

GUAM MEMORIAL HOSPITAL AUTHORITY

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

SEPTEMBER 30, 2000



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Guam Memorial Hospital Authority:

We have audited the financial statements of the Guam Memorial Hospital Authority (GMHA) as of and for the year ended September 30, 2000, and have issued our report thereon dated September 20, 2001. We conducted our 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, we 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 our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GMHA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our 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 as finding numbers 00-01 through 00-10.

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 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. Our 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, we believe none of the reportable conditions described above is a material weakness.

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

Deloitte + Tatchell LLP

September 20, 2001



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Trustees
Guam Memorial Hospital Authority:

Compliance

We have audited the compliance of the Guam Memorial Hospital Authority (GMHA) 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 its major federal program for the year ended September 30, 2000. GMHA's one major federal program is identified in the Summary of Auditors' Results Section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of GMHA's management. Our responsibility is to express an opinion on GMHA's compliance based on our audit.

We conducted our 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 we 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 we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on GMHA's compliance with those requirements.

In our opinion, GMHA complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2000.

Internal Control Over Compliance

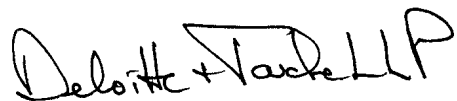
The management of GMHA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered GMHA's internal control over compliance with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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of GMHA as of and for the year ended September 30, 2000, and have issued our report thereon dated September 20, 2001. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of GMHA. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

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

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

September 20, 2001

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000

<u>Federal grantor/program title/ project designation</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Project Amount</u>	<u>Balance at beginning of year</u>	<u>Expenditures</u>	<u>Repayments</u>	<u>Balance at end of year</u>
Federal Emergency Management Agency: Received on a sub-grantee basis through the Government of Guam:						
Enclosure of Exterior Corridors and Hallways	83.548	\$ 1,675,922	\$ 76,723	\$ 947,813	\$ 743,737	\$ 280,799
Typhoon Paka	83.516	<u>630,000</u>	<u>(274,929)</u>	<u>-</u>	<u>116,430</u>	<u>(391,359)</u>
Total			<u>\$ (198,206)</u>	<u>\$ 947,813</u>	<u>\$ 860,167</u>	<u>\$ (110,560)</u>

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2000

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Organization's major program is:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Federal Emergency Management Agency Hazard Mitigation: Enclosure of Exterior Corridors and Hallways	83.548

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page Number</u>
00-01	Fixed Assets	\$ -	8
00-02	Inventory	\$ -	9
00-03	Inventory	\$ -	10
00-04	Accounts Payable	\$ -	11
00-05	Accounts Receivable	\$ -	12
00-06	Fixed Assets	\$ -	13
00-07	Construction In Progress	\$ -	14
00-08	Audit Adjusting Journal Entries	\$ -	15
00-09	Contingencies	\$ -	16
00-10	Allowance for Doubtful Accounts	\$ -	17

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
September 30, 2000

Part III - Federal Award Findings and Questioned Cost Section

No matters are reportable.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Internal Control Findings Year Ended September 30, 2000

Finding Number 00-01 – Fixed Assets

Criteria:

The fixed assets register should be updated in a timely manner to reflect surveyed items.

Condition:

We could not locate one fixed asset of six tested. Through further investigation, it was noted that the asset was disposed in December 1999 but had not been removed from the fixed asset listing.

Cause:

Fixed asset inventories are not being performed.

Effect:

Fixed assets were overstated.

Recommendation:

Upon identification of surveyed fixed assets, the survey form currently in use should be completed and forwarded to the accounting department for proper upgrading of the FX module. Timely reconciliation between the general ledger and the listing should be performed. Additionally, consideration should be given to the performance of a fixed assets physical inventory, as this procedure does not appear to have been performed within the last four fiscal years. We recommend that this procedure be performed at least biennially.

Auditee Response dated June 21, 2002:

We had acquired a Property Officer in FY2001 under Materials Management. There is a physical inventory that began January 2001 and completed on August 2001. The Supply Administrator will submit to the Comptroller a report of fixed assets at every end of the fiscal year for properly recording fixed assets in the financial statements.

Physical inventory will be conducted every year, and a report will be submitted to the Comptroller and the Administrator/CEO.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Internal Control Findings
Year Ended September 30, 2000

Finding Number 00-02 - Inventory

Criteria:

Expired and surveyed inventory items should be separated and marked "Do Not Inventory" during the yearly physical count.

Condition:

A total of \$7,446 in expired and surveyed inventories were included in the inventory count.

Cause:

There appears to be a lack of control over the segregation of expired and surveyed inventory items prior to the performance of physical inventories.

Effect:

There is a potential for misstatement of the inventory balance by an immaterial amount.

Recommendation:

We recommend that surveyed inventories be monitored closely on a regular basis to allow for proper identification and accounting treatment.

Auditee Response dated June 21, 2002:

The Supply Management Administrator will submit a report on inventories at the end of each fiscal year.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Internal Control Findings Year Ended September 30, 2000

Finding Number 00-03 - Inventory Cutoff Documents

Criteria:

Material issuance slips should be maintained for record keeping until the annual audit is completed.

Condition:

The last material issuance slip before the inventory count for the fiscal year ended September 30, 2000, and the first material issuance slip for items issued after the physical inventory were unavailable for our review because they were destroyed.

Cause:

Material issuance slips are not retained after items are issued.

Effect:

There is a potential for improper cutoff procedures and this condition provides no audit trail to substantiate authorized inventory issuances.

Recommendation:

Management should insure that inventory documents such as material issuance slips are properly maintained until the annual audit is completed to allow for an audit trail and testing of proper cutoff procedures.

Auditee Response dated June 21, 2002:

Material issuance slips are being kept on file. The Supply Management Administrator will submit a detail report to the Comptroller on a monthly basis. Material issuance slips are being maintained electronically in the Inventory Management System (IMS) within the Material Management Office.

Inventory documents will be available and maintained until an audit review is completed.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Internal Control Findings Year Ended September 30, 2000

Finding Number 00-04 - Accounts Payable

Criteria:

A proper cutoff of purchases and expenses should be performed at year-end.

Condition:

Cut-off procedures performed indicate that an unrecorded liability of \$35,096 was not properly recorded as of September 30, 2000.

Cause:

Cut-off procedures employed at GMHA did not ensure the proper recordation of this balance.

Effect:

A possible misstatement of the accounts payable account could result from this condition.

Recommendation:

We recommend that purchases and expenses, recorded immediately subsequent to fiscal year end, be scrutinized to ensure that all are recorded in the proper period.

Auditee Response dated June 21, 2002:

The following are procedures in recognizing accounts payable:

1. When an item is received, it is recorded as an inventory, expense, fixed assets and contract account is Unbilled PO receipts (accounts payable) account.
2. The following are examples:
 - a. An inventory item: Debit Inventory, Credit Accounts Payable
 - b. Inventory item issued: Credit Inventory, Debit Expense
 - c. An item expensed immediately: Debit Expense, Credit Accounts Payable

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Internal Control Findings
Year Ended September 30, 2000

Finding Number 00-05 - Accounts Receivable/Suspense Account

Criteria:

The accounts receivable suspense account should be properly reviewed and reconciled.

Condition:

Reversing entries for the proper recording of customer payments were not properly recorded. This resulted in the recording of cash shortages of \$1,197,539, and \$618,559 and a cash overage of \$164,343 to the general ledger even though there were no significant actual cash shortages. GMHA properly corrected these recordings prior to fiscal year end.

Cause:

The accounts receivable suspense account does not appear to have been updated following the identification of the proper patients' receivable categories or accounts.

Effect:

This condition may result in the possible misstatement of the cash and accounts receivable accounts.

Recommendation:

We recommend that management review and reconcile the accounts receivable suspense account on a daily basis to allow for proper and timely adjustment.

Auditee Response dated June 21, 2002:

The General Accounting Supervisor will assure that reconciliation are being done on a timely manner, with the final approval of the Comptroller.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Internal Control Findings
Year Ended September 30, 2000

Finding Number 00-06 - Fixed Assets

Criteria:

The general ledger should be reconciled to the fixed asset subsidiary listing at fiscal year end.

Condition:

A reconciliation of the fixed asset subsidiary listing to the general ledger indicated that the fixed asset cost and the related accumulated depreciation balances were overstated by \$1,343,688 and \$1,435,394, respectively.

Cause:

Regular reconciliation between the fixed asset subsidiary listing and the general ledger are not being performed.

Effect:

A possible misstatement of the fixed asset and accumulated depreciation account may result from this condition. The overall effect on the financial statements is minimal.

Recommendation:

The fixed asset and accumulated depreciation general ledger accounts should be periodically reconciled to the subsidiary listing.

Auditee Response dated June 21, 2002:

The Supply Management Administrator will submit to the Comptroller a report of the fixed assets at every end of the fiscal year for properly recording fixed assets in the financial statement. The General Accounting Supervisor will review depreciation schedule with the final approval of the Comptroller.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Internal Control Findings Year Ended September 30, 2000

Finding Number 00-07 - Construction in Progress (CIP)

Criteria:

Completed CIP projects should be adjusted immediately to the fixed asset account or expensed accordingly upon completion.

Condition:

A total of \$ 665,793 in CIP projects completed during fiscal year 1999 were closed and expensed during fiscal year 2000.

Cause:

The general accounting department is not updated on the type and status of ongoing projects by the CIP committee.

Effect:

Expenses that were incurred in fiscal year 1999 were not recognized as expenses until fiscal year 2000.

Recommendation:

Management should monitor the construction in progress account on a more regular basis to allow for proper identification of expenses and timely activation and depreciation of projects completed.

Auditee Response dated June 21, 2002:

The Chief Planner will submit to the Comptroller a monthly status report. This report will consist of original contract amount, expended amount, amount outstanding and balances of the project.

After projects are completed, the Chief Planner will submit a report to the Comptroller stating that project is completed with the amount expended and any remaining balances.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Internal Control Findings
Year Ended September 30, 2000

Finding Number 00-8 – Audit Adjusting Journal Entries

Criteria:

Proposed adjusting journal entries (AJE's) based on audited financial statements must be posted to reflect correct beginning account balances.

Condition:

Several AJE's from the previous year's audit were not recorded resulting in a misstatement of several accounts.

Cause:

A delay in the completion of audits is partially responsible for this condition.

Effect:

An overstatement of the beginning fund balance of \$341,648 resulted from this condition. Beginning balance misstatements for several other accounts also resulted from this condition.

Recommendation:

GMHA management should record all agreed-upon AJE's after acceptance of the audited financial statements.

Auditee Response dated June 21, 2002:

The Comptroller will assure all AJE's are recorded after acceptance of the audited financial statement by the Board of Trustees.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Internal Control Findings Year Ended September 30, 2000

Finding Number 00-9 – Contingencies

Criteria:

1. A liability should be accrued for medical malpractice and other legal claims if it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.
2. Legal counsel should be consulted as soon as GMHA becomes aware of claims or potential claims and should be involved in all facets of the claim process.

Conditions:

1. GMHA failed to accrue \$466,000 of malpractice and other legal claims at September 30, 2000, which were settled shortly after year-end. In each case, the incident which precipitated the claim occurred prior to September 30, 2000.
2. GMHA settled two claims shortly after September 30, 2000 with minimal or no apparent involvement of legal counsel. In one case, the settlement agreement, which was approved by legal counsel, was signed eight months after payments had been made to the claimant. In the other case, GMHA appears to have paid the claimant, a related party, \$50,000 more than the statutory required settlement maximum.

Cause:

The cause of this condition is not known.

Effect:

An audit adjustment was recorded to properly accrue the claim liability at September 30, 2000. This condition may have resulted in noncompliance with local statutes relating to wrongful death claims.

Recommendation:

GMHA should accrue for medical malpractice and other legal claims when losses are determined to be probable and measurable. Claims and potential claims should be referred to legal counsel as soon as management becomes aware of them.

Auditee Response dated June 21, 2002:

The Administrator/CEO will assure that claims and potential claims will be referred to legal counsel as soon as management becomes aware of such claims.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Internal Control Findings Year Ended September 30, 2000

Finding Number 00-10 – Allowance for Doubtful Accounts

Criteria:

The allowance for doubtful accounts, including contractual allowances, should be determined based on a detailed analysis of historical receivable write-offs.

Condition:

GMHA recorded bad debt expense of more than \$9.8 million in fiscal year 2000. While the bankruptcy of a significant medical insurance carrier contributed to this condition, the large bad debt expense appears to indicate that inadequate allowances and contractual reserves may be recorded when medical services are provided and billed to patients.

Cause:

Contractual and doubtful account allowances are not regularly analyzed and adjusted based on historical experience.

Effect:

Inadequate setup of contractual reserves and allowances in the year that the services are provided result in increased bad debt expense in subsequent years.

Recommendation:

We recommend that GMHA perform a detailed historical analysis of contractual and bad debt losses by payer class. Percentages used for determining contractual adjustments and the allowance for doubtful accounts should be adjusted based on the results of the analysis.

Auditee Response dated June 21, 2002:

The Comptroller will set up policies and procedures regarding allowance for doubtful accounts with the approval of the Administrator/CEO, and the Planning and Finance Committee.

GUAM MEMORIAL HOSPITAL AUTHORITY

Resolution of Prior Year's Findings
Year Ended September 30, 2000

All reportable conditions from the prior year Schedule of Internal Control Findings dated October 11, 1999, have been resolved except the following which are included as findings in the current year:

<u>Prior Year Finding Number</u>	<u>Corresponds To</u>	<u>Current Year Finding Number</u>
2		01
6		04