the internal control problem initiated by a prototype program with the transportation of pharmaceuticals to SNU. The Pharmacy department makes a listing of pharmaceuticals for transporting to SNU. The pharmaceuticals are locked for transportation. A nurse from SNU is responsible to review, verify, and confirm the pharmaceuticals. The purpose is to isolate any root cause of any possible internal control issues. Pharmacy is responsible to monitor the prototype program for progress.

Responsible parties and expected deliverables:

Pharmacy Director	- Develop and implementation of policies and procedures in the proper handling and dispensing of pharmaceuticals within the Pharmacy department, from Materials Management, and to the patient wards in collaboration with the Materials Management Director and Nursing Services Administrator. - Ensure the complete and timely execution of the annual pharmaceutical inventory. - Work with the auditor in developing and implementing the corrective action addressing internal controls of Pharmaceuticals.

Finding No.: 07-04, continued
Area: Inventory in Pharmacy Department
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Materials Management Director	-	Develop and implementation of policies and procedures in the proper handling and dispensing of pharmaceuticals within the Pharmacy department, from Materials Management, and to the patient wards in collaboration with the Pharmacy Director and Nursing Services Administrator.
	-	Work with the Pharmacy Director ensuring the complete and timely execution of the inventory of pharmaceuticals.
	-	Work with the auditor in developing and implementing the corrective action addressing internal controls of Pharmaceuticals.
Chief Financial Officer	-	Recruitment of an auditor to help address this finding.
	-	Work with the auditor in developing and implementing the corrective action addressing internal controls of Pharmaceuticals.
Internal Auditor	-	Responsible to develop and implement a comprehensive plan of action to address the deficient internal controls surrounding the proper management of pharmacy.

Finding No.: **07-05**
Area: **Accounting Department-Prior and current year accruals, fixed assets physical count to book adjustments and post closing adjustments**
CFDA No. **N/A**

Criteria:

Generally accepted accounting principles requires financial statements be presented free of material misstatement, and fairly present the Company's financial position and results of operations.

Condition:

At September 30, 2007, the fixed asset adjustment reconcile to physical count to the general ledger; certain accrual adjustments; and reconciling entries on federal awards program expenditures; and certain prior year audit adjustments were not included and posted in the financial statements and trial balance provided to the auditor. Therefore, the beginning net asset was not reconciled to the audited net assets at fiscal year end September 30, 2006.

Context:

The above condition was noted during application of audit procedures on various financial statement accounts at September 30, 2007.

Cause:

The Accounting Department is not recording accounting entries in a timely manner.

Effect:

The accumulated net effect of these provided bookkeeping and correcting entries and the proposed audit adjustments resulted in a decrease in net assets of $2,540,508, an increase in revenues and expenses by $5,472,226, and an increase in the beginning unrestricted net assets of $1,275,883 which from an adjustment to the fixed assets reconciliation adjustments of book to physical count at September 30, 2007.

Finding No.: **07-05, continued**
Area: **Accounting Department-Prior and current year accruals, fixed assets physical count to book adjustments and post closing adjustments**
CFDA No. **N/A**

Recommendation:

To ensure effective completion of the annual year-end closing procedures and that the overall reporting timetables are met, formal month-end and year-end and closing procedures and related accounting practices should be developed and included in a separate accounting standard operating procedures manual. These instructions should include the following matters:

1. The purpose of all closing procedures.
2. Timetables outlining appropriate due dates.
3. Sample formats.
4. Instructions for schedules to be prepared.
5. Identification of recurring and posting closing adjusting journal entries.

The timetable for year-end closing should cover the period beginning with the preparation for pre-audit meetings and physical inventories through the completion of the data required for the financial statements. The manual also should include a chronological listing of the original due dates for the item required and notation of actual dates on which the item is completed. Such information will aid in the corporate and divisional personnel's review of the information and timely follow-up of matters questioned.

Finding No.: **07-05, continued**
Area: **Accounting Department-Prior and current year accruals, fixed assets physical count to book adjustments and post closing adjustments**
CFDA No. **N/A**

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding and does not expect this to be a repeat finding in the future. Moving forward, the Hospital's financial statements have been generated to reflect the correct balances. There is a process in place for the proper and timely handling of the closing and adjusting journal entries. The General Accounting Supervisor has been identified as being responsible to remediate the finding.

Responsible parties and expected deliverables:

General Accounting Supervisor	-	Receive the closing and adjusting entries ensued from the year end audit from the auditors.
	-	Enter and reconcile the before and after account balances.
	-	Generate financial statements that reflect the new audit account balances reconciling to the auditor's final financial statements.
Chief Financial Officer	-	Oversee the reconciliation process resulting from the closing and adjusting entries.
	-	Ensure the Hospital's financial statement reflect the all the closing and adjusting journal entries.

Finding No.: **07-06**
Area: **Accounting Department-Completeness in the presentation of the Schedule of Expenditures of Federal Awards**
CFDA No. **97.039, 93.889 and 15.875**

Criteria:

The Office of Management and Budget (OMB) Circular A-133 requires a grantee establish and maintain internal controls and a financial management system to ensure that all federal awards received and expended are properly accounted for.

Condition:

At September 30, 2007, the GMHA's provided schedule of federal awards expenditures did not include the following federal program expenditures:

	Program Expenditures during FY 2007
• FEMA hazard mitigation PW-5-1 activities, net of 10% matching requirement	$ 161,464
• National Bio-Terrorism Hospital Preparedness Program	142,195
• Compact Impact 2006	108,996
	$ 412,655

Context:

The above condition was noted during scanning of subsequent requests of reimbursements to grantor agency, scanning of subsequent federal receipts, and review of subsequent status reports.

Cause:

The Schedule of Expenditures of Federal Awards provided by the Accounting Department was prepared on a cash basis.

Finding No.: **07-06, continued**
Area: **Accounting Department-Completeness in the presentation of the Schedule of Expenditures of Federal Awards**
CFDA No. **97.039, 93.889 and 15.875**

Effect:

An audit adjustment was proposed to present the Expenditures of Federal Awards on an accrual basis.

Recommendation:

The Federal Award Coordinator is responsible in providing adequate documentation of expenditures pending reimbursement requests at a cut-off period to the Accounting Department for proper accrual in the financial statements. The monitoring and determination of when an award is expended is the responsibility of the Federal Award Coordinator and should communicated to the Accounting department in writing and supporting schedules, detailing expenditures, drawdown and any pending drawdowns, in a timely manner. This would allow the Accounting Department to ascertain control over completeness of Federal Award expenditures recorded in the financial statements.

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding. Communication has been established between the Planning Department and Accounting Department in the capturing expended expenditures and the accrual of yet to be expended expenditures for all federally funded programs. A monthly report is being exchanged between the two departments delineating between the two expenditure categories. This corrective action should completely remediate the finding thus it is not expected to be repeated in the FY08 audit.

Finding No.: **07-06, continued**
Area: **Accounting Department-Completeness in the presentation of the Schedule of Expenditures of Federal Awards**
CFDA No. **97.039, 93.889 and 15.875**

Responsible parties and expected deliverables:

Chief Planner	-	Monthly provision of expenditure schedule for all federally funded programs to the General Accounting Supervisor.
General Accounting Supervisor	-	Reconciliation of the expenditure schedule, working with the Chief Planner as needed.
	-	Reflection of expended and accrued expenditures of federally funded program in the financial statements.
	-	Generate financial statements that reflect the correct allocation of expended expenditures and accrual in financial statements.
Chief Financial Officer	-	Oversee and ensure the financial statement reflect the proper presentation of federally funded expenditures.

GUAM MEMORIAL HOSPITAL AUTHORITY

SUMMARY SCHEDULE OF UNRESOLVED PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Summary Schedule of Unresolved Prior Year Audit Findings
Arising from Prior Year Single Audits
Year Ended September 30, 2007

Auditor Reference	Auditee Response
2006 Audit Findings	
Finding No. 06-13	This finding was corrected in the current year. The Hospital has successfully conducted and completed a physical inventory of all of its fixed assets (locally and federally procured). The Board of Trustees adopted a board resolution that acknowledges and authorizes the need for a one time adjustment to the Hospital's financials that is reflective of the results of the physical inventory conducted.
Finding No. 06-16	This finding was corrected in the current year. Auditor's response: The known questioned costs of $195,943 on this finding remain unresolved.
Finding No. 06-17	This finding was corrected in the current year. The Hospital has worked diligently to this finding. At the same time, the Hospital does contend, and will continue to contend, that it is beyond the control of the Hospital if the vendor does not deposit payment within the time frame indicated with the auditor's standards. The Hospital has refined its disbursement process ensuring that checks are generated upon the securing of funds improving the Hospital's ability to remove the finding. The Hospital shall also make it a practice to request of federal vendors the EFT disbursing status. This should help to minimize delays.
Finding No. 06-18	This finding was corrected in the current year.
Finding No. 06-19	This finding was corrected in the current year. The Hospital conducted its first random drug testing in September 2007 within the specification of Hospital policies and procedures. Random drug testing is scheduled to occur every quarter or four (4) times a fiscal year. GMHA's Human Resource is scheduling two (2) random drug testing (for 1st and 2nd quarter of FY2008) with a scheduled completion date of April 30th.

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Summary Schedule of Unresolved Prior Year Audit Findings
Arising from Prior Year Single Audits
Year Ended September 30, 2007

Auditor Reference	Auditee Response
2005 Audit Findings	
Finding No. 05-11	This finding was corrected in the current year.
Finding No. 05-18	The Hospital believes the finding is no longer valid or does not warrant further action because of the following reasons: (i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse; (ii) The Federal Agency or pass-through entity is not currently following up with the auditee on the audit finding; and (iii) A management decision was not issued.
Finding No. 05-19	The Hospital believes this finding no longer warrants further action because of the same reasons stated in the Finding No. 05-18. The Hospital did follow up with both the Department of Administration and Bureau of Management and Research to determine if there was correspondence received from the grantor (Department of Interior) on the status of the federal question costs. To date, both the Government of Guam entities are unaware of such correspondence from the grantor.
Finding No. 05-20	This finding was corrected in the current year.
Finding No. 05-21	This finding was corrected in the current year. The Hospital conducted its first random drug testing in September 2007 within the specification of Hospital policies and procedures. Random drug testing is scheduled to occur every quarter or four (4) times a fiscal year. GMHA's Human Resource is scheduling two (2) random drug testing (for 1st and 2nd quarter of FY2008) with a scheduled completion date of April 30th.

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Summary Schedule of Unresolved Prior Year Audit Findings
Arising from Prior Year Single Audits
Year Ended September 30, 2007

Auditor Reference	Auditee Response

2005 Audit Findings, continued

Finding No. 05-22 — This finding was corrected in the current year.

2004 Audit Findings

Finding No. 04-34 — The Hospital believes the finding is no longer valid or does not warrant further action because of the following reasons:

(i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse;
(ii) The Federal Agency or pass-through entity is not currently following up with the auditee on the audit finding; and
(iii) A management decision was not issued.

The Hospital did follow up with both the Department of Administration and Bureau of Management and Research to determine if there was correspondence received from the grantor (Department of Interior) on the status of the federal question costs. To date, both the Government of Guam entities are unaware of such correspondence from the grantor. The Hospital believes this finding no longer warrants further action because of the same reasons stated above.

Finding No. 04-35 — This finding is resolved. As to the question costs of this finding, the Hospital believes this finding no longer valid or does not warrant further action because of the same reasons set forth in Finding No. 04-34.

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SUMMARY OF UNRESOLVED QUESTIONED COSTS
SEPTEMBER 30, 2007

	Questioned Costs	Costs Allowed	Costs Disallowed	Unresolved Questioned Costs
Total unresolved questioned costs for fiscal year 2002	$ 1,189,417	$ 1,189,417	$ -	$ -
Total unresolved questioned costs for fiscal year 2003	867,038	848,577	-	18,461
Total unresolved questioned costs for fiscal year 2004	671,975	276,823	-	395,152
Total unresolved questioned costs for fiscal year 2005	1,072,178	-	-	1,072,178
Total unresolved questioned costs for fiscal year 2006	607,789	411,846	-	195,943
Questioned costs for fiscal year ending 2007	-	-	-	-
Total unresolved questioned costs At September 30, 2007	$ 4,408,397	$ 2,726,663	$ -	$ 1,681,734