

GUAM MEMORIAL HOSPITAL AUTHORITY

Management Letter

For The Year Ended September 30, 2006

March 23, 2007

To the Board of Trustees
Guam Memorial Hospital Authority

In planning and performing our audit of the financial statements of Guam Memorial Hospital Authority (GMHA) for the year ended September 30, 2006, on which we have issued our report dated March 23, 2007, we developed the following recommendations concerning matters related to its internal control. Our comments and recommendations are summarized below:

Patient Affairs – Back up for Checks collection by mail log sheet

Comment:

The daily report of collections received by mail on March 22, 2006 was not on file and there was no copy for back up.

Recommendation:

GMHA should strictly enforce its internal control over the daily report of collection by mail and ensure that all collections by mail are properly documented and accounted for.

Cash Disbursements and Electronic Bill Paying Process

Comment:

Electronic fund transfer (EFT) payments are not properly approved or monitored prior to actual payment and no reports are generated to reflect such transactions for independent verification and monitoring for internal control purposes. The Accounting Department is able to use its Cash Management System electronic fund transfer via internet with the daily maximum limit set at \$500,000.

Recommendation:

A control list should be prepared and approved for all EFT's prior to payment when using the Cash Management System. There are significant benefits using EFT process; however, effective internal control policies and procedures have not been fully developed and properly documented. GMHA should establish written internal control policies and procedures over electronic bill-paying process which should include a listing of approved vendors to be paid via EFT.

Payroll Cash Transfers

Comment:

A cash transfer to the hospital's payroll account for the pay period ended May 27, 2006 was over-transferred by \$58,650. The correction and adjustment did not occur until the fiscal year ended September 30, 2006.

Recommendation:

All cash transfers should be closely monitored for accuracy and properly approved. Accounts should be analyzed, reconciled and independently reviewed in a timely manner.

Cash Disbursements

Comment:

Check #105717 for \$100.00 to an employee for an award. This payment was not properly recorded in the general ledger. Accounting Department did not set up the proper account for award expense.

Recommendation:

The General Account Supervisor should establish the proper account for award expense and set up in the system for posting to the general ledger.

Procurement: Acknowledgement Receipt of Purchase Orders

Comment:

There was no acknowledgement receipt of purchase orders from the vendors on file for twenty PO's. Based on our inquiries, the buyers often prepare the Purchase Orders (PO) and faxed them to vendors. The fax is simply placed in the vendor's PO jacket.

Recommendation:

Pursuant to the compliance of procurement requirement process, vendors must sign and acknowledge receipt of PO and such should be documented in the vendor PO jacket. Consequently, the Material Management Department should adhere to its procurement policies and procedures.

Procurement: Purchase Order Jacket

Comment:

The Material Management Department was not able to provide PO #26001008 for Vendor No.7424 for testing, as the PO Jacket could not be located. In addition, PO #26000460 awarded to vendor no. 8724 for radiology services rendered during October 2005 was not in PO Jacket.

Recommendation:

The Supervisor of Material Management Department in conjunction with buyers should prepare a log book to control all PO jackets and ensure that all documentation related to procurement process are properly maintained and on-file for independent verification.

Accounting Department - Unbilled Purchase Order Receipts Reconciliation

Comment:

The general ledger control account for unbilled purchase orders is not periodically or properly reconciled to the actual unbilled receiving report. Numerous pharmaceutical purchases received were not properly referenced to receiving documents such as a packing slip, delivery receipt or any evidence of receipt of goods. Consequently, the matching of invoices by the Accounting Department would be virtually impossible or extremely time consuming.

In addition, various purchase orders paid during the year still appeared as open PO's in the Purchase Order receiving module. The accounting system was overridden and vendor' invoices were entered directly in the accounts payable system without proper receiving by the Materials Management.

Recommendation:

Internal control policies and procedures should be established and implemented to ensure the proper and timely reconciliation of general control account for unbilled purchase orders to the Materials Management receiving report. The accounts payable clerk should review the file of unmatched receiving reports on a monthly basis.

Payroll Department – Employee's Personnel Filing System

Comment:

Current and updated Form W-4 and the other deduction documents are not properly maintained in employee personnel files. Deduction authorization forms and Form W-4 are documented by the Payroll Department but are not properly organized or systematically filed for easy retrieval. The deduction forms are filed by pay-period rather than maintaining a control copy by employee or placed in employee personnel files.

Recommendation:

Management should systematically review all personnel folders to ensure all required deduction authorization forms and related documentation is up-to-date and on-file and conduct periodic inspections thereafter.

Payroll Department – Accrued Leave

Comment:

The accrued leave hours did not agree to the Leave Report as of September 30, 2006, and documents to substantiate the difference were not provided for the following:

<u>Employee Number</u>	<u>Pay Rate</u>	<u>Per Audit Recalculated Accrued Leave Hours</u>	<u>Per Leave Report</u>	<u>Hours Difference</u>	<u>Amount</u>
1. 661095	35.37	529	519	10	\$ 350.37
2. 947667	28.79	463	490	(27)	(777.33)
3. 947953	11.02	326	330	(4)	(44.08)
4. 604725	13.16	350	330	20	263.20
5. 893900	17.10	364	368	(4)	(68.40)
6. 107780	35.37	564	560	4	141.48
7. 948034	24.82	480	489	(9)	(223.38)
8. 948011	24.82	204	216	(12)	(297.84)
9. 266959	39.61	792	597	195	7,723.95
10. 533861	17.10	328	320	8	136.80
11. 947920	11.02	326	330	(4)	(44.08)
12. 947592	33.16	486	420	66	2,188.56
13. 80221	16.55	338	418	(80)	(1,324.00)
14. 719118	17.12	288	315	(27)	(462.24)
15. 333935	12.87	434	438	(4)	(51.48)
16. 497045	39.61	445	488	(43)	<u>(1,703.23)</u>
Total					<u>\$5,808.30</u>

Recommendation:

The above discrepancies should be investigated and adjusted as necessary by the Payroll Department. All supporting authorized leave form documentation should be provided to and recorded the Payroll Department in a timely manner and prior to payment.

Travel Authorizations

Comment:

Based on our audit procedures performed on travel authorizations (TA), the following were noted:

1. Three price quotations were not obtained for TA 08-06.
2. For twelve (12) TA's tested, the required itinerary report was not submitted within the stated period required under the GMHA's travel policy. The actual submission date ranged from being 15 to 176 days late.
3. The boarding pass was not file for TA 41-06.
4. The supporting hotel accommodation reservation or invoice was not submitted for TA 56-06. It appeared that the traveler did not stay at the hotel and stay with friend or relative instead. The per diem including hotel and meals was paid for \$249 a day.
5. The request for travel was submitted but no written approval or authorization by the Hospital Administrator was on file for independent verification for TA 03-06.
6. Seven TA request were not submitted to Fiscal Services for review and check process within 30 working days prior to travel date.
7. Traveler of TA 38-06 was improperly paid by 15% certification pay on its 80 hours administrative leave. Certification pay should only be applied on regular hours work.

Recommendation:

GMHA should strictly enforce its employees to comply with the Hospital's policies and procedures on travel requests.

Accounting Department - Withholding tax remittances

Comment:

GMHA did not remit its withholding taxes to Guam Department of Revenue and Taxation in a timely manner during fiscal year 2006. Consequently, the Hospital incurred estimated penalties and interests of \$131,344 for the 3rd quarter period ended September 30, 2006.

Recommendation:

All withholding tax payments should be remitted in a timely manner to avoid penalties and interest charges.

Laundry Services – Linen loss Payment

Comment:

There are no standard operating procedures for controlling the loss of linen. We noted that the contractor and a representative of GMHA conduct the monthly physical count, and then the contractor will take the physical count report and reconcile the linen losses and damages at their office. Upon the determination of the losses, an invoice along with the monthly rental charges is sent to GMHA for payment. The contractor's monthly inventory report reconciliation worksheet is not signed by both parties (Contractor and GMHA Laundry Personnel) signifying review and approval. At September 30, 2006, the charges of linen losses and damages was \$87,436 (net of \$96,919 of loss credits), or 16% of the total invoice billings.

Recommendation:

GMHA should establish written internal control policy and procedures for review and approval of the monthly inventory report worksheet reconciliation for linen losses to ensure that the payment is not overstated.

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

We wish to thank the staff and management of GMHA for their cooperation and assistance during the course of this audit engagement. We are available to discuss any questions that you may have concerning the above comments at your convenience.

Very Truly Yours,

J. Scott Magliari + Company