

GUAM MEMORIAL HOSPITAL AUTHORITY

Management Letter

For The Year Ended September 30, 2005



CERTIFIED PUBLIC ACCOUNTANT

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September 23, 2006

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, 2005 (on which we have issued our report dated September 23, 2006), we considered its internal control in order to determine our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on GMHA's internal control. Such consideration would not necessarily disclose all matters in GMHA's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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. Such matters we noted involving the GMHA's internal control and its operations that we consider to be material weaknesses as defined above were reported on our report dated September 23, 2006.

We did note other matters related to GMHA's internal control. Our comments on the matters are summarized below.

Patient Affairs -Cash Receipts System

Comment:

In the conduct of test of internal control over cash receipt system, we examined 60 official receipts issued.

Of sixty (60) official receipts tested, twenty-one (21) or 35% pertains to either write-off of bad debts, contractual adjustments, combining of patient accounts, and or other adjustments.

Patient Affairs -Cash Receipts System, continued

Prior Year Status:

The lack of internal controls over cash receipts system was reported as finding in the prior year audits 2002 through 2004.

Recommendation:

We recommend that internal control over official receipts be accounted for in accordance with the policies and procedures implemented in June 2005.

Accounting Department - Cash Disbursements

Comment:

For one (1) of fourteen (14) key item tested, check number 102389 for \$300,049.94 was only signed by the Hospital Administrator.

We also noted retirement contributions paid to the Government of Guam Retirement Fund were only signed by the Hospital Administrator, as follows:

<u>Check #</u>	<u>Check Date</u>	<u>Amount</u>
101857	1/12/05	\$151,536.42
101880	1/14/05	151,144.06
101875	1/14/05	160,054.38
101881	1/14/05	141,845.91
101876	1/14/05	141,650.62
101858	1/12/05	138,874.60

Recommendation:

GMHA's Management should ensure existing internal control and procedures are properly complied with for dual signatures for all check disbursements.

Electronic Bill Paying Process

Comment:

Our audit testing disclosed that GMHA increased its use of its bank's electronic bill-paying process during the year. Although we clearly concur that there can be significant benefits of this process, we believe that effective policies and procedures have not been properly documented.

Recommendations:

GMHA should establish written internal control policy and procedures over electronic bill-paying process. All current processes and controls for check disbursements also should be instituted for electronic disbursements. Attributes such as invoice approvals, cancellation, preparation of transfer documents, and effectuation of funds transfers should all be present in electronic disbursements process.

General Journal Entries

Comment:

General journal entries prepared by the General Accounting Supervisor are also approved by the same person.

Recommendations:

All general journal entries should be reviewed and approved by the appropriate level of authority above the position level of the preparer of such entries.

Travel Authorization

Comment:

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

1. For twelve (12) of fifteen (15), or 80% of the TA's tested did not evident the required three price quotations were obtained.
2. For seven (7) of fifteen (15), or 47% of the TA's tested, the required itinerary report was not submitted within the stated period required under the GMHA's travel policy ranging from 12 to 127 days late along with the required documentations of proof of travel.
3. For two (2) of fifteen (15), or 13% of the TA's tested, the required trip report, boarding pass were not evident on file.
4. For one (1) of fifteen (15), or 7%, cost of airfare paid by GMHA on TA 25-05 appears included a travel route where traveler spent vacation after the conference. The estimated cost of appear to be personal route was \$200.00.
5. For two (2) of fifteen (15), or 13%, the supporting hotel accommodation invoice did not match to the travelers' name that appears on the following TA:

 TA 12-05 – Cost reimbursed for Hotel accommodation for 5 days was \$2,220
 TA 13-05 – Cost reimbursed for Hotel accommodation for 5 days was \$2,220
6. For three (3) of fifteen (15), or 20%, the TA request were not submitted to the Fiscal Services for clearance within 15 working days prior to travel date.
7. For one (1) of fifteen (15), or 7%, the airfare of a Guest paid by GMHA is not evident by a formal documentation of the justification or purpose of the visit. Cost was \$1,633.51 round-trip Portland Oregon-Guam.

Prior Year Status:

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

Travel Authorization, continued

Recommendation:

GMHA should strictly enforce its established policies and procedures on travel.

Laundry Facility

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, 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, 2005, the charges of linen losses and damages was \$114,065.66 (net of \$71,280.68 of loss credits), or 20% of the total invoice billings.

Recommendations:

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.

Patient Affairs Department – Contracts with Third-Party Payer

Comment:

The Government of Guam Public Law 24-11- Health Insurance Companies Contracts with Government Agencies Providing Health Care Service Act, requires valid contract be maintained by parties. All GMHA's major Third-Party Payer Agreements had expired since September 30, 2003, and no new contracts were signed in 2005.

Patient Affairs Department – Contracts with Third-Party Payer, continued

Recommendation:

GMHA should ensure compliance over maintaining contracts with all of its Third-Party Payers and all other health insurance companies providing health services with the Hospital and adhere to applicable public law. These contracts should be monitored to ensure that sufficient time is allowed to negotiate rates prior to contract expiration.

Accounting Department-Other Receivables

Comment:

Of \$571,861 due from Government of Guam agencies, \$432,763 or 76% has been outstanding for the past four years. Amounts comprised of catering services, incineration services, and charges of supplies and may not be collectible.

Prior Year Status:

The above condition was cited as finding in the prior year audits 2003 and 2004 of the GMHA.

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.

Allowance for Obsolescence

Comment:

GMHA does not have an established policy supporting the calculation of the allowance for obsolete inventory. At September 30, 2005, the allowance for obsolescence was \$300,000 and is not supported by a rationale analysis that such is adequate at September 30, 2005.

Allowance for Obsolescence, continued

Recommendation

Management conduct an analysis of historical inventory write-off and devise a methodology for recognizing an allowance for obsolescence on all of its major inventory categories.

Prepaid Procurement of Pharmaceuticals

Comment:

In accordance with Chapter 5 of the Guam Procurement Code, no procurement shall be made which require advance payments. At September 30, 2005, the time lapsed between the clearing of check payments and actual deliveries of the items under purchase orders other than subscriptions that appear to be items prepaid for the following:

1. Check Number 103735 dated 9/28/05, cleared in the bank in October 2005 paid to Vendor number 1044 for the following purchase order:

<u>Purchase Order Number</u>	<u>Amount Prepaid at 9/30/05</u>	<u>Dates Received</u>
25001393	\$ 2,468.00	12/1/05, 2/9/06
25001394	109,481.00	12/1/05- 1/11/06
25001398	58,764.00	12/1/05- 1/19/06
24003460	<u>4,763.00</u>	12/6/05
	<u>\$ 175,476.00</u>	

2. Check Number 103741 dated 9/28/05, cleared in the bank in October 2005 paid to Vendor number 1044 for the following purchase order:

PO 25001400, items were received on 12/1/05; amount of prepayments at 9/30/05 was \$68,100.00.

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.

Prepaid Insurance

Comment:

In accordance with Chapter 5 of the Guam Procurement Code, no procurement shall be made which require advance payments. At September 30, 2005, GMHA had made prepayments terms not in accordance to the terms stated in the Purchase Order. During the year, a prepayment incurred through by the withholding of a periodic settlement by the vendor due to the Hospital. No formal amendment on the file to reflect the payment through offset arrangement from third party settlement resulting to prepayment for the following:

<u>Purchase Order</u>	<u>Vendor</u>	<u>Procured Amount</u>	<u>Total Prepaid at 9/30/05</u>	<u>Terms Per Purchase Order</u>
25001667	5230	\$1,188,802	\$ 335,985	Payments Term of Monthly for coverage from 1/31/05-1/30/06

Prior Year Status:

The above comment was cited as finding in the 2004 audit of the GMHA.

Recommendation:

Management should adhere to the policies of Government of Guam procurement Act.

Administration – Late Submission of Medicare Cost Report

Comment:

The Center for Medicare and Medicaid Services (CMS formerly HCFA) requires annual Medicare Cost Report be filed within five months after the end of each fiscal year. The GMHA Medicare Cost Report although was filed earlier than February 29, 2006, however, was found incomplete. The completed Medicare Cost Report was filed subsequently on March 29, 2006.

As a result, the Medicare reimbursement under the facility was charged with penalties by withholding the supposed reimbursements under the program pending compliance of the submission of the report. During March 2006, approximately \$430,911 was withheld from the Medicare settlement due to the delayed report submission.

Administration – Late Submission of Medicare Cost Report, continued

Prior Year Status:

The above comment was cited as finding in the 2004 and 2003 audits of the GMHA.

Recommendation:

The CFO should establish and adhere to internal control procedures to ensure that reporting requirements submitted to the CMS are prepared based on timely and accurate information.

Notes Payable in Arrears - Guam Power Authority

Comment:

During the year, GMHA defaulted on its debt terms for 5 monthly installments of \$229,825, and failed to pay-off its outstanding note due September 2005 totaling \$782,032. A new note was executed in October 2005 to include power bills in arrears totaling \$411,779. The new note was not signed by the authorized parties from the GPA.

Prior Year Status:

The above comment was cited as finding in the 2004 and 2003 audits of the GMHA.

Recommendation:

GHMA should obtain a copy of a properly executed note agreement signed by both GPA and the hospital.

Unbilled Purchase Order Receipts (Open Receiving Report)

Comment:

We noted that the unbilled purchase orders receiving report is not reconciled during the year through matching of receipt of goods to the receiving report.

Numerous pharmaceuticals received under the PO 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.

We further noted purchase orders paid during the year remained 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.

We observed that receiving of service invoices of certain vendors were not performed by Materials Management but by the Accounting Department. While this practice may seem efficient, this results to incompatible and lack of segregation of duties.

Recommendation:

GMHA should adopt internal control over the proper reconciliation of unbilled purchase order receipts report (receiving report) as this is normally an accounting function. The accounts payable clerk should review the file of unmatched receiving reports on a monthly basis.

Budget

Comment:

Physical inventory count in the Pharmacy Department and other locations on the hospital that holds inventory of pharmaceutical and medical supplies was not properly recorded in the books. At September 30, 2005, the following departments had an excessive unfavorable variance over approved budget.

	<u>Approved Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Functional Department			
Nursing -Renal dialysis			
Other Chargeable Medical Supplies	\$ 450,000	\$ 1,146,040	(\$ 696,040)
Ancillary – Pharmacy			
Pharmaceutical	\$2,880,000	4,206,912	(\$ 1,326,912)

Prior Year Status:

A similar condition was cited as finding in the 2004 audit of the GMHA.

Recommendation:

We recommend that management develop procedures to monitor and explain significant budget variances and provide such information to the Board of Trustees in a timely manner.

Procurement: Contracts

Comment:

For four (4) purchase orders, PO's #25000044, #25001034, #25002257 and #25000790 aggregating \$449,167, referenced to one contract for two different vendors (#5002 and #5115) were referenced to one expired contract. Based on review of the contract and related RFP-002-001, the contract had reached its maximum renewal period of three years as of September 30, 2004. It was also noted that the Vendor 5002, a party in the expired contract, terminated its laundry operations in October 31, 2004 recommended Vendor #5115 to GMHA as its successor. Since these purchase orders referenced the expired contract, GMHA procurement regulations may have been violated. Additionally, the new vendor performed services as the successor without open competition and valid contract until the formal awarding in May 2005.

Recommendation:

The Supply Management Administrator should ensure compliance to GMHA procurement regulations. The legality of this procurement contract should be investigated for propriety and compliance with Section 3-204.02.3 of the Hospital's procurement regulations.

Procurement: Open Purchase Order in the System

Comment:

At September 30, 2005, we noted that numerous open purchases were paid to the vendors; however, they remain open in the Purchase Order Receiving Module for the following purchase orders:

<u>Purchase Order No.</u>	<u>Vendor No.</u>	<u>Amount of Open Purchase Order</u>	<u>Finding Remarks</u>
25001667	5230	\$ 1,188,802.00	Fully paid at 9/30/05
25004675	393	62,800.00	Invoices paid in October 2005
25004674	9006	47,576.00	Invoices paid in 7/05 through 8/05
25004676	380	28,200.00	Invoices paid in 6/05 through 7/05
25001652	4288	67,300.00	Certain invoices paid.
25001653	4288	62,800.00	Certain invoices paid.
25000838	4280	47,611.20	Certain invoices paid.

Recommendation:

Management should strengthen internal control over procurement receiving and ensure that receipts are properly posted in the AS-400 System.

Procurement: Small Purchases Documentation

Comment:

GMHA's procurement regulations Sections 3-204.03 require competition for small purchases of supplies or services between \$500 and \$15,000. No less than 3 businesses shall be solicited for written quotation, or documented oral quotations shall be recorded and documented in the procurement file. Though this procurement is a sole source procurement under small purchases, the selection method should be documented and supported by a valid purchase order. The following were noted without purchase order and documentation of selection method:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor/Reference Number</u>	<u>Amount</u>
Supply of speedy mailer and bulk Stamps:			
100796	10/05/04	Postmaster General	\$ 5,000.00
101241	11/15/04	Postmaster General	5,000.00
101935	01/24/05	Postmaster General	4,600.00
101417	12/06/04	U.S. Postal Service	1,000.00
102170	02/02/05	U.S. Postal Service	3,000.00
102246	03/01/05	Postmaster General	3,614.00
102799	05/09/05	Postmaster General	5,563.00
102901	06/07/05	U.S. Postal Service	1,400.00
102928	06/15/05	Postmaster General	2,707.00
103189	07/28/05	U.S. Postal Service	3,000.00
103303	08/16/05	Postmaster General	5,000.00
103745	09/28/05	Postmaster General	2,400.00
103746	09/28/05	U.S. Postal Service	<u>1,600.00</u>
			<u>\$43,884.00</u>

Recommendation:

The Management of GMHA and all requisitioning department should be in teamwork in order achieved compliance with the established procurement regulations.

Petty Cash Fund and Inventory Control –Pharmacy Department

Comment:

A walkthrough of inventory control and surprise cash count of petty cash fund was performed in Pharmacy Department. We observed that there was no inventory accountability established on inventory transfers to Pharmacy Department. There is no one person responsible for the handling the petty cash that it maintains. The petty cash count procedure performed disclosed total missing cash of \$433.01. Upon subsequent investigation performed by the Assistant Financial Official, the remaining petty cash was brought in to closure by returning to the general fund on June 13, 2006 with final amount unaccounted for totaling \$465.46.

Recommendation:

We recommend management should established adequate internal control to safeguard assets in the Pharmacy Department from possibility of loss from misappropriation.

Patient Affairs –GMHA Employees Payroll Deductions

Comment:

For ten (10), randomly selected payroll deductions, seven, or 70% disclosed untimely postings to the patient subsidiary ledger, noted as follows:

<u>Payroll Period End Date</u>	<u>Payroll Distribution Date</u>	<u>Total Payroll Deductions (Code 300)</u>	<u>Date posted in Patient Subsidiary Ledger</u>	<u>Determined days from payroll distribution to posting to the Patient Subsidiary Ledger</u>
10/02/04	10/08/04	\$ 2,611.70	10/27/04	19 days
10/16/04	10/22/04	2,723.38	11/04/04	13 days
11/27/04	12/03/04	2,519.85	02/09/06	433 days
02/05/05	02/11/05	2,416.07	02/09/06	363 days
03/19/05	03/25/05	2,228.88	04/09/06	15 days
05/14/05	05/20/05	2,116.14	06/14/05	25 days
05/28/05	06/03/05	3,500.79	06/14/05	11 days

Recommendation:

We recommend management should established internal control over timely posting of employees’ payments to patient accounts.

Board of Trustees
Guam Memorial Hospital Authority
September 23, 2006

Late Payments on Contributions to the Retirement Funds

Comment:

We noted that during the year, 22 of the 26 payroll periods DCRS contributions, or 85% were remitted late. Six of the payroll periods from January 2005 through April 2005, the number of days late ranges 107-206 prior to payment.

For 17 of 26 payroll periods contributions under the Defined Benefit Plan, or 65%, were remitted late to the Retirement Fund. Six of the payroll periods from January 2005 through April 2005, the number of days late ranges from 70-199 days prior to actual payment.

Recommendation:

GMHA should ensure compliance on prompt remittance of retirement contributions to the Retirement Fund.

* * * * *

This report is intended solely for the information and use of Board of Trustees and management of GMHA and the Office of the Public Auditor of Guam.

We will be pleased to discuss the above comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of GMHA for their cooperation and assistance during the course of this engagement.

Very Truly Yours,


J. Scott Magliari & Company

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