

**GUAM MEMORIAL HOSPITAL AUTHORITY**

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**REPORT ON COMPLIANCE AND INTERNAL CONTROL**

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**FOR THE YEAR ENDED SEPTEMBER 30, 2002**



CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2002 and have issued my report thereon dated October 8, 2004. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 02-07 through 02-09, 02-16 and 02-18. I also noted certain immaterial instances of noncompliance that I have reported to management of GMHA, which are included in the accompanying Schedule of Findings and Questioned Costs.

Internal Control over Financial Reporting

In planning and performing the audit, I considered GMHA's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect GMHA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-02 through 02-17 and 02-19.

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 in the amount that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe items 02-01 through 02-09 and 02-20 through 02-24 to be material weaknesses.

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

*J. Scott Maglieri & Company*  
Hagåtña, Guam  
October 8, 2004

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

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, 2002. GMHA's major federal programs are identified in the Summary of Auditor's Results section on page 30 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GMHA's management. My responsibility is to express an opinion on GMHA's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GMHA's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of GMHA's compliance with those requirements.

As described in item 02-18 in the accompanying Schedule of Findings and Questioned Costs, GMHA did not comply with the requirement regarding cash management that is applicable to its Federal Emergency Management Agency Public Assistance Grant (CFDA# 83.544). Compliance with such requirement is necessary, in my opinion, for GMHA to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, GMHA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2002.

### Internal Control Over Compliance

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

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect GMHA's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned costs as item 02-18.

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 of risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited which may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe none of the reportable conditions noted above is a material weakness.

### Schedule of Expenditures of Federal Awards

I have audited the basic financial statements of GMHA as of and for the year ended September 30, 2002, and have issued my report thereon dated October 8, 2004. 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 29 is presented for additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



Hagåtña, Guam  
October 8, 2004

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2002

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Program or Award Amount</u>	<u>Receivable from/(Due to Grantor) 9/30/01</u>	<u>Cash Receipts FY 2002</u>	<u>Expenditures FY 2002</u>	<u>Receivable from/(Due to Grantor) 9/30/02</u>
U.S. Department of the Interior						
Passed Through the Government of Guam:						
Economic, Social, and Political						
Development of Territories and the Freely						
Associated States						
	15.875	\$ 3,700,000	\$ 352,737	\$ 1,302,621	\$ 949,884	\$ -
Federal Emergency Management Agency						
Passed Through the Government of Guam						
Hazard Mitigation Programs	83.548	4,321,376	266,353	1,132,110	1,000,301	134,544
Public Assistance-Typhoon Paka	83.544	630,001	(391,359)		56,118	(335,241)
Public Assistance-Earthquake	83.544	<u>50,097</u>	<u>-</u>	<u>5,199</u>	<u>5,199</u>	<u>-</u>
Total Federal Awards Expended		<u>\$ 8,701,474</u>	<u>\$ 227,731</u>	<u>\$ 2,439,930</u>	<u>\$ 2,011,502</u>	<u>\$ (200,697)</u>

Note 1. Basis of Presentation

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

**GUAM MEMORIAL HOSPITAL AUTHORITY**

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**SCHEDULE OF FINDINGS AND  
QUESTIONED COSTS**

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**FOR THE YEAR ENDED SEPTEMBER 30, 2002**

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

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

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over financial reporting:

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

The auditor's report on major program compliance for GMHA having two major programs expresses an unqualified opinion based on identified reportable conditions, which, in my opinion, are not considered to be material weaknesses.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?     yes     no



**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

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

Identification of major programs:

<u>CFDA#</u>	<u>PROGRAM</u>
15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States
83.548	Hazard Mitigation Grants

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 02-01 through 02-24.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
02-01	Cash Receipts	\$ -
02-02	Cash Receipts	-
02-03	Cash Disbursements	1,188,571
02-04	Operations-Payroll	-
02-05	Personnel	-
02-06	Payroll-Accrued Leave	-
02-07	Procurement: Sole Source Method	572,994
02-08	Procurement: Competitive Sealed Bidding	22,771
02-09	Procurement	26,177
02-10	Accounts Receivable	-
02-11	Accounts Receivable	-
02-12	Allowance for Bad Debts and Contractual Adjustments	-
02-13	Fund Balances/Net Assets	-

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
02-14	Fixed Assets Register Reconciliation	\$ -
02-15	Accounts Payable	-
02-16	Notes Payable—Government of Guam Retirement Fund	-
02-17	Contractual Allowances	-
02-18	Cash Management	-
02-19	Inventories	-
02-20	All Departments—Password Access	-
02-21	All Departments—Software Licensing	-
02-22	Safety Department/Patient Valuables	846
02-23	Security Department	-
02-24	Inventory-Pharmaceuticals	-
	Total Questioned Costs	<u>\$ 1,811,359</u>

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

I noted certain reportable conditions and instances of noncompliance, which are presented in the following pages as items 02-01 through 02-24.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
02-18	Cash Management	\$ -
	Total Questioned Costs	<u>\$ -</u>

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No.** 02-01  
**Area:** Cash Receipts  
**CFDA No.** N/A

### Criteria:

Management should initiate effort in utilizing its operations documentation (i.e. systems documentation, input descriptions, description of controls, copies of authorizations and effective dates for system changes that were implemented) to keep their records up-to-date. Management should also ensure that its internal control policies and procedures over implementing efficient accounting system are being carried out.

### Condition:

There is a duplication of effort and work performed. While testing revenues and cash receipts, it was noted that all medical encounters for services provided/performed by the Hospital recorded on the order communication form was manually transferred to charge vouchers. The order communication forms and the charge vouchers are then forwarded to the Business Office for input into the patient billing system.

### Cause:

The charge vouchers came into use in 1996 when the current MIS system was installed. The intent was to run parallel accounting to ensure the accounting system was properly working.

### Effect:

Numerous hours per month are being spent on this extra task, which could be better utilized performing other necessary tasks. Nursing staff spends several hours rewriting information on patient encounter forms. Furthermore, the business office spends extra time filing and maintaining the charge vouchers.

### Recommendation:

Management should evaluate whether the charge vouchers should continue to be used. If it is decided to be discontinued, staff could then be assigned more useful and relevant assignments. Discontinuance of the patient charge vouchers would allow both the nursing and business offices to perform more useful duties.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-01, Continued**  
**Area: Cash Receipts**  
**CFDA No. N/A**

Auditee Response/Corrective Action Plan:

We agree with this finding. Management is in the process of reviewing the procedures to remove the redundancy. The current Management of GMHA will implement corrective action in fiscal year 2005.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No.** 02-02  
**Area:** Cash Receipts  
**CFDA No.** N/A

### Criteria:

GMHA's Current Procedural Terminology (CPT) transaction codes must be updated to reflect the current CPT policy and charges, as well as to reduce the possibility of misunderstanding between customer/payors and the hospital billing department.

### Condition:

While making inquiries of accounting and other personnel during revenue testing, I noted that CPT transaction code charges have not been updated for approximately nine months. The Pricing Model has not been evaluated in a timely manner.

### Cause:

It was represented by GMHA staff and management that there is insufficient time to update system.

### Effect:

GMHA may not be capturing all revenues and may not be charging enough to cover the cost of goods and services. The Pricing Model has not been updated at the current time. The percentage increase across the board most likely does not capture the cost increases for most items. Furthermore, this situation will only worsen each year if an evaluation does not take place.

### Recommendation:

The CPT transaction codes must be updated and the Pricing Model must be reevaluated. Moreover, internal controls should be utilized to update the system for CPT transaction codes and ensure updating going forward.

### Auditee Response/Corrective Action Plan:

We agree with this finding. Management is contracted with a consulting firm to update the pricing model, which was completed in March 2004. Management is also investigating companies that have the ability to download CPT Codes directly into the computer system.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-03**  
**Area: Cash Disbursements**  
**CFDA No. N/A**

Criteria:

In accordance with GMHA Board of Trustees Resolution No. 02-016, all payment authorizations for amounts greater \$25,000 must be signed and approved by the Hospital Administrator and the Planning and Finance Committee Chairperson. Furthermore, all check disbursements for amounts greater than \$25,000 must have two authorized signatories.

Condition:

For seven (or 6%) out of 115 disbursements tested, I noted payment request forms only had the Comptroller's signature (missing signature of Hospital Administrator) for the following:

<u>Vendor No.</u>	<u>Check #</u>	<u>Ck. Date</u>	<u>Amount</u>
1. 26	89053	11/14/01	\$ 113,983.34
2. 157	89054	11/14/01	117,787.01
3. 25	89094	11/14/01	168,405.83
4. 25	89256	11/28/01	168,690.37
5. 26	89257	11/28/01	115,037.58
6. 157	89258	11/28/01	118,166.80
7. 1031	90074	2/01/02	<u>198,876.68</u>
			<u>\$1,000,947.61</u>

Furthermore, for one (or 1%) out of 115 disbursements tested, I noted check #91845 in the amount of \$187,623.64 payable to Vendor #54 had only one signature from the Hospital Administrator.

Therefore, it appears that above amounts were not properly authorized.

Cause:

It appears that GMHA personnel did not adhere to the internal control procedures in ensuring that all payment request forms are complete and accurate at the time of the disbursement process.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-03, Continued**  
**Area: Cash Disbursements**  
**CFDA No. N/A**

Effect:

It appears that a questioned cost of \$1,188,571.25 exists as a result of above condition. GMHA is not in compliance with its policies and procedures set forth by the Board of Trustees. Fraud and errors could exist and not be detected.

Recommendation:

GMHA should enforce its existing internal control policies and procedures to ensure that all documents are accurate and complete during the disbursement process.

Auditee Response/Corrective Action Plan:

We agree with this finding. Management will ensure that personnel in the related areas adhere to the GMHA Policies and Procedures. Management will also review the corresponding policy and procedure and revise if deemed necessary. The current Management of GMHA will implement corrective action in fiscal year 2005.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-04**  
**Area: Operations - Payroll**  
**CFDA No. N/A**

Criteria:

In accordance with GMHA Board of Trustees Resolution No. 02-016, all payment authorizations for amounts greater than twenty-five thousand dollars (\$25,000) must be signed and approved by the Hospital Administrator and the Planning and Finance Committee Chairperson.

Condition:

For four (or 7%) out of sixty items tested, I noted the payment request forms for Various Payroll Payables were not signed by the Hospital Administrator. The only signature present was from the Comptroller for the following:

<u>Pay Period Ending (PPE)</u>	<u>Amount</u>
1. 11/17/01	\$ 616,214.73
2. 12/01/01	620,446.69
3. 1/26/02	621,065.77
4. 2/09/02	617,457.14

Cause:

It appears that GMHA personnel did not adhere to the internal control procedures in ensuring that all payment request forms are complete and accurate at the time of the disbursement process.

Effect:

GMHA is not in compliance with its policies and procedures set forth by the Board of Trustees. Fraud and errors could exist and not be detected. However, there is no material effect on the financial statements as a result of the discrepancies noted in this condition.



**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-04, Continued**  
**Area: Operations - Payroll**  
**CFDA No. N/A**

Recommendation:

GMHA should enforce its existing internal control policies and procedures to ensure that all documents are accurate and complete and that all required signatory approvals are present during the disbursement process.

Auditee Response/Corrective Action Plan:

We agree with this finding. Management will ensure that personnel in the related areas adhere to the GMHA Policies and Procedures. Management will also review the corresponding policy and procedure and revise if deemed necessary. The current Management of GMHA will implement corrective action in fiscal year 2005.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No. 02-05**  
**Area: Personnel**  
**CFDA No. N/A**

### Criteria:

GMHA must maintain pertinent documentation within the employee's individual personnel folders, which includes employee's application form, personnel action form, performance evaluations, Drug-Free Workplace Act Policy, and other miscellaneous documents such as copies of deduction forms, certificates from trainings and recommendations.

### Condition:

For forty-seven (or 78%) out of sixty personnel files tested, there was no documentation of Drug Free Workplace Act Policy on file for the following:

<u>Dept. No.</u>	<u>Dept. Name</u>	<u>No. of Employees</u>	<u>Dept. No.</u>	<u>Dept. Name</u>	<u>No. of Employees</u>
1. 8400	Purchasing	1	16. 6172	Surgical Ward	2
2. 6380	Obstetrics	2	17. 7770	Physical Therapy	1
3. 8560	Patient Reg.	1	18. 6173	Med/Surg. Ward	2
4. 6010	ICU	2	19. 7400	Labor & Delivery	3
5. 7500	Laboratory	1	20. 8460	Facilities Maint.	1
6. 8422	Security	2	21. 8340	Dietary	1
7. 7630	Radiology	1	22. 8750	Quality Mgmt.	1
8. 8610	Administration	1	23. 6174	Telemetry Ward	3
9. 6580	SNF	1	24. 8480	Data Processing	1
10. 8700	Med. Records	2	25. 9333	E.R. Physicians	1
11. 6070	NICU	2	26. 7420	Operating Room	2
12. 8440	Housekeeping	1	27. 8380	CSR	1
13. 7721	Resp. Therapy	1	28. 8530	Patient Affairs	2
14. 7010	Emergency Svs.	2	29. 6290	Pediatrics	2
15. 7740	Renal Dialysis	2	30. 8390	Pharmacy	2

### Cause:

It appears that GMHA personnel did not adhere to their personnel policies and procedures and Federal requirements to ensure compliance with the Drug-free Workplace Act.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-05, Continued**  
**Area: Personnel**  
**CFDA No. N/A**

Effect:

GMHA is not in compliance with its policies and procedures set forth by the Board of Trustees. However, there is no material effect on the financial statements as a result of this condition.

Recommendation:

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

Auditee Response/Corrective Action Plan:

We agree with this finding. The Personnel Department shall enforce the internal policies and procedure to ensure compliance. Completion of new hire processing shall be monitored and signed off by Personnel Specialist prior to the filing of personnel jacket and conduct periodic reviews.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-06**  
**Area: Payroll—Accrued Leave**  
**CFDA No. N/A**

Criteria:

Payroll department should ensure that annual leave, sick leave and leave-sharing are approved for the leave requested, as well as properly documented on employee's personnel file.

Condition:

For one (or 2%) out of sixty personnel files tested, it was noted that there was no documentation to support remaining annual leave balance for employee in Radiology department (Dept. No. 7630). A total of 378.30 hours of annual leave was donated as part of leave-sharing program. Out of the total hours accumulated, only 200 hours were accounted for after reviewing leave-sharing documentation. Therefore, there was no documentation to support the remaining 178.30 hours of leave-sharing.

Cause:

There appears to be a lack of internal controls over the file maintenance of the annual leave register.

Effect:

Employees may be paid more than what they should be receiving for annual leave. Furthermore, this may have an effect on the financial statements if the above condition is not corrected. There is the potential that accrued leave may be overstated.

Recommendation:

Documentation for leave-sharing should be retained with Payroll department as to document whether there is accurate and sufficient leave for employees to share.

Auditee Response/Corrective Action Plan:

We agree with this finding. Management initiates procedures to prevent the overriding of the system of internal controls regarding accrued leave. Management will administer an audit procedure to audit annual leave balances by staff persons segregated from the payroll function. Furthermore, management will ensure that accrued leave is recorded correctly in the General Ledger System. Lastly, efforts will be made to ensure that proper documentation for all leave requested will be filed accordingly.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No.** 02-07  
**Area:** Procurement: Sole Source Method  
**CFDA No.** N/A

### Criteria:

In accordance with GMHA procurement rules and regulations 3-205, a contract may be awarded for a supply, service, or construction item without competition provided that the Hospital Administrator or his designee above the level of GMHA Supply Management Administrator determines in writing that there is only one source for the required supply, service, or construction item.

### Condition:

For one (or 3%) out of thirty-five purchase orders tested, I noted that although the Hospital Administrator approved the purchase order (PO), there was no written justification on file to validate the reason for using the sole source method for PO #22000544 dated October 31, 2001 which totaled \$572,994.

### Cause:

There appears to be a lack of internal controls over the proper procedures of utilizing the sole source procurement method.

### Effect:

GMHA is not in compliance with its procurement rules and regulations. Because justification for the purchase is not noted, it remains unknown whether in fact, the purchase qualifies for the sole source method or that the best price was obtained. Therefore, as a result of this condition, it appears that a potential questioned cost exists totaling \$572,994.

### Recommendation:

The Hospital Administrator should not approve the purchase orders for use of the sole source method unless a written justification for the vendor is attached to the document on file. The purpose for sole sourcing this purchase should be investigated and noted on the purchase documents.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-07, Continued**  
**Area: Procurement: Sole Source Method**  
**CFDA No. N/A**

Auditee Response/Corrective Action Plan:

We agree with this finding. Purchase order 2000544 was issued to cover the period between the ending of one contract (Med Supplies, Inc –Gambro/Cobe), and the start up of a new contract (RFP 011-2002, JMI Industrial Systems, Inc.- Fresenius) supporting a different, and non-compatible equipment. The supplies ordered on this purchase order are not interchangeable, and are equipment specific, therefore this purchase order was required to continue the flow of supplies for the outgoing equipment, until the new equipment and supplies are in place. The original contract was for Gambro/Cobe equipment and require Gambro/Cobe supplies for support, the new equipment is for Fresenius equipment and require Fresenius compatible supplies. We should have cited the code to “extend and existing contract”, and not use the code for “Sole Source”. We have implemented a procedure to have several staff review the proper use of authorization codes to ensure that the appropriate code is cited in future.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-08**  
**Area: Procurement: Competitive Sealed Bidding Method**  
**CFDA No. N/A**

Criteria:

As per GHMA procurement rules and regulations section 3-202.14.1, the contracts are to be awarded “to the lowest responsible and responsive bidder” whose bid meets the requirements and criteria set forth in the Invitation for Bids.

Condition:

For one (or 3%) out of thirty-five purchase orders tested, I noted that two bids on Purchase Order No. 22001250 were solicited for certain items in which Vendor No. 1017 was selected instead of Vendor No. 1003 who was the lower bidder as follows:

<u>Vendor No.</u>	<u>Item #151235</u>	<u>Item #151241</u>	<u>Total</u>
1017	\$ 22,644.88	\$ 126.50	\$ 22,771.38
1003	\$ 18,144.00	\$ 107.53	\$ 18,251.53

There was no written justification for selecting the higher bid.

Cause:

There appears to be a lack of internal controls over the proper procedures of utilizing the competitive sealed bidding method.

Effect:

GMHA is not in compliance with their procurement rules and regulations. Therefore, it appears that a potential questioned cost exists in the amount of \$22,771.38 as a result of this condition.

Recommendation:

GMHA should enforce its policies in regards to competitive sealed bidding to ensure that the appropriate vendor selection meets the bid specifications and the contract is awarded in accordance with the procurement rules and regulations section 3-202. However, a written justification should be provided if the selected vendor did not submit the lowest bid.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-08, Continued**

**Area: Procurement: Competitive Sealed Bidding Method**

**CFDA No. N/A**

Auditee Response/Corrective Action Plan:

We agree with this finding. In reviewing purchase order 22000433, the decision to select the higher priced product was due to the lower price vendor withdrawing their offer, leaving us with only one choice. We have instituted procedures for our Buying Staff to include documentation in the procurement file identifying the reason whenever the selection process deviates from the prescribed "lowest bidder".



**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-09**  
**Area: Procurement**  
**CFDA No. N/A**

Criteria:

Documentation, such as vendor invoices and receiving reports, should be maintained in the procurement file to substantiate purchases ordered and recorded into the procurement system.

Condition:

For four (or 11%) out of thirty-five purchase orders tested, I noted that there was no documentation of vendor invoice and/or receiving report for the following:

<u>P.O. No.</u>	<u>Vendor No.</u>	<u>Invoice No.</u>	<u>Invoice Amount</u>
1. 22000143	1049	8564703	\$ 2,360.00
2. 22000030	7147	28312	2,702.00
3. 22000826	4030	GMHA-August02	5,829.00
4. 22000016	1021	2001111877	<u>15,286.24</u>
	Total		<u>\$ 26,177.24</u>

Cause:

There appears to be a lack of internal controls over the maintenance of documentation for the procurement process.

Effect:

GMHA is not in compliance with their policies and procedures as to maintaining the supporting documentation when processing purchase orders and disbursing payments to vendors for items and services provided. Payments could be made for goods and services not received. Therefore, it appears that a questioned cost exists in the amount of \$26,177.24 as a result of this condition.

Recommendation:

GMHA should strengthen their internal controls of their cash disbursement system to ensure that the proper policies and procedures are taken. The four purchases lacking documentation should be investigated.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-09, Continued**  
**Area: Procurement**  
**CFDA No. N/A**

Auditee Response/Corrective Action Plan:

We agree with this finding. Please note the following in regards to the purchase orders noted above on condition:

**Midwest Medical Supply** Vendor #:1049; Invoice #: 8564703; Amount:\$2,360.00. Invoice in question and Receiving report are part of the purchase order file.

**Dynamic Healthcare Tech. Inc.** Vendor #: 7147; Invoice #: 28312; Amount: \$2,702.00. Materials Management is not notified of product delivery on subscriptions, and fee services. Purchase order receiving is performed by General Accounting Staff. Since invoices are submitted directly to General Accounting and purchase order receiving is performed by them, along with invoice file maintenance, copies of invoices are not forwarded to Materials Management for file purpose. Therefore, we have no invoices attached to our receiving document in our purchase order files

**Morrico Equipment Corporation** Vendor #: 4030; Invoice #: GMHA-August 02; Amount: \$5,829.00. Invoices are submitted directly to General Accounting, and purchase order receiving is performed by them, along with invoice file maintenance. Copies of invoices are not forwarded to Materials Management for file purpose. Therefore, we have no invoices attached to our receiving document in our purchase order files for this type of service.

**Diagnostic Laboratory Services** Vendor #: 1021; Invoice #: 200111187; Amount: \$15,286.24. Invoices are submitted directly to General Accounting, and purchase order receiving is performed by them, along with invoice file maintenance. Copies of invoices are not forwarded to Materials Management for file purpose. Therefore, we have no invoices attached to our receiving document in our purchase order files for this type of service.

We will review and refine our receiving procedure to address receiving processes where Materials Management does not get notification of job performance by end users, or invoices from service provider upon work completion. The current Management of GMHA will implement corrective action in fiscal year 2005.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-10**  
**Area: Accounts Receivable**  
**CFDA No. N/A**

Criteria:

Generally accepted accounting principles require the reconciliation of the general ledger accounts to the subsidiary ledger on a periodic basis.

Condition:

The accounts receivable subsidiary ledger was not reconciled to the general ledger on a monthly basis. The variance as of September 30, 2002 is as follows:

Per general ledger		\$ 107,679,005
Per subsidiary ledger	\$ 70,257,748	
Plus: Bad debts per Summary Report	<u>50,624,258</u>	<u>120,882,006</u>
Variance		<u>(\$ 13,203,001)</u>

Cause:

The cause appears to be from accumulated entries and adjustments on unknown transactions codes not linked to the general ledger in which such transactions are not captured by the general ledger. Additionally, there appears to be a lack of management oversight and reviews. There is a lack of internal control policies and procedures to ensure that subsidiary ledger accounts are reconciled to the accounts receivable control account in a periodic and timely manner.

Effect:

The accounts receivable and revenue accounts appear to be materially misstated. Individual customer accounts may also be misstated. Management might make decisions based on unreliable data. The potential for fraud greatly increases when known account balance differences are not reconciled or when management does not correct an improperly working system. Errors and fraud could exist and not be detected. Lastly, cash flows were adversely effected.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No. 02-10, Continued**  
**Area: Accounts Receivable**  
**CFDA No. N/A**

### Recommendation:

GMHA should take immediate action to correct the error in the set up of the transaction codes in their AS400 system. Furthermore, GMHA should establish internal control policies and procedures to ensure that accounts receivable control account and subsidiary ledger are reconciled on a monthly basis. Management must ensure that subsidiary ledgers agree with the general ledger on a regular basis. Lastly, significant discrepancies should immediately be investigated and resolved.

### Auditee Response and Corrective Action Plan:

We agree with this finding. Management is currently working to correct the possible misstatement in the Accounts Receivable. Management has promoted an Internal Auditor II to manage areas that directly affect GMHA's Accounts Receivables (i.e. Business Office, Medical Records and Patient Registration). Management reassigned job functions of staff persons, lacking knowledge of Accounts Receivable that may have contributed to the discrepancy noted. The reassignments mentioned above occurred in Accounting and Business Office. Management hired a Chief Financial Officer to aid in the correct presentation of Accounts Receivable and other major accounts in the GMHA financial statements. The current Management of GMHA will implement corrective action in fiscal year 2005.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-11**  
**Area: Accounts Receivable**  
**CFDA No. N/A**

Criteria:

Periodic analysis of the accounts receivable subsidiary ledger should be performed whereby current month end balances are analyzed and compared to changes from the previous month's closing balances. The following should be analyzed:

- a. Charges services
- b. Customer payments
- c. Credits
- d. Adjustments
- e. Finance charges
- f. Write-offs

Condition:

The accounts receivable confirmations received from payors did not agree with subsidiary ledger summary report as follows:

	Per GMHA EOM Balances by <u>Fiscal Year Report</u>	Per <u>Confirmations</u>	<u>Variance</u>
Medicare	\$ 5,705,677.16	(\$ 309,027.00)	\$ 6,014,704.16
Staywell Insurance	2,599,467.70	1,082,966.42	1,516,501.28
Medicaid	6,857,285.92	673,357.94	6,183,927.98
Medically Indigent Program	<u>20,447,164.40</u>	<u>3,109,840.68</u>	<u>17,337,323.72</u>
	<u>\$35,609,595.18</u>	<u>\$4,557,138.04</u>	<u>\$31,052,457.14</u>

Management was not able to reconcile the above accounts to determine the correct balance.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No. 02-11, Continued**  
**Area: Accounts Receivable**  
**CFDA No. N/A**

Cause:

There appears to be a lack of internal control policies and procedures to evaluate and analyze the transactions that are recorded in the accounts receivable module system. There also appears to be a lack of management reviews and oversight.

Effect:

Receivables and revenues could be materially misstated. Management might make decisions based on unreliable data. Errors or fraud could exist and not be detected.

Recommendation:

GMHA should develop and implement procedures necessary to reconcile the subsidiary ledger account and general ledger control accounts to accurately record amounts in a timely manner. Furthermore, GMHA should strengthen its internal control policies in analyzing the accounts receivable module system.

We qualified our opinion on accounts receivable and related allowance for bad debts and contractual adjustments, as GMHA is unable to reconcile the subsidiary ledger to the payor's confirmations as of the report date. Because of the material difference noted under condition, we cannot place reliance on accounts receivable subsidiary ledger and general ledger control account.

Auditee Response and Corrective Action Plan:

We agree with this finding. Management is currently working to correct the possible misstatement in the Accounts Receivable. Management has promoted an Internal Auditor II to manage areas that directly affect GMHA's Accounts Receivables (i.e. Business Office, Medical Records and Patient Registration). Management reassigned job functions of staff persons, lacking knowledge of Accounts Receivable that may have contributed to the discrepancy noted. The reassignments mentioned above occurred in Accounting and Business Office. Management hired a Chief Financial Officer to aid in the correct presentation of Accounts Receivable and other major accounts in the GMHA financial statements. The current Management of GMHA will implement corrective action in fiscal year 2005.

Management will assign a staff person in accounting to conduct monthly reconciliations of the Accounts Receivable Subsidiary to the General Ledger Control Account.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-12**  
**Area: Allowance for Bad Debts and Contractual Adjustments**  
**CFDA No. N/A**

Criteria:

Generally accepted accounting principles require the reconciliation of the general ledger accounts to the subsidiary schedule or analysis on a periodic basis.

Condition:

As of September 30, 2002, the total allowance for bad debts and contractual adjustments with third party payors per general ledger did not agree to the subsidiary schedule as follows:

Medicare	\$ 3,557,392
Medicaid	1,816,933
MIP	10,713,369
FHP	1,927,103
Staywell	2,764,453
Multicover	654,882
Self pay	41,050,403
Other	<u>10,891,679</u>
Total	73,376,214

GMHA's available analysis relevant to  
allowance for bad debts and  
contractual adjustments:

Bad debts summary report	( <u>50,624,258</u> )
Difference	<u>\$ 22,751,956</u>

Cause:

The cause appears to be from accumulated entries and adjustments on unknown transactions codes not linked to the general ledger in which such transactions are not captured by the general ledger. Management might make decisions based on unreliable data. Additionally, there appears to be a lack of management oversight and review.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No. 02-12, Continued**

**Area: Allowance for Bad Debts and Contractual Adjustments**

**CFDA No. N/A**

Effect:

The accounts receivable and revenues accounts appear to be materially misstated. The potential for fraud greatly increases when known account balance differences are not reconciled or when management does not correct an improperly working system. Errors or fraud could exist and not be detected.

We qualified our opinion on accounts receivable and related allowance for bad debts and contractual adjustments with third party payors, as GMHA is unable to reconcile its subsidiary ledger and to provide rational analysis/basis as to reasonableness and adequacy of its allowance for bad debt and contractual adjustments. Because of the material difference noted in this condition, we cannot place reliance on the accounts receivable subsidiary ledger and general ledger control account balances.

Recommendation:

The discrepancies noted should immediately be investigated and resolved. GMHA should take immediate action to correct the error in the set up of the transaction codes in their AS400 system. Furthermore, GMHA should establish internal control policies and procedures to ensure that accounts receivable control account and subsidiary ledger are reconciled on a monthly basis. Management must ensure that subsidiary ledgers agree with the general ledger on a regular basis.

Auditee Response and Corrective Action Plan:

We agree with this finding. Management is currently working to correct the possible misstatement in the Accounts Receivable. Management has promoted an Internal Auditor II to manage areas that directly affect GMHA's Accounts Receivables (i.e. Business Office, Medical Records and Patient Registration). Management reassigned job functions of staff persons, lacking knowledge of Accounts Receivable that may have contributed to the discrepancy noted. The reassignments mentioned above occurred in Accounting and Business Office. Management hired a Chief Financial Officer to aid in the correct presentation of Accounts Receivable and other major accounts in the GMHA financial statements. The current Management of GMHA will implement corrective action in fiscal year 2005.

Management will conduct a historical and current analysis of Bad Debts and Contractual Adjustments to determine a reasonable allowance percentage.



# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No.** 02-13  
**Area:** Fund Balance / Net Assets  
**CFDA No.** N/A

### Criteria:

The accounting system for Fund Balance/Net Assets should include procedures to reflect all audit adjustments that significantly affect the financial statements and ensure that such adjustments have been properly posted in order to agree to the audited financial statements.

### Condition:

The beginning balance of the Unrestricted Fund balances did not agree to the audited financial statements as of September 30, 2001, the net difference of unposted entries being \$919,283.16. The variance was due to four prior year audit adjustments that were not posted to the beginning fund balance or to the subsequent fiscal year. Consequently, accounting personnel were not able to reconcile the general ledger to the audited financial statements.

### Cause:

There is a lack of internal control policies and procedures to ensure that all audit adjustments obtained from the auditor have been properly posted to the general ledger. Additionally, management may have overridden the system of internal controls by intentionally not posting the prior year audit adjustments.

### Effect:

There is a misstatement on Fund Balances account for the fiscal year ended September 30, 2002. Moreover, numerous hours were spent to investigate the discrepancies. The potential for fraud increases when management allows financial statements to be produced that are known to contain material errors and be materially misstated. Significant decisions by management and others can be based on inaccurate financial data.

### Recommendation:

GMHA should ensure that all audit adjustments are properly posted to the general ledger. Additionally, ending account balances should be reconciled to the audited financial statements after including the audit adjustments to reflect accurate balances for the next fiscal year. The reason for not posting the prior year audit adjustments and for producing financial statements with known material errors should be investigated and internal controls put in place to ensure that this condition does not recur in subsequent audits.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-13, Continued**  
**Area: Fund Balance / Net Assets**  
**CFDA No. N/A**

Auditee Response and Corrective Action Plan:

We agree with this finding. Management will ensure that personnel in the related areas adhere to the Government Accounting Standards Board (GASB) when recording journal entries to the Fund Balance Account. Management will communicate to external auditors that the Fund Balance Account balances to the Adjusted Trial Balance provided upon completion of an audit. Management will establish a policy and procedure regarding the recording of journal entries to the Fund Balance Account. The current Management of GMHA will implement corrective action in fiscal year 2005.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-14**  
**Area: Fixed Asset Register Reconciliation**  
**CFDA No. N/A**

Criteria:

Fixed asset balances per the general ledger and fixed asset register should be reconciled.

Condition:

Although immaterial, the fixed asset balances per the general ledger control account and fixed asset register were not reconciled as of September 30, 2002 as follows:

	<u>Per General Ledger</u>	<u>Per Fixed Asset Register Summary</u>	<u>Difference</u>
Hospital Buildings	\$ 51,285,457.68	\$ 51,269,457.54	\$ 16,000.14
Movable Equipment's current year additions	<u>1,436,841.78</u>	<u>1,428,286.61</u>	<u>8,555.17</u>
	<u>\$ 52,722,299.46</u>	<u>\$ 52,697,744.19</u>	<u>\$ 24,555.31</u>

Cause:

There appears to be a lack of internal control policy and procedures over the maintenance of the fixed asset register.

Effect:

Depreciation expense could be misstated, however, it appears to be immaterial to the financial statements. More importantly, the existence of the fixed assets may be in question when differences between the general ledger and fixed asset register are not investigated and resolved.

Recommendation:

GMHA should establish internal controls to ensure that fixed asset balances per the general ledger and fixed asset register are reconciled on a periodic basis. Discrepancies should be immediately investigated and resolved.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-14, Continued**  
**Area: Fixed Asset Register Reconciliation**  
**CFDA No. N/A**

Auditee Response and Corrective Action Plan:

We agree with this finding. Management will put policies and procedures into place to conduct monthly reconciliations of the Fixed Assets Register to the General Ledger Control Account. With the recent attrition of staff persons within accounting, management plans to hire a Fixed Asset Accountant. The current Management of GMHA will implement corrective action in fiscal year 2005.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-15**  
**Area: Accounts Payable**  
**CFDA No. N/A**

Criteria:

Generally accepted accounting principles require the reconciliation of the accounts payable general ledger accounts to the subsidiary ledger on a periodic basis.

Condition:

At September 30, 2002, the accounts payable general ledger control account was not reconciled to the accounts payable subsidiary ledger as follows:

	<u>Per General Ledger</u>	<u>Per Subsidiary Ledger</u>	<u>Difference</u>
Accounts payable-trade	<u>\$ 5,969,207.69</u>	<u>\$ 5,953,916.72</u>	<u>\$ 15,290.97</u>

Cause:

There appears to be lack of internal control policy and procedures to ensure that accounts payable control accounts are reconciled with the subsidiary ledger.

Effect:

There is no material effect on the September 30, 2002 financial statements. However, if accounts are not reconciled, material errors or fraud could exist and not be detected.

Recommendation:

GMHA should establish internal control policies and procedures to ensure that the accounts payable control account and subsidiary ledger are reconciled on a periodic basis.

Auditee Response and Corrective Action Plan:

We agree with this finding. Management will put policies and procedures into place to conduct monthly reconciliations of the Accounts Payable Subsidiary to the General Ledger Control Account. The current Management of GMHA will implement corrective action in fiscal year 2005.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No. 02-16**

**Area: Notes payable—Government of Guam Retirement Fund**

**CFDA No. N/A**

Criteria:

GMHA should maintain written formal promissory notes or payment arrangement for the amounts in arrears of retirement contributions with the Government of Guam Retirement Fund.

Condition:

As of September 30, 2002, GMHA outstanding liabilities on unpaid contributions with Government of Guam Retirement Fund totaled \$15,887,457 of which \$7,622,973 pertains to contributions in arrears prior September 30, 2002, including interest and penalties approximating \$568,453, and a \$6,932,542 promissory note due on March 2003. GMHA defaulted to pay its obligation and the note has not been reconstructed. As of September 30, 2002, unpaid contributions for fiscal year 2002 payroll consisting of current and past due were \$1,331,942. GMHA currently does not have a new payment schedule agreement or promissory note on all of its outstanding liabilities with the Government of Guam Retirement Fund.

Cause:

GHMA has not taken action to consummate a payment schedule arrangement with the Government of Guam Retirement Fund.

Effect:

Interest and penalties in the general ledger could be misstated. Moreover, GMHA is not in compliance with debt covenants with Retirement Fund. Management could be making decisions based on inaccurate financial information.

Recommendation:

We recommend that GMHA execute a new note agreement for all of its payable in arrears with the Government of Guam Retirement Fund

Auditee's Response and Corrective Action Plan:

We agree with this finding. Management has made an attempt to execute a new note agreement but to no avail. Currently, GMHA and the Government of Guam Retirement Fund are at an impasse. The only relief GMHA will see is a \$1.2 million subsidy from Government of Guam allotted to pay the retirement liability for employees who have resigned or retired and have formerly requested to receive retirement funds.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-17**  
**Area: Contractual Allowances**  
**CFDA No. N/A**

Criteria:

Contractual allowance estimates should be based on negotiated payor agreements, historical collection analyses, and/or other rational basis.

Condition:

GMHA lacks formal written internal control policies and procedures to evaluate reasonableness of contractual allowance estimates rates being applied to its third party payors. Management was not able to substantiate or provide a reasonable basis for which the following current contractual allowance estimates:

Self Pay	50%
Medical Indigent Program	44%
FHP	25%
Other payors	20%
Multicover	18%

Cause:

There appears to be weak internal controls and management oversight over ensuring that contractual allowance estimates are based on such rational bases as negotiated payor agreements or historical collection analyses.

Effect:

Revenues and receivables could be understated. Cash flows could be negatively affected due to acceptance of unreasonable or incorrect high allowances.

Recommendation:

Contractual allowances recorded in the financial statements should be based on such rational bases as negotiated payor agreements or historical collection analyses. GMHA should accumulate collection data for each class of payors and develop a historical collection database to support contractual allowance rates.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No. 02-17, Continued**  
**Area: Contractual Allowances**  
**CFDA No. N/A**

### Auditee Response and Corrective Action Plan:

We agree with this finding. Management is currently working to correct the possible misstatement in the Accounts Receivable. Management has promoted an Internal Auditor II to manage areas that directly affect GMHA's Accounts Receivables (i.e. Business Office, Medical Records and Patient Registration). Management reassigned job functions of staff persons, lacking knowledge of Accounts Receivable that may have contributed to the discrepancy noted. The reassignments mentioned above occurred in Accounting and Business Office. Management hired a Chief Financial Officer to aid in the correct presentation of Accounts Receivable and other major accounts in the GMHA financial statements. The current Management of GMHA will implement corrective action in fiscal year 2005.

Management will conduct a historical and current analysis of Bad Debts and Contractual Adjustments to determine a reasonable allowance percentage.



**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-18**  
**Area: Cash Management**  
**CFDA No. 83.544 (Federal Emergency Management Agency: Public Assistance)**

Criteria:

In accordance with OMB Circular A-133 cash management requirements, the time elapsed between the transfer of funds from the grantor and the disbursements of funds by the grantee must be minimized.

Condition:

Cash advances from Federal Emergency Management Agency (FEMA) received on November 1998 for public assistance for Typhoon Paka were expended beginning January 2002. The expenditures were for the repair of the Backup Chiller (air-conditioning system ducting) damaged by Typhoon Paka in 1998. There appears to be a prolonged period of time elapsed from the transfer date to the commencement of actual disbursements of funds. At September 30, 2002, the balance and amount disbursed from the cash advances are as follows:

Cash advanced from FEMA	\$ 391,359
Expenditures for backup-chiller	<u>56,118</u>
Cash advance balance at 9/30/02	<u>\$ 335,241</u>

Cause:

There appears to be a lack of internal controls ensuring that the time elapsed between the transfer of funds from the grantor and the disbursement of funds by the grantee is minimized.

Effect:

The grantee appears to be in noncompliance with OMB Circular A-133 cash management requirements and may be required to remit the advance to the grantor agency. Cash is not being used as intended and equipment is not being returned to service in a timely manner.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-18, Continued**  
**Area: Cash Management**  
**CFDA No. 83.544 (Federal Emergency Management Agency: Public Assistance)**

Recommendation:

The grantee should establish internal controls to ensure that the time elapsed between the transfer of funds from the grantor and the disbursement of funds by the grantee is minimized. Repairs should be completed at the immediate opportunity.

Auditee Response and Corrective Action Plan:

We agree with this finding. The remaining cost to complete the Backup-Chiller project as of September 30, 2002 is \$558,374. The cash advance from FEMA in the amount of \$335,241 will offset this balance. Furthermore, Management will insure that personnel in the related areas adhere to the OMB Circular A-133 cash management requirements.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-19**  
**Area: Inventories**  
**CFDA No. N/A**

Criteria:

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

Condition

GMHA's general ledger control accounts of its inventories were not reconciled with the physical count as at September 30, 2002 as follows:

	<u>Per General Ledger</u>	<u>Per Physical Count</u>	<u>Difference</u>
Inventory-General Store	\$ 1,220,585.87	\$ 1,300,138.38	\$ 79,552.51
Inventory-Pharmacy	417,775.07	420,849.81	3,074.74
Inventory-Central Supplies	<u>111,487.17</u>	<u>122,530.81</u>	<u>11,043.64</u>
	<u>\$ 1,749,848.11</u>	<u>\$ 1,843,519.00</u>	<u>\$ 93,670.89</u>

Cause

The cause of the above condition is lack of controls over reconciliations of the general ledger control account to physical count.

Effect

The total inventory per general ledger is understated by \$93,670.89. However, an audit adjustment was made to the general ledger control account to agree balances to physical count as of September 30, 2002. Additionally, a greater opportunity for inventory fraud exists when inventory reconciliations are not performed and differences investigated in a timely manner.

Recommendation

GMHA should establish internal controls to ensure that the inventory general ledger control accounts are reconciled to physical count, and that necessary adjustments are made to adjust the general ledger balances.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-19, Continued**  
**Area: Inventories**  
**CFDA No. N/A**

Auditee Response and Corrective Action Plan:

We agree with this finding. Management will put policies and procedures into place to conduct monthly reconciliations of the Inventory Subsidiary to the General Ledger Control Account. The current Management of GMHA will implement corrective action in fiscal year 2005.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No.** 02-20  
**Area:** All departments – Password Access  
**CFDA No.** N/A

### Criteria:

Management should ensure that unauthorized personnel are denied access to data, programs, and the processing function whether by physical entry to the facility or electronic entry via remote terminal.

### Condition:

There is no control on the tracking of user passwords in accessing different modules on GMHA's computer system. On instances, access to these various modules was easily accessible to all employees when only specific individuals should have access.

### Cause:

There appears to be a lack of internal controls to ensure that access to system is limited to authorized personnel.

### Effect:

The potential for fraud greatly increases when unauthorized personnel alter information, including data transmitted via communication lines. Pertinent information could either be lost, suppressed, overridden, duplicated, or otherwise improperly modified and not be detected.

### Recommendation:

Management should create a policy and enforce the internal controls to ensure that only authorized personnel are allowed access to their specific area delegated to them. Access levels should be periodically reviewed to ensure that personnel are authorized access based on their respective job requirements and related functions. Passwords should be changed periodically. Furthermore, a systems audit should be conducted to ensure that all firewalls are functional and that illegal remote access to the mainframe system cannot be obtained.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-20, Continued**  
**Area: All departments – Password Access**  
**CFDA No. N/A**

Auditee Response and Corrective Action Plan:

We agree with this finding. The following is our corrective action plan:

1. By the 1<sup>st</sup> week of December 2004, MIS will submit a new proposed Password Policy for review and approval
2. Starting mid November 2004 through mid December 2004, MIS authorized systems security administrators will review and access all hospital authorized user's access to systems, application modules and limitations and provide department heads for their verification and feedback.
3. Upon approval of the new Password Policy, informational circular notifying all hospital staff of the new policy and compliance will be disseminated.
4. MIS will perform periodic systems audit as per delineation in new Password Policy.

The current Management of GMHA will implement corrective action in fiscal year 2005.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No.** 02-21  
**Area:** All departments – Software Licensing  
**CFDA No.** N/A

### Criteria:

Software used on GMHA's computer system should be original and used for the sole purpose of the hospital. As per copyright law, any original software purchased must be registered by the user and any reproduction or distribution of actual software is prohibited.

### Condition:

It was noted that various software installed on GMHA's system originated from certain employee's personal home software.

### Cause:

GMHA does not maintain a policy to ensure that only licensed software is installed on the hospital's computer systems.

### Effect:

Unauthorized reproduction or distribution of software program protected by copyright law may result in civil and criminal penalties.

### Recommendation:

Management should ensure that only original and current versions of systems software and applications are properly authorized and are properly utilized for the necessary functions of the computer system.

### Auditee Response and Corrective Action Plan:

We agree with this finding. Management is developing policies and procedures to restrict the use of personal software on GMHA's computer system. The MIS Department will remove unlicensed software from the GMHA's personal computers by December 31, 2004. During the 2005-calendar year, they will upgrade the operating software thus allowing the system to automatically restrict employees from installing unlicensed software.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-22**  
**Area: Safety Department**  
**Patient Valuables in Safe Custody of GMHA**  
**CFDA No. N/A**

Criteria:

Patient valuables obtained at the time of emergency admittance should be held in trust by GMHA in safe custody of the hospital and must be kept only for a certain period of time.

Condition

Four (or 20%) of the Patient's Valuable Envelopes in safe custody of the hospital have been found to be altered, and one (or 1%) has been sealed empty. Of the four Valuable Envelopes found to be altered, the following were no longer in the contents of the Valuable Envelopes:

<u>Patient's Valuable Envelope Received Date</u>	<u>Currency Missing in the Valuables Envelope</u>
November 3, 1997	Sealed empty
March 1, 1998	Cash - \$ 2.00
June 19, 1999	Cash - 70.00
November 28, 1998	Cash - 319.00
December 22, 1998	Cash - <u>455.00</u>
	<u>\$ 846.00</u>

Additionally, the existing mechanism policy on Patient's Valuable held in trust to the hospital were noted to have the following weaknesses:

<u>Weakness Cited</u>	<u>Result</u>
Valuable Envelopes have no controlling tags or numbers, nor embossed patient's addressograph card present in the valuable envelopes.	The possibility exists that long unclaimed valuable envelopes have been replaced, stolen or improperly disposed of.
GMHA has no written policy as to disposition of long unclaimed valuable envelopes in the safe custody of the hospital.	The existing safe is observed to be too small to accommodate the bulk of the valuable envelopes.



**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-22, Continued**  
**Area: Safety Department**  
**Patient Valuables in Safe Custody of GMHA**  
**CFDA No. N/A**

<u>Weakness Cited</u>	<u>Result</u>
Control signatures required to be present in the Valuable Envelopes are not properly signed by the Patient's Service Representative	Unknown witnesses actually exist at the time of the sealing of the patient's valuable envelope.
Valuable Register Logs prior to April 7, 1998 could not be located.	The possibility of unclaimed patient's valuable envelopes being stolen from the safe custody of the hospital.
Fifteen occurrences of duplicate entry of Patient's Valuable envelope in the Register Control Log.	Provides misleading records that patient valuables are still in the custody of hospital.
7/3/99 Patient's Valuable Claimant claimed currency missing on the envelope.	No Hospital Staff held responsible.
Five patient names registered on the control log appear to have valuable envelopes unclaimed; but envelopes were not found in the safe.	No Hospital Staff held responsible.
The Safe key was hanging on the wall close to the Safe location.	Opportunity exists for unauthorized safe access and theft.

Cause:

GMHA does not have internal control policies for safe keeping of patient valuables held in trust by the hospital.

Effect:

There is no effect on the financial statements, however, patient valuables held in trust to the hospital are being stolen from the safe. The possibility exists for GMHA to be sued in the future for loss valuables held in trust by the hospital, and may result in payment of government funds to claimants for lost valuables.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-22, Continued**  
**Area: Safety Department**  
**Patient Valuables in Safe Custody of GMHA**  
**CFDA No. N/A**

Recommendation:

We recommend that GMHA take necessary action to correct weaknesses on existing policies and procedures over safe keeping of patient valuables held in trust to the hospital in order to mitigate theft of patient property and ensure that such property is properly safeguarded. Management should investigate the missing cash to determine those who may be responsible.

Auditee Response and Corrective Action Plan:

We agree with this finding. Management is developing policies and procedures to establish internal controls against theft of patient valuables in the Patient Registration Department. The Assistant CFO and assistant audited the envelopes containing patient valuables not opened by the external auditors and ascertained that no additional valuables were missing. The current Management of GMHA will implement corrective action in fiscal year 2005.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No.** 02-23  
**Area:** Security Department (GMHA-Main and Skilled Nursing Unit)  
**CFDA No.** N/A

### Criteria:

All lost and found items must be reported by the Security Officer and logged in the Security Log Book accompanied by the Lost and Found Form. If lost items are not claimed within two hours after trying to locate the individual, if known, then the item will be turned in to the Chief of Security for further research of the owner. All lost and found items will be kept by the Chief of Security Officer for thirty (30) days then turned over to the Guam Police Department. At least monthly, the Chief of Security is responsible for reporting lost and found items to the Associate Administrator for Administrative Services.

### Condition:

The Lost and Found Register Log of GMHA-Main could not be located. There were no records in the Security Department for the documentation of lost and found items kept in the Security Office Department. These items consisted of wallet, badges, identification badges (Federal and local), keys, etc., kept in the main safe and the SNU safe. Additionally, there were no records or documentation of any lost and found items that had been turned over to the police department to evidence that policy and procedures are being followed.

### Cause:

It appears that Security Department policy and procedures for lost and found items are neglected and not followed.

### Effect:

There is no effect in the financial statements. However, it appears that there is inadequate management oversight in this department. Incidents of misappropriation of assets could have been reported to this department. However, such instances may have been neglected and not properly documented and addressed to the inattention of management.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Finding No. 02-23, Continued**

**Area: Security Department (GMHA-Main and Skilled Nursing Unit)**

**CFDA No. N/A**

Recommendation:

We recommend that GMHA should evaluate the efficiency and performance of the Security Department and place adequate oversight to ensure policy and procedures are being adhered to by the responsible employees.

Auditee/Response and Corrective Action Plan:

We agree with this finding. The Chief of Security shall be held accountable by Administration for enforcing GMHA's Security Policies and Procedures, which were clearly stated, but not properly executed. For example, monthly reporting shall take place to both the Associate Administrator of Operations, as well as the Safety Management Committee; timelines shall be followed for holding lost and found items; the Security Log Book and the Lost and Found Register Log and Form shall be present at all times and properly utilized to document such security incidents; and lost items shall be turned over to the Guam Police Department for those items not returned to their rightful owner within thirty days.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2002

**Finding No.** 02-24  
**Area:** Inventory - Pharmaceuticals  
**CFDA No.** N/A

### Criteria:

Health care organizations are required to maintain pharmaceutical inventories in a secure location to ensure that access is properly controlled and maintained.

### Condition:

During the observation of GMHA's physical count of its inventory, it was noted that syringes and hypodermic needles were located on bins in an exposed and unsecured area within the Material Management and Supplies warehouse. Additionally, we noted that other pharmaceuticals were stored behind a gate entrance, which could be easily assessed by climbing over the top of the gated entrance.

### Cause:

GMHA was unaware that additional measures should be undertaken to properly secure its pharmaceuticals to restrict access and to properly secure syringes and hypodermic needles.

### Effect:

There is no material effect on the financial statements; however, unrestricted access to pharmaceuticals, syringes and hypodermic needles creates an environment whereby such items be illegally taken for personal use and/or sold on the open market.

### Recommendation:

Management should immediately take preventative measures to properly secure and control all pharmaceuticals, syringes and hypodermic needles. The current pharmaceutical inventory storage location should be completely enclosed to restrict access or moved to a secure location to mitigate potential theft and abuse.

### Auditee Response and Corrective Action Plan:

We agree with this finding. At the time of this finding the pharmaceutical storage area in fact had several areas that need to be more secured. The situation has been addressed and all space that contain pharmaceutical, or syringes have since been placed under lock and key. At the time of this response, pharmaceutical supplies have since been place under the custody of the Pharmacy Department, and is secured in a new location.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Summary Schedule of Prior Year Audit Findings Year Ended September 30, 2002

### 2001 Audit Findings

#### Finding No. 2001-01—Procurement: Competitive Sealed Bidding Method

**Condition:** For one (or 4%) out of twenty-five procurement transactions, it was noted that a vendor was selected for a bid packet despite submissions of lower bids from other vendors and no rationale for such selection was documented in the procurement file.

#### Corrective

**Action:** GMHA is in the process of completing supporting documents by end users and the Product Standardization Committee on disapproved products that should be filed with the bid packets to justify non-selection of products, although lower bids were offered.

#### Current

**Status:** Materials Management currently reviews products for inclusion as qualified products, and maintains documents on file upon approval, or disapproval by end users. Qualified products are also listed on the item file for vendor review during the bidding process. Buyers are also required to place in bid packet files, and purchase order files the basis for selection, or non-selection of offered products.

#### Finding No. 2001-02—Procurement: Procurement Method

**Condition:** For four (or 16%) out of twenty-five procurement transactions, it was noted that the purchase orders processed were cited using the incorrect procurement methods per GMHA's procurement regulations.

#### Corrective

**Action:** GMHA reviewed the purchase orders and noted that the wrong authorities were cited on the purchase orders. The purchase orders were either for the final year of a contract or for GMHA to exercise the option to extend the service contracts. Therefore, citation of the proper procurement authority will be posted on all subsequent purchase orders.

#### Current

**Status:** Materials Management currently uses the three-eye rule in reviewing all purchase orders generated to verify that the appropriate authority is cited on each purchase order. The buying section periodically conducts in-service in the proper use of authorization codes.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Summary Schedule of Prior Year Audit Findings Year Ended September 30, 2002

### **2001 Audit Findings, Continued**

#### Finding No. 2001-03—Procurement: Sole Source Method

**Condition:** For five (or 20%) out of twenty-five purchase orders tested, it was noted that the Hospital Administrator approved the use of sole source method for selecting specific vendors. However, the approval does not include justification for the vendor selections. Furthermore, one contract allowed a vendor to replace existing equipment without being subject to Government of Guam procurement rules and regulations and obligates GMHA to reimburse this vendor's replacement costs.

#### **Corrective**

**Action:** For two of the purchase orders noted under condition, the appropriate authorities were cited but were also processed to amend the original purchase orders. Determination will be made for citing proper authority for amendments to original purchase orders. Furthermore, procedures will be made to assign proper authority to any subsequent orders related to the initial purchase order citing the same authority.

#### **Current**

**Status:** Materials Management currently uses the three-eye rule in reviewing all purchase orders generated to verify that the appropriate authority is cited on each purchase order. The buying section periodically conducts in-service in the proper use of authorization codes.

#### Finding No. 2001-04—Procurement: Emergency Method

**Condition:** For four (or 44%) out of nine purchase orders, there is no written rationale for the selection of vendors under the emergency procurement method; which resulted in federal questioned costs of \$1,244,089.

#### **Corrective**

**Action:** Subsequent requirements solicited under the Request for Proposals (RFPs) process have been managed in accordance with procurement regulations. Materials Management department has ensured that the process is complete and all supporting documents are on file. Furthermore, GMHA will complete any formal bid process started and close out procurement procedures properly and accordingly; as well as obtain hard copies on file for whoever has authorized procurement under emergency conditions and cancellations of the formal bid process.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Summary Schedule of Prior Year Audit Findings Year Ended September 30, 2002

### **2001 Audit Findings, Continued**

#### Finding No. 2001-04—Procurement: Emergency Method, Continued

##### Current

Status: The U.S. Department of Interior has considered this finding to be resolved as per letter received from GMHA on February 3, 2004 in regards to the final disposition of the questioned costs totaling \$1,224,089. Materials Management has, and currently is using, selection criteria established in IFB and RFP solicitations to determine selection of vendor to provide services. Buyers are charged to ensure all communication related to an IFB, RFP, or Emergency procurement are documented and placed in procurement packets as supporting document on actions taken.

#### Finding No. 2001-05—Accounts Receivable Reconciliation

Condition: The accounts receivable control account and subsidiary ledger should be reconciled.

##### Corrective

Action: GMHA has assigned an accountant to reconcile the accounts receivable control account and subsidiary ledgers. The reconciliation is also reviewed by General Accounting Supervisor.

##### Current

Status: Per Finding No. 02-10, there continues to be discrepancies of material amounts between the accounts receivable control account and the subsidiary ledger. Therefore, we consider this finding unresolved.



# GUAM MEMORIAL HOSPITAL AUTHORITY

## Summary Schedule of Prior Year Audit Findings Year Ended September 30, 2002

### **2001 Audit Findings, Continued**

#### Finding No. 2001-06—Litigation Settlement

**Condition:** GMHA paid two settlements in apparent noncompliance with the Government Claims Act. For one settlement, no claim was filed with GMHA Claims Officer; however, the potential claimant was paid \$300,000. For the second settlement, GMHA paid the tort claimant \$50,000 in excess of the maximum \$100,000.

#### **Corrective**

**Action:** The position of Risk Manager is currently vacant but will be filled by another GMHA employee. Fiscal Affairs/Accounting is now more aware of the required documents before processing settlement payments.

#### **Current**

**Status:** This finding is a result of decisions made by the previous GMHA Administration. This administration was in place for fiscal years 2001, 2002 and 2003. The current administration's responsibilities for the management of GMHA began during the middle of fiscal year 2004. The current GMHA administration will ensure adherence to the Government Claims Act. All claims of material amount are referred to outside legal counsel for suggested legal action.

#### Finding No. 2001-07—Fixed Asset Register Reconciliation

**Condition:** Fixed asset balances per the general ledger and fixed asset register should be reconciled.

#### **Corrective**

**Action:** GMHA has assigned an accountant to reconcile the fixed assets balance on the general ledger, as well as the fixed assets register. The reconciliation is also reviewed by General Accounting Supervisor.

#### **Current**

**Status:** Per Finding No. 02-14, there continues to be discrepancies between the fixed asset balances per the general ledger and fixed asset register. Therefore, we consider this finding unresolved.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Summary Schedule of Prior Year Audit Findings Year Ended September 30, 2002

### **2001 Audit Findings, Continued**

#### Finding No. 2001-08—Payroll

**Condition:** Nurses were paid night differential pay at a rate of 20% without proper authorization by the Civil Service Commission. Additionally, GMHA is unable to assess total overpayments due to such unapproved supplement pay.

**Corrective**

**Action:** Personnel Services is responsible in working with Civil Service Commission (CSC) on matters relating to hiring and paying employees. GMHA is in the process of having CSC approve supplemental pay rates before implementing them.

**Current**

**Status:** This finding is unresolved.

#### Finding No. 2001-09—Contractual Allowances

**Condition:** GMHA increased the rates of contractual allowances for most of its payers during fiscal year 2001. GMHA personnel were unable to provide justification for the rate increases for either negotiated payer agreements or historical collection analysis.

**Corrective**

**Action:** The General Accounting Supervisor is assigned to review the percent applied for each payer category to arrive at the contractual allowance. Billing and collection data is used to arrive at percentages being used to calculate the allowance for bad debts (contractual allowance). The percentages are adjusted on a quarterly basis, reviewed and approved by the Hospital Comptroller.

**Current**

**Status:** Per Finding No. 02-17, it was noted that GMHA still lacks formal written internal control policies and procedures to evaluate reasonableness of contractual allowance estimate rates. Therefore, we consider this finding unresolved.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Summary Schedule of Prior Year Audit Findings Year Ended September 30, 2002

### **2001 Audit Findings, Continued**

#### Finding No. 2001-10—Cash Management

**Condition:** A total of \$391,359 in cash advances received from Federal Emergency Management Agency (FEMA) in November 1998 remained in the Other Accounts Payable deferred revenue account as of September 30, 2001; which is not in compliance with OMB Circular A-133 cash management requirements.

#### **Corrective**

**Action:** The current ongoing FEMA mitigation projects are on reimbursement basis. This means that GMHA has to pay the vendors first and request Bureau of Budget and Management Research to draw down the funds later. The drawdown request is complete with copies of the invoice and check payment.

#### **Current**

**Status:** The award for public assistance for Typhoon Paka for the repairs of the Backup Chiller is currently in progress. The remaining cost to complete the Backup-Chiller project as of September 30, 2002 is \$558,374. The cash advance from FEMA in the amount of \$335,241 will offset this balance.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

**SUMMARY OF UNRESOLVED QUESTIONED COSTS**  
**SEPTEMBER 30, 2002**

	<u>Beginning Questioned Costs</u>	<u>Costs Allowed</u>	<u>Costs Disallowed</u>	<u>Unresolved Questioned Costs</u>
Total unresolved questioned costs for fiscal year 2001	\$ 1,224,089	\$ (1,224,089)	\$ -	\$ -
Questioned costs for fiscal year ending 2002	<u>1,811,359</u>	<u>-</u>	<u>-</u>	<u>1,811,359</u>
Total unresolved questioned costs At September 30, 2002	<u>\$ 3,035,448</u>	<u>\$ (1,224,089)</u>	<u>\$ -</u>	<u>\$ 1,811,359</u>

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