

GUAM MEMORIAL HOSPITAL AUTHORITY
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2017

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

Board of Trustees
Guam Memorial Hospital Authority:

We have audited, in accordance with the 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, the financial statements of Guam Memorial Hospital Authority (the Authority), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2017, and the related statements of revenues and expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

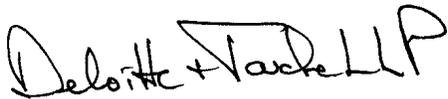
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 30, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
THE UNIFORM GUIDANCE**

Board of Trustees
Guam Memorial Hospital Authority:

Report on Compliance for Each Major Federal Program

We have audited Guam Memorial Hospital Authority's (the Authority's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2017. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Authority'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

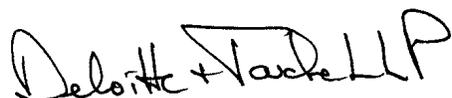
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Guam Memorial Hospital Authority (the Authority) as of and for the year ended September 30, 2017, and have issued our report thereon dated June 30, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



June 30, 2018

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

<u>Federal Grantor/ Pass-Through Grantor/CFDA#</u>	<u>Program Title</u>	Pass-Through Entity Identifying Number	<u>Federal Expenditures</u>
U.S. Department of the Interior			
Passed through the Government of Guam:		980018947	
15.875	Economic, Social and Political Development of the Territories: Compact Impact FY 2015-5 : GMH & SNU Renovations Empowering Insular Communities Grant		\$ 887,531 53,616
	Total U.S. Department of the Interior		<u>941,147</u>
U.S. Department of Health and Human Services			
Passed through the Government of Guam:		980018947	
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements: HPP Grant FY 2016 Grant		<u>311,972</u>
	Total U.S. Department of Health and Human Services		<u>311,972</u>
U.S. Department of Homeland Security			
Passed through the Government of Guam Office of Civil Defense:		980018947	
97.047	Pre-Disaster Mitigation FY 2013 Pre-Disaster Mitigation (PDM) Competitive Grant		<u>43,100</u>
	Total Federal Awards		<u>\$ 1,296,219</u>
Reconciliation to the financial statements:			
	Federal program expenditures recorded in operating expenses	\$ 250,851	
	Federal program expenditures recorded in capital assets	887,531	
	Nonoperating expenses: Federal program expenditures	<u>157,837</u>	
			<u>\$ 1,296,219</u>

See accompanying notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

(1) Scope of Audit

Guam Memorial Hospital Authority (the "Authority") is a component unit of the Government of Guam (GovGuam), a governmental entity created on July 26, 1977, under Public Law No. 14-29 as an autonomous agency of GovGuam. Only the transactions of the Authority are included within the scope of the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Authority under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the net position, changes in net position or cash flows of the Authority.

(3) Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported in the Schedule are reported on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements. All expenses and capital outlays are reported as expenditures. Pass-through entity identifying numbers are presented where available.

Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

Indirect Cost Rate

The Authority does not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of report the auditors issued on whether the financial statements were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 9. Identification of major federal programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2017-001	Patient Receivables

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

**GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No. 2017-001 – Patient Receivables

Criteria: Measures and actions should be undertaken to collect and address long-outstanding and increasing receivables. Additionally, an effective system of internal control includes procedures over timely billing.

Condition: Tests of patient receivables noted the following:

- Patient receivables increased by \$22,435,528 (or 25%) from \$88,336,846 at September 30, 2016 to \$110,772,374 at September 30, 2017, and the allowance for contractual adjustments and estimated uncollectible accounts increased by \$18,048,406 (or 27%) from \$66,070,980 at September 30, 2016 to \$84,119,386 at September 30, 2017. In March 2017, GMHA recorded \$220 million of write-offs to correct receivables and to reflect active accounts; however, the write-off has not been reflected in the subledgers as of September 30, 2017.
- An analysis and schedule of accounts receivable (AR) suspense accounts of \$5,484,899 was not completed until March 2018. Furthermore, AR suspense accounts include items dated as early as FY 2012. Also, documentation such as payment remittance advice, deposit slips and other collection documentation and rationale supporting AR suspense accounts for 5 items could not be provided.
- The number of days from discharge to billing ranged from 8 - 91 days for 90 (or 60%) of 150 revenue samples. The average days for bills to drop is set at 7 days.

Cause: The causes of the above condition appear to be (1) GMHA's mandate to service all in need of medical services regardless of patient condition (2) a lack of continuous familiarity by GMHA personnel with the new revenue and collection management system, and (3) the relatively high volume and complexity of billing and collection processes compared to the limited availability of resources.

Effect: The effect of the above condition is the accumulation of uncollectible receivables and the potential for inadequate cash flows to meet current obligations. Further, lack of timely analysis of receivables and AR suspense accounts may result in lost revenue for late billing and disputed receivables because of collections in the AR suspense accounts not recorded against specific receivable balances.

Recommendation: We recommend that the Authority continue its effort to follow up on outstanding patient receivables and continually review existing collection measures and strategies. Additionally, receivables and AR suspense accounts should be timely analyzed and adjusted as necessary. We further recommend that the Authority revisit the adequacy of resources assigned to the billing and collections division. Also, documentation should be on file in support of recorded financial statement transactions. Finally, we recommend that GMHA take reasonable steps to improve posting of charges to the revenue system and timely billing within the established period.

Identification as a Repeat Finding: Finding 2016-001

Views of Auditee and Planned Corrective Actions:

See the auditee-prepared corrective action plan.



Guam Memorial Hospital Authority

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CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) Year Ended September 30, 2017

Finding 2017-001 Patient Receivables

Name of Contact Person: Benita Manglona (Chief Financial Officer)

Views of Auditee and Planned Corrective Actions:

The increase in Patient Receivables is primarily attributed to the reduced collection from the 3Ms as compared to the previous year. GMHA continues to follow up and meet with Public Health and Insurance Providers to resolve and rebill denied or disputed claims.

GMHA continues to review and restructure its billing and collection processes and redirect resources where it is most needed. It continues to review its Quality Improvement assessment metrics to include problematic areas for tracking and improvement. It has updated and improved the reporting processes and has focused on ongoing corrective action included but not limited to the following:

- Ongoing staff training for system familiarization.
- Cross training and reassignment of staff to assist in billing, reconciliation, rebilling, and clearing of suspense accounts.
- Implementation of electronic billing with the local insurance providers which has reduced manual processes thus reducing the likelihood of posting errors.
- Have issued an RFP for call center to help in contacting patients after discharge which will help augment collection efforts.
- Online payment implemented in 2017 has yielded collections of both old and new accounts and has been an enhanced collection tool.
 - We are looking to implement Pay by Phone option in order to increase GMHA's Self-service capabilities by enabling patients to pay medical bills using interactive Voice Response (VR) systems.
 - Implement Bill Payment Kiosk solution that will increase GMHA's self-service capabilities by enabling patients to pay medical bills using cash as well as debit cards, credit cards, and eCheck payment methods.
- Have digitized paper documentation generated in the system for ease of review and transmittal to insurance providers thus reducing and eventually eliminating the manual process of printing and scanning of required documentations.
- Continue to meet weekly with entire Revenue Cycle staff and Utilization Team to identify and resolve revenue capture, billing, collection, and documentation issues to help facilitate and improve the process with other service departments and providers.
- Meet monthly with Insurance providers to address issues on billings, denials, and coverage.



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CORRECTIVE ACTION PLAN, CONTINUED 2 CFR § 200.511(c) Year Ended September 30, 2017

Billings are set to drop 7 days from patient discharge. However, Majority of late posting are from Physician Fee vouchers not submitted timely for the charges to be posted and billed. For many years, physicians were given 30 days to submit vouchers. This practice has been changed and physicians are now required to submit vouchers within 72 hours from the date of service. GMHA set up an electronic voucher system via OIMED. Currently all Internal Medicine hospitalists are trained and now charging their fees electronically which enables charges to be posted at End of Day. Training is still on-going and will be continuous for all incoming hospitalist, part-time and full-time physicians until all physician charges are entered electronically. This process will significantly drop the number of late postings. Reminders to all physicians will be sent out to ensure they meet the timeline to enter charges and or submit vouchers. Additionally, servicing departments who are late in submitting charges are followed up and reminded to enter charges timely.

The complexity of the hospital's billing and collection processes requires more resources be provided for the review of all processes to ensure compliance of internal controls. GMHA plans to hire an Internal Auditor to review, develop, monitor and strengthen Internal Controls and to ensure adherence to Internal Control requirements.

Proposed Completion Date: Ongoing.



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Summary Schedule of Prior Audit Findings Year Ended September 30, 2017

Finding No.	CFDA No.	Requirement	Status at September 30, 2017
2015-001	N/A	Patient Receivables	Not corrected. Refer to the planned corrective actions in the Corrective Action Plan for Finding 2017-001.
2015-002	N/A	Inventory	Corrected. Reconciliation between the general ledger and subsidiary ledger was performed at September 30, 2017.
2016-001	N/A	Patient Receivables	Not corrected. Refer to the planned corrective actions in the Corrective Action Plan for Finding 2017-001.
2016-002	N/A	Inventory	Corrected. Reconciliation between the general ledger and subsidiary ledger was performed at September 30, 2017.