

GUAM MEMORIAL HOSPITAL AUTHORITY

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND COMPLIANCE**

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

GUAM

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND COMPLIANCE AND OTHER
MATTERS 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, 2003, and have issued my report thereon dated April 19, 2005, which report was qualified due to my inability to determine the propriety of accounts receivable and the related allowance for bad debts and contractual adjustments, and capital assets net of accumulated depreciation, and the related depreciation expense. Except as discussed in the preceding sentence, 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.

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 03-01 through 03-45.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 consider items 03-03, 03-04, 03-05, 03-07, 03-11 through 03-22, 03-25, 03-26, 03-34, 03-43 through 03-45 to be material weaknesses.

Compliance and Other Matters

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 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs (pages 35 through 120) as items number 03-08, 03-09, 03-11, 03-12, 03-14, 03-21, 03-22, 03-29, 03-35 through 03-43.

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.

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. However, this report is a matter of public record and its distribution is not limited.

J. Scott Magliari & Company

Hagåtña, Guam
April 19, 2005

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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
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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, 2003. GMHA's major federal programs are identified in the Summary of Auditor's Results section on page 35 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 items number 03-21, 03-22, 03-29, 03-35 and 03-36 in the accompanying Schedule of Findings and Questioned Costs, GMHA did not comply with the requirements regarding property management; cash management; and reporting that are applicable to its major federal programs described in the accompanying Schedule of Major Federal Award Programs (page 36). Compliance with such requirement is necessary, in my opinion, for the 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, 2003.

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 items 03-21, 03-22, 03-28, 03-29, 03-33, 03-35, and 03-26.

A material weakness is a reportable 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 caused by error or fraud 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, of the reportable conditions described above, I consider items 03-21 and 03-22 to be material weaknesses.

Schedule of Expenditures of Federal Awards

I have audited the basic financial statements of GMHA as of and for the year ended September 30, 2003, and have issued my report thereon dated April 19, 2005, which report was qualified due to my inability to determine the propriety of accounts receivable and the related allowance for bad debts and contractual adjustments; and capital assets net of accumulated depreciation, and the related depreciation expense. 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 34 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
April 19, 2005

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2003

Grantor/Pass Through Grantor/Program Title	CFDA Number	Program or Award Amount	Receivable from Grantor/ (Due to Grantor) 09/30/02	Cash Receipts FY 2003	Expenditures FY 2003	Receivable from Grantor/ (Due to Grantor) 09/30/03
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	\$ 2,450,600	\$ -	\$ -	\$ 379,740	\$ 379,740
Federal Emergency Management Agency						
Passed Through the Government of Guam						
Hazard Mitigation Programs- Typhoon Paka	97.039/83.548	4,321,376	134,544	859,573	725,029	-
Hazard Mitigation Programs- Typhoon Pongsona	97.039/83.548	711,181				
Hazard Mitigation Programs- Enclosure of						
General Walkway	97.039/83.548	193,013	-	-	-	-
Public Assistance-Typhoon Paka	97.036/83.544	630,001	(335,241)	-	-	(335,241)
Public Assistance-Earthquake	97.036/83.544	49,590	-	-	16,040	16,040
Public Assistance-Typhoon Pongsona	97.036/83.544	1,040,399	-	600,632	600,632	-
Public Assistance-Typhoon Chata'an	97.036/83.544	27,173	-	27,173	27,173	-
U.S. Department of Health and Human Services						
Passed Through the Government of Guam						
National Bioterrorism Hospital Preparedness						
Program	93.003	888,414	-	-	8,899	8,899
Total Federal Awards Expended		<u>\$ 10,311,747</u>	<u>\$ (200,697)</u>	<u>\$ 1,487,378</u>	<u>\$ 1,757,513</u>	<u>\$ 69,438</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

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

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? x yes no

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

- Noncompliance material to financial statements noted? x yes no

Federal Awards

Internal control over financial reporting:

- Material weaknesses were identified? x yes no

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

The auditor's report on major program compliance for GMHA having three major programs expresses a qualified opinion based on identified reportable conditions, which, in my opinion, are 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?

 x yes no

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

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
97.039/83.548	Hazard Mitigation Grants
97.036/83.544	Public Assistance 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 03-01 through 03-45.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
03-01	Patient Affairs Department – Checks Received by Mail	\$ -
03-02	Patient Affairs Department - Cash Receipts System	-
03-03	Patient Affairs Department - Accounts Receivable Suspense Account	-
03-04	Patient Affairs Department - Cash Receipts Collection	-
03-05	Accounting Department- Cash Disbursements	818,813
03-06	Accounting Department- Fund Transfers to Payroll Account	5,686
03-07	Payroll Department –Timekeeping Maintenance	-
03-08	Personnel Department – Pertinent Documentation	-
03-09	Personnel Department – Random Drug Testing	-
03-10	Personnel Department – 25% Specialty Pay	-
03-11	Payroll Department - Payment of Leave while Leave Record indicates a negative balance	5,054

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

PART II - FINANCIAL STATEMENT FINDINGS, Continued

Reference Number	Findings	Questioned Costs
03-12	Payroll Department- Accrued Leave	\$ -
03-13	Payroll Department- Supporting Documents	-
03-14	Fiscal Department - Travel Authorization	5,113
03-15	Accounting Department –Other Receivable	-
03-16	Accounting & Patient Affairs Department- Patients' Accounts Receivable	-
03-17	Patient Affairs Department –Detailed Aging of Accounts Receivable Subsidiary Ledgers	-
03-18	Accounting & Patient Affairs – Accounts Receivable From Department of Revenue & Taxation (Non-Payer)	-
03-19	Accounting and Patient Affairs Department- Allowance for Bad Debts & Contractual Adjustments	-
03-20	Patient Affairs Department –Collection Efforts on Self-Pay Accounts	-
03-21	Property Management & Accounting Department- Fixed Asset Register Reconciliation	-
03-22	Property Management and Accounting Department- Physical Inventory of Fixed Assets	-
03-23	Accounting Department –Construction in Progress	-
03-24	Accounting Department- Cost of AS-400 System Upgrade	-
03-25	Accounting Department – Inventory Reconciliation	-
03-26	Accounting Department –Accounts Payable	-
03-27	Accounting Department – Timely Reconciliation of Accounts	-
03-28	Planning/Finance –Efficiency in Managing Federal Grants	-
03-29	Cash Management- Temporarily Restricted Fund Balance	-
03-30	Accounting System and Chart of Accounts	-
03-31	Accounting Department - Prior and Current Year Accruals, Adjustments and Post Closing Adjustments	-
03-32	Medicare Overpayments	-
03-33	Planning & Finance Department – Compact Impact Grant	-
03-34	Administration – Notes Payables	-
03-37	Worker's Compensation	38,058
03-38	Procurement - Period of Availability	-
03-39	Procurement – Payments in Excess of Purchase Order Amount	-

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

PART II - FINANCIAL STATEMENT FINDINGS, Continued

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
03-40	Procurement- Requisitions Order: No Authorizing Signature	\$ -
03-41	Procurement- Bid Award : No Authorizing Signature	-
03-42	Procurement- Pre-Award Bid Prior to Settlement of Protest	-
03-43	Procurement- No Formal Contract	-
03-44	Pharmacy Department -Loan and Borrowing of Pharmaceuticals and Supplies	-
03-45	Note Payable in Arrears- Guam Power Authority	-
Total Questioned Costs		<u>\$ 872,724</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 03-01 through 03-45.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
03-21	Property Management & Accounting Department- Fixed Asset Register Reconciliation	\$ -
03-22	Property Management & Accounting Department- Physical Inventory of Fixed Assets	-
03-29	Cash Management- Temporarily Restricted Fund Balance	-
03-35	Reporting	-
03-36	Reporting	-
Total Questioned Costs		<u>\$ -</u>

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-01

Area: Patient Affairs Department – Checks received by mail

CFDA No. N/A

Criteria:

A control list should be made of check receipts when they are received by mail, and incoming checks by mail should be restrictively endorsed.

Condition:

There are no standard operating procedures for receiving checks received by mail. Currently, incoming checks received by mail are forwarded to the Cashier from the Administrative Assistant with no control listing and/or restrictive endorsement. Additionally, there was no segregation of duties within the cash receipts area. Cashiers prepare the deposit slip of the checks received by mail and post the payments to the accounts receivable subsidiary ledger.

Cause:

There are no established written policies and procedures for handling checks received by mail.

Questioned Cost:

There is no questioned cost as a result of this condition.

Effect:

The lack of segregation of duties in the Business Office and weak internal controls over the handling of cash receipts exposes GMHA to the potential loss or theft of cash.

Recommendation:

The Chief Financial Officer should establish written internal control policies and procedures for the handling of checks received by mail. Checks received by mail should be properly accounted for and summarized by the Administrative Assistant prior to being forwarded to the Cashier. In turn, the Cashier will verify the receipt of checks received by mail to be included in daily deposits. Cashier functions should be limited to receiving payments and preparing bank deposit slips, which should be independently verified for accuracy.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-01, continued

Area: Patient Affairs Department – Checks received by mail

CFDA No. N/A

Auditee Response and Corrective Action: Plan:

GMHA Management agrees with this finding. The Assistant Chief Financial Officer will initiate internal control policies and procedures to include the documentation of checks received by mail and the independent verification of bank deposits slips.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-02

Area: Patient Affairs Department – Cash Receipts System

CFDA No. N/A

Criteria:

The Hospital Fiscal Department should maintain written standard operating procedures on the use of the cash receipts system in its financial management system AS-400 module.

Condition:

There are no established written internal control policies and procedures on the use of the cash receipts system. Of the 35,922 official receipts issued for payment transactions, fifty percent (50%) or 18,139 did not state the mode of payments (i.e., cash, check, credit card, bank), 40% or 14,139 showed no detail at all for both method of payments and reference of payments made.

Cause:

There are no established internal control policies and procedures to ascertain and ensure the completeness of the cash receipts control list. Additionally, there is no management oversight of this function.

Effect:

There is no known effect to the financial statements. However, this severe weakness could result in the following:

1. Possibility that fraud and defalcation could exist and not be detected;
2. Process of crediting the payment to appropriate patient account may not be performed in a timely manner;
3. Possibility of incorrect patient account being credited;
4. Possibility of inaccurate reports of the patient receivable balance;
5. Possibility that unidentified cash receipts cannot be clarified to payor as there was not sufficient detail information of the cash received; and
6. Bank reconciliations are not only voluminous to reconcile, but often virtually impossible for the accounting clerk to verify the unidentified cash receipts, which results in temporarily recording unidentified deposits to cash shortage (overage) or Accounts Receivable-Suspense Account.

Prior Year Status:

The lack of internal controls over implementing an efficient accounting system was reported as finding in the prior year audit of the GMHA.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-02, continued

Area: Patient Affairs Department – Cash Receipts System

CFDA No. N/A

Recommendation:

GMHA should establish and monitor internal controls and procedures over the Patient Affairs' cash receiving transactions and ensure that the hospital's assets are safeguarded. The method of payment, customer name and detail of what patient charges being credited, including specific reference numbers, should be annotated on receipts.

Auditee Response and Corrective Action Plan:

Management will assign the task of implementing internal control policies and procedures concerning the cash receipts system to the Assistant Chief Financial Officer. The Assistant Chief Financial Officer will ensure the type of payment is delineated, payments are posted in a timely manner and there is management oversight of the new process.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-03

Area: Patient Affairs Department – Accounts Receivable-Suspense Account

CFDA No. N/A

Criteria:

Cash receipts should be processed and posted in a timely manner.

Condition:

A significant amount of third party payor payments were not posted to individual patient accounts and were temporarily recorded in the accounts receivable suspense account, pending sufficient information for proper posting. However, some of these unmatched cash receipts pending payment back-up advice information have been in the suspense account for over a year and remain unposted. At September 30, 2003, the unrelieved cash receipts collections were as follows:

<u>Accounts Receivable- Suspense account</u>	<u>Amount</u>
Medicaid	\$ 1,510,691.28
Medically Indigent Program	413,215.03
Staywell	356,037.35
Medicare	323,246.29
Pacific Care	169,980.89
MIP (tax levy)	168,672.41
SelectCare	147,916.59
Collection Agency Of Guam	38,748.29
Veterans Administration & U.S.	
Treasury Checks	34,618.86
Guam Marianas Management Agency	30,705.43
Local Company Insurance	20,412.41
ProCare	3,396.11
United Pacific Collection Agency	1,115.62
Total	<u>\$ 3,218,756.56</u>

Cause:

There is a lack of established internal control policies and procedures to ensure that the accounts receivable – suspense account is reversed and posted to the individual patient's subsidiary ledger account in a timely manner. 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, 2003

Finding No. 03-03, continued

Area: Patient Affairs Department – Accounts Receivable - Suspense Account

CFDA No. N/A

Effect:

The patient subsidiary ledger appears to be incorrect as of September 30, 2003. Individual patient accounts are misstated due to unposted payments. The potential for fraud greatly increases when known account balance differences are not reconciled. Errors and fraud could exist and not be detected.

Prior Year Status:

The lack of internal control over cash receipts system/accounts receivable was cited as a finding in the prior year audit of GMHA.

Recommendation:

The Assistant Chief Financial Officer should establish written internal control policies and procedures for unmatched cash receipts collections. Accounts receivable clerks should make copies of the unidentified checks as well as any other detail of the transaction and that would assist the follow-up and clarification with the third party payor.

Auditee Response and Corrective Action Plan:

GMHA concurs with this finding. The Assistant Chief Financial Officer will initiate new policies and procedures regarding the accounts receivable suspense account. New policies and procedures will include the timely posting of cash receipts and maintaining proper documentation for unmatched receipts. This finding will require the involvement of personnel from the accounting section to facilitate the timely reconciliation of the accounts receivable suspense account.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-04

Area: Patient Affairs Department - Cash Receipts Collection

CFDA No. N/A

Criteria:

All cash receipts should be properly controlled and accounted for. Accounting controls (official receipts control system) should be exercised for customer remittance checks and deposits.

Condition:

Materially significant collections posted to accounts receivable suspense accounts generally are not controlled by the use of official receipts control techniques. Of the 82 materially significant items receipts examined, twenty-seven (27), or 33% totaling \$12,308,164 did not have official receipts issued. While we concur that the use of computer technology eliminates the use of manual cash receipts, it is critical that the same elements of control available in the system be used and that those controls account for all cash receipts received.

Cause:

There is a lack of established written internal control policy and procedures on payments received from third-party payors and the use of accounts receivable - suspense account.

Effect:

Because daily cash receipts print-outs do not always agree to the daily cash receipts deposits, the reconciliation to the bank statement becomes difficult for the accounting clerk and in some cases, virtually impossible. As a result, the accounting clerk prepares daily manual journal entries to temporarily record the differences to cashier's shortage (overage). During the year, total debits and credits to cashier's shortage (overage) account, to correct these serious weaknesses and differences were \$9,405,898.99 and \$9,406,401.05, respectively, or net of \$502.06. Errors or theft could occur and not be detected.

Prior Year Status:

The lack of internal control over cash receipts system/accounts receivable was cited as a finding in the prior year audit of GMHA.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-04, continued

Area: Patient Affairs Department - Cash Receipts Collection

CFDA No. N/A

Recommendations:

The Assistant Chief Financial Officer should establish written internal control policies and procedures on the use of accounts receivable - suspense account. Cash receipts posted to the suspense account should always be recorded as of the date of receipt. Management should ensure that the use of an official receipt system is implemented as an effective control to account for all cash received.

Auditee Response and Corrective Action Plan:

GMHA concurs with this finding. The Assistant Chief Financial Officer will revise policies and procedures to ensure that receipts are prepared and issued for all cash receipts. The Assistant Chief Financial Officer will also ensure that there is proper segregation of duties between deposit slip preparation and the recording of cash in the accounts receivable system.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-05

Area: Accounting Department - Cash Disbursements

CFDA No. N/A

Criteria:

In accordance with GMHA Board of Trustees Resolution No. 02-016, all payment authorizations for amounts greater than \$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 four (4), or 7% of sixty (60) key item disbursements (including payroll transfers) tested, disbursements over \$25,000 was noted to have the check payment only having the Hospital Administrator's signature. These check payments were as follows:

<u>Vendor #</u>	<u>Check #</u>	<u>Check Date</u>	<u>Amount</u>
54 (Treasurer of Guam)	094403	02/28/03	\$ 2,770,426
54 (Treasurer of Guam)	095134	04/28/03	836,197
5683 (Third-Party Vendor)	094326	02/19/03	411,314
5230 (Third-Party Vendor)	094593	03/10/03	<u>407,499</u>
	<u>Total</u>		<u>\$ 4,425,436</u>

Questioned Costs:

A questioned cost of \$818,813 exists for amounts paid to third party vendors as result of the above condition.

Cause:

It appears that GMHA personnel did not adhere to the established internal control procedures in ensuring that all payment request forms and checks requiring two authorized signatories are complied.

Effect:

GMHA is not in compliance with its policies and procedures set forth by the Board of Trustees. Cash disbursements could be made that are not authorized, approved or supported by evidential matter. Fraud or errors could occur and not be detected.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-05, continued

Area: Accounting Department - Cash Disbursements

CFDA No. N/A

Prior Year Status:

The above condition was cited as finding in the prior year audit of the GMHA.

Recommendation:

GMHA's Management should enforce its existing internal control policies and procedures to ensure that all documents are accurate and complete during the disbursement process and those transactions are fully authorized and approved.

Auditee Response and Corrective Action Plan:

We agree with this finding. The Chief Financial Officer 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.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-06

Area: Accounting Department – Fund Transfers to Payroll Account

CFDA No. N/A

Criteria:

The payroll account should only be used to receive the exact amount needed for a payroll and as payroll checks are presented, the account should clear to a zero balance.

Condition:

For 26, (or 43%) out of 60 payroll disbursement transfers tested, the amount approved for transfer to the Payroll Account did not agree to the amount per payroll register. The aggregate total of the payroll register was \$13,546,313.58 compared to the aggregate authorized amount of \$13,552,000.00. The net difference was \$5,686.42.

Questioned Costs:

It appears that a questioned cost of \$5,686.42 exists as a result of the above condition.

Cause:

GMHA accounting personnel did not adhere to the internal control procedures in ensuring that all time sheets are complete and accurate at the time of the payroll disbursement process. Per inquiry of management on the payroll register discrepancy, the purpose is to accommodate employee pay adjustments (i.e. overtime adjustment, unprocessed leave, and other time sheet adjustments).

Effect:

There is no material effect on the financial statements.

Recommendation:

GMHA accounting personnel should not issue manual checks on the payroll account and, if this does occur, management should closely review the transaction that gave rise to this situation before the release of those checks. Accounting personnel should enforce its existing internal control policies and procedures to ensure that all payroll documents are accurate and complete during the disbursement process.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-06

Area: Accounting Department – Fund Transfers to Payroll Account

CFDA No. N/A

Auditee Response and Corrective Action Plan:

We agree with this finding. The Chief Financial Officer 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.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-07

Area: Payroll Department – Timekeeping Maintenance

CFDA No. N/A

Criteria:

Department Supervisors who are at the same time are designated timekeepers should be relieved from the manual changes or maintenance of its own timesheet.

Condition:

For two or 3% of sixty timesheets tested, supervisors who are also designated timekeepers, maintain the manual changes of their own time sheets. Manual maintenance refers to the correction of failure to time-in (TI) or failure to time-out (TO). Instances of manual timekeeping and manual corrections are not an isolated case during the fiscal year 2003 for the following:

Employee Number

14551

385813

Cause:

GMHA does not have in place written internal control policies and procedures as the maintenance of Department Supervisors timesheets who also are designated timekeepers.

Effect:

There is no material effect on the financial statements. However, a possibility exists that GMHA may be paying for hours that an employee did not actually work.

Recommendation:

GMHA should establish written internal control policies and procedures over manual maintenance of supervisor's timesheet. The supervisors' timesheets should be approved by their respective superiors or someone higher up in the organization.

Auditee Response and Corrective Action Plan:

We agree with this finding. The Chief Financial Officer immediately relieved these two supervisors of their access to the time keeping system in fiscal year 2005. Policies and procedures related to this issue are being prepared.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-08

Area: Personnel – Pertinent Documentation

CFDA No. N/A

Criteria:

Current W-4s, the Drug Free Workplace Act Policy Statement, and the Confidentiality Statement Act Policy must be contained in the personnel files.

Condition:

For thirty-nine, or 65% of sixty personnel files tested, employees' current W-4 were not in the personnel file. According to the Personnel Department, the Payroll Department kept the updated W-4 after the initial hiring.

For forty-two, or 70% of sixty personnel files tested, they did not contain the documentation of the Drug Free Workplace Act Policy Statement for the following:

<u>Dept. No.</u>	<u>Employee No.</u>	<u>Dept. No.</u>	<u>Employee No.</u>
1. 6290	744563	22. 6173	142005
2. 7420	545174	23. 6580	626472
3. 8340	158641	24. 7010	948256
4. 7400	518373	25. 7010	859813
5. 8340	269267	26. 8460	947824
6. 8360	666470	27. 7740	915632
7. 8510	14551	28. 7770	947834
8. 6290	613971	29. 7500	929208
9. 8460	101113	30. 7420	948032
10. 7010	948303	31. 7721	35557
11. 8700	635448	32. 8422	948234
12. 7740	481849	33. 7740	35428
13. 8460	171865	34. 6290/6070	819667
14. 8700	719118	35. 8480/8530	947779
15. 8460	385813	36. 8530	564266
16. 6070	947920	37. 6290	170168
17. 8470	947810	38. 7420	890542
18. 8400	947590	39. 8421	948238
19. 8460	14495	40. 6580	434414
20. 7400	947746	41. 7740	557941
21. 7420	948232	42. 8530	229224

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-08, continued

Area: Personnel Department –Pertinent Documentation

CFDA No. N/A

Condition, continued:

For four (4), or 7% out of sixty personnel file tested, the Confidentiality Statement Act was not in the personnel file of the following:

<u>Dept. No.</u>	<u>Employee No.</u>	<u>Dept. No.</u>	<u>Employee No.</u>
1. 7010	948256	3. 8480/8530	947779
2. 8460	947824	4. 7420	890542

Cause:

It appears that GMHA personnel did not adhere to their personnel policies and procedures and Federal requirements over documentation compliance.

Effect:

There is no material effect on the financial statements as a result of this condition.

Prior Year Status:

The above conditions were cited as findings in the prior year audit of the GMHA.

Recommendation:

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

Auditee Response and Corrective Action Plan:

We agree with this finding. In response to this finding with respect to the Personnel Department not adhering to the personnel policies and procedures and Federal requirement compliance with the Drug-Free Workplace Act, the following action shall be taken. 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 will conduct periodic reviews.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-09

Area: Personnel Department- Random Drug Testing

CFDA No. N/A

Criteria:

To achieve compliance with requirements of the Federal Drug-Free Workplace Act, GMHA should implement random testing on Designated Positions who are involved in direct patient care.

Condition:

Of the sixty personnel files tested, which generally covers employees with direct patient responsibility, there was no evidence that a Notice of Random Drug Testing under the Drug-Free Workplace Program was performed on Designated Positions after the initial implementation of the Drug-Free Workplace Act Policy in 1999.

Cause:

GMHA is not in compliance with its established policies and procedures over the implementation of a Drug Free Workplace Act.

Effect:

There is no effect on the financial statements; however, GMHA is not in compliance with OMB Circular A-133.

Recommendation:

GMHA should comply with the requirement of the Federal Drug Free Workplace Act and ensure that random testing of those employees in sensitive positions that have been designated as testing designated positions. The Personnel Department should monitor the program and make periodic reviews to ensure compliance.

Auditee Response and Corrective Action Plan:

We agree with this finding. In response to this finding with respect to the Personnel Department not adhering to the personnel policies and procedures and Federal requirement compliance with the Drug-Free Workplace Act, the following action shall be taken. 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 will conduct periodic reviews.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-10

Area: Payroll Department – 25% Specialty Pay

CFDA No. N/A

Criteria:

Written policies and procedures should be established in determining what should be considered in the calculation of the 25% Specialty Rate on Allied Health Care Professionals Specialty Pay.

Condition:

There are no documented policies and procedures relative to the basis of the calculation of the 25% Specialty Pay on Allied Health Care Professional pay. The Payroll and Personnel Departments have manually shown its calculation. The Payroll Department has made its calculations based on the verbal directive from the prior Personnel Administration.

Additionally, of the 62 employees selected for testing under allied health professionals, twenty-one (21), or 33% of the Notification of Action files reviewed were subject to post-audit by the Civil Service Commission.

Cause:

The cause of this condition is a lack of internal control policies and procedures.

Effect:

The possibility exist that certain pay codes may erroneously be included in the basis of the calculation and could have a material effect on the financial statements if not detected.

Recommendation:

The General Account Supervisor in conjunction with the Personnel Department should document the specific procedures relative to the determination and calculation of the Allied Health Professional incentive pays in accordance to the terms required by the Government of Guam Civil Service Commission. Furthermore, we recommend that Management verify and determine that only qualified people receive specialty pay.

Auditee Response and Corrective Action Plan:

The General Account Supervisor in conjunction with the Personnel Department will establish internal control policies and procedures to document procedures to calculate Specialty Pay and document employees eligible to receive such pay.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-11

Area: Payroll Department - Payment of Leave while Leave Record indicates a Negative Balance

CFDA No. N/A

Criteria:

The Payroll Department should ensure that annual leave, sick leave and leave-sharing are approved for the leave requested and be properly documented in the employee's personnel file.

Condition:

Documentation to support leave donation and substantiation of leave absences were either lost or removed from GMHA upon investigation of the personnel file for employee #519608. The negative leave accumulated was as follows:

<u>Employee Number</u>	<u>Leave Balance (Hours)</u>	<u>Pay Rate</u>	<u>Approximate Payment</u>
519608	(223.95)	\$19.125	\$ 4,283.04
Related Retirement Expense Contribution @ 18%			<u>770.95</u>
Estimated Total Leave Payment			<u>\$ 5,053.99</u>

Furthermore, extended testing disclosed that the accumulated negative sick leave balance of the employee was cured through a subsequent leave donation of approximately 600 days after the negative balance started to accrue. Also, the leave donation was inconsistent with the Leave Sharing Policy, as the donated hours were an annual leave and not sick leave hours.

Questioned Costs:

It appears that a questioned cost of \$5,053.99 exists as a result of this condition.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-11, continued

Area: Payroll Department - Payment of Leave while Leave Record indicates a Negative Balance

CFDA No. N/A

Cause:

There is a lack of adherence to internal controls over compliance with leave compensation policies and procedures. This condition was also caused by management override and no subsequent verification, which allowed the Acting Controller to transfer leave to employee number 519608.

Effect:

There is the possibility that improper payments of funds have been made for unauthorized leave absences.

Recommendation:

The accumulation of negative leave balances should not be permitted and the transfer of leave-sharing hours should be processed and approved prior to payroll checks being process and released. The Payroll Department should ensure that the existing policies and procedures are followed for leave documentation and leave-sharing. The Payroll Department should establish and implement internal control policies and procedures to prevent the accumulation of negative leave from occurring.

Auditee Response and Corrective Action Plan:

The Chief Financial officer will establish policies and procedures to prevent the payment of leave while accumulated leave balance is negative. The Chief Financial Officer will review leave balances each pay period end prior to the calculation of the subsequent payroll.

The Chief Financial Officer will require strict adherence to policies and procedures regarding leave documentation and leave sharing.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-12

Area: Payroll Department – Accrued Leave

CFDA No. N/A

Criteria:

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

Condition:

For four (or 13%) of 30 employees selected, the recalculated accrued leave hours did not agree to the leave report as of September 30, 2003, and documents to substantiate the differences were not provided for the following:

<u>Employee Number</u>	<u>Pay Rate</u>	<u>Per Audit Recalculated Accrued Leave Hours</u>	<u>Per Post Leave Report</u>	<u>Difference</u>	<u>Amount</u>
481849	\$28.7889	507.00	447.00	60.00	\$ 1,727.33
484872	\$12.8538	108.25	111.95	(3.70)	(47.56)
504976	\$39.6062	356.30	396.30	(40.00)	(1,584.25)
621833	\$11.8697	(101.65)	25.85	(127.50)	<u>(1,513.39)</u>
					<u>\$ (1,417.87)</u>

Cause:

Policies and procedures are not being adhered. Accounting personnel and management are not ensuring leave hours exists prior to authorizing leave requests.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-12, continued

Area: Payroll Department – Accrued Leave

CFDA No. N/A

Effect:

There is the possibility that improper payments of funds have been made for unauthorized leave absences.

Prior Year Status:

The above condition was cited as finding in the prior year audit of the GMHA.

Recommendation:

GMHA management should investigate this matter and ensure that the leave policies and procedures are strictly followed for leave documentation and leave-sharing.

Auditee Response and Corrective Action Plan:

Chief Financial Officer will administer an audit procedure to audit annual leave balances by staff persons segregated from the payroll function. Furthermore, Chief Financial Officer 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.

Auditor's Response:

Subsequent to the date of the auditor's field work, the leave documentations to substantiate the variances noted in the above condition were provided for the following:

<u>Employee Number</u>	<u>Pay Rate</u>	<u>Per Audit Recalculated Accrued Leave Hours</u>	<u>Per Post Leave Report</u>	<u>Difference</u>	<u>Amount</u>
481849	\$28.7889	507.00	447.00	60.00	\$ 1,727.33
504976	\$39.6062	356.30	396.30	(40.00)	\$(1,584.25)

Manual adjustments in the system were not included in the auditor's recalculation.

621833	\$11.8697	(101.65)	25.85	(127.50)	\$(1,513.39)
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The above difference resulted from leave sharing.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-13

Area: Payroll Department – Supporting Documents

CFDA No. N/A

Criteria:

Documentation for overtime authorizations and annual leave should be properly filed and maintained to substantiate transactions.

Condition:

The following files were not provided to us:

Leave documentation for the following:

<u>Employee No.</u>	<u>No. of Annual Leave Hours</u>	<u>No. of Sick Leave Hours</u>	<u>Check No.</u>	<u>Check Payroll Amount</u>
1. 719118	8 hrs.	-	178251	\$ 541.34
2. 948232	6 hrs.	-	183679	484.76
3. 948234	-	8 hrs.	186823	630.59
4. 947834	27 hrs.	-	185580	196.47
5. 819667	8 hrs.	-	189761	<u>566.95</u>
			Total	\$ 2,420.11

Overtime/Double-time authorizations for the following:

<u>Employee No.</u>	<u>Check No.</u>	<u>No. of hours</u>	<u>Overtime/ Double Time Amount</u>	<u>Employee No.</u>	<u>Check No.</u>	<u>No. of hours</u>	<u>Overtime/ Double Time Amount</u>
				Sub-Total Forwarded			\$ 3,570.25
1.	744563	171254	22.00 \$ 975.70	8.	947920	179269	4.00 \$ 61.77
2.	545174	171402	36.25 \$ 853.08	9.	859813	183923	7.00 \$ 146.73
3.	518373	173179	12.80 \$ 573.70	10.	948627	185542	8.00 \$ 115.23
4.	948603	174260	5.30 \$ 135.70	11.	35557	186650	24.00 \$ 670.10
5.	948303	176763	17.00 \$ 217.34	12.	134442	190895	8.00 \$ 135.54
6.	635448	177344	1.00 \$ 18.03				
7.	481849	177872	15.50 \$ 796.70	Total			\$ 4,699.62
Sub-Total			\$ 3,570.25				

Subsequent to the date of the auditor's field work, all documentations for the overtime/double-time authorizations noted in the above condition were furnished to the auditor.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-13, continued

Area: Payroll Department – Supporting Documents

CFDA No. N/A

Cause:

There appears to be lack of staff in the Payroll Department to retrieve the documents.

Effect:

There is the possibility that overtime payments and paid time-off benefits were unauthorized.

Prior Year Status:

The above condition was cited as finding in the prior year audit of GMHA.

Recommendation:

Approved leave requests and overtime authorization documentation should be obtained and properly documented in the employee files prior to payroll processing. The Accounting Department should ensure that policies and procedures for document safekeeping and maintenance are strictly followed by the Payroll Department. Additionally, GMHA should assign appropriate personnel to investigate this matter to verify if overtime and double-time were paid in error and recover the overpayments from the specific overpaid employee(s).

Auditee Response and Corrective Action Plan:

This matter will be investigated to determine the propriety of the overpayments and funds will be recovered from the attendant employees. The Chief Financial Officer will ensure that policies and procedures are followed by obtaining proper documentation prior to the calculation of payroll. 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, 2003

Finding No. 03-14

Area: Fiscal Department -Travel Authorization

CFDA No. N/A

Criteria:

Pursuant to the compliance of Procurement requirements on travel fares, three (3) quotations are required to be obtained. The traveler must submit, within 10 days following the return from official travel, an itemized statement of account supported by receipts of actual expenses incurred for lodging, meals and travel expenses incurred during the period of official travel.

Condition:

There were only 14 authorized travel vouchers approved in fiscal year 2003. Three quotations were not obtained for any of the 14 travel vouchers tested. Upon examination of the travel control checklist and travel authorizations (TA), the itinerary report, travel report or original boarding pass had not been submitted for the following:

<u>Employee #</u>	<u>TA Number</u>	<u>Travel Date</u>	<u>Amount</u>
948650	TA 06-03	June 4~6, 2003	\$5,113.26

Questioned Costs:

A questioned cost of \$5,113.26 exists as a result of this condition.

Cause:

Management did not adhere to the internal control procedures in ensuring compliance with GHMA travel policies.

Effect:

There is no material effect on the financial statements as a result of the above condition.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-14, continued

Area: Fiscal Department -Travel Authorization

CFDA No. N/A

Recommendation:

Documentation should be obtained for the above TA or the employee should be requested to reimburse GHMA undocumented expenses paid on behalf of the traveler. GMHA should enforce its existing internal control policies and procedures over travel authorizations to ensure that all documents are accurate and complete and that such documentation is submitted in a timely manner.

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will ensure that policies and procedures are strictly enforced as related to the proper travel authorization. The quotations will be obtained and travelers will be required to submit travel documents with in ten days of return.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-15

Area: Accounting Department - Other Receivable

CFDA No. N/A

Criteria:

Collection efforts should be made with other Government of Guam agencies and private entities indebted to the Hospital.

Condition:

At September 30, 2003, GMHA had receivables (for catering and incineration services) over two years past due from the following government and private entities:

	Catering Services & Supplies	Incineration Services	Total Amount
Department of Mental Health and Substance Abuse	\$ 133,590	\$ 1,418	\$ 135,008
Fire Department	183,519	-	183,519
Department of Public Health and Social Services	-	18,392	18,392
Guam Dialysis	-	47,137	47,137
Various Private Entities	-	23,536	23,536
Total	<u>\$ 317,109</u>	<u>\$ 90,483</u>	<u>\$ 407,592</u>

Cause:

There appears to be a lack of internal control and management oversight over collection procedures on past due accounts.

Effect:

The potential exists that accounts may no longer be collectible, therefore, requiring write-off of accounts. Other receivables may be overstated as a result of this condition.

Recommendation:

The Accounting Department should review past due balances on other services rendered on account. Outstanding balances should be investigated and resolved with the above agencies to determine the collectibility of the above-mentioned amounts due.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-15, continued

Area: Accounting Department - Other Receivable

CFDA No. N/A

Auditee Response and Corrective Action Plan:

The Chief financial officer will coordinate with the Accounting Department and Business Office, a diligent effort to collect amounts due from other governmental agencies and private entities.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-16

Area: Accounting & Patient Affairs Department –Patients’ 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 and timely basis. This practice serves as a check on the accuracy of the record-keeping process and maintains the accounts receivable on a more timely and accurate basis. The detailed listing of accounts receivable should be reconciled to the general ledger control accounts at the end of each month. Any differences should be investigated and resolved in a timely manner.

Condition:

The accounts receivable subsidiary ledger on the AS-400 System was not reconciled to the general ledger on a monthly basis. As of September 30, 2003, the following differences were noted:

	<u>General Ledger</u>	<u>Subsidiary Ledger</u>	<u>Difference</u>
Current Receivable:			
Main Facility operations	\$ 40,580,886	\$ 63,775,731	(\$23,194,845)
Skilled Nursing Facility-Barrigada	<u>3,433,053</u>	<u>3,715,961</u>	<u>(282,908)</u>
Total	<u>44,013,939</u>	<u>67,491,692</u>	<u>(23,477,753)</u>
Collection Agencies Receivable:			
Main Facility operations	82,103,267	74,459,909	7,643,358
Skilled Nursing Facility-Barrigada	<u>2,000,737</u>	<u>1,725,867</u>	<u>274,870</u>
Total	<u>84,104,004</u>	<u>76,185,776</u>	<u>7,918,228</u>
Total	<u>\$128,117,943</u>	<u>\$ 143,677,468</u>	<u>(\$15,559,525)</u>

Cause:

The Accounting Department has not performed a detailed reconciliation of the general ledger control account to the subsidiary ledger for over several years. GMHA lacks well-trained accounting personnel and sufficient manpower to perform the reconciliation of the subsidiary ledger and the general ledger. There are a limited number of accountants and accounting technicians in the Accounting Department and Business Office and they are unable to perform the reconciliation of accounts receivable in a timely manner. Because of the limited accounting personnel, if an existing employee were unable to perform this function or existing duties in the case of an emergency or for other reasons, this process would not be completed. This is an extremely alarming situation because the accounts receivable billing and collection could be brought to a standstill. This would ultimately have a negative affect on cash collections and the ability of GHMA to meet its financial obligations.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-16, continued

Area: Accounting & Patient Affairs Department –Patients’ Accounts Receivable

CFDA No. N/A

Effect:

The accounts receivable and revenue accounts are materially misstated. Individual customer accounts may also be misstated. The GMHA Administration may be making managerial and financial decisions on unreliable data. Consequently, it is extremely difficult to manage cash flows with unreliable data. Additionally, the potential for fraud greatly increases when known account balance differences are not reconciled in a timely manner. Errors and fraud could exist and not be detected.

Prior Year Status:

The prior year financial statements of GMHA were qualified due to the above condition.

Recommendation:

Additional qualified and well-trained accountants (with emphasis in hospital accounting) should be hired to fill positions in the Accounting Department and the Business Office. Existing accounting personnel need additional training and continuing professional education.

The Chief Financial Officer (CFO) should establish internal control policies and procedures to ensure that the accounts receivable general ledger control account and subsidiary ledger are reconciled monthly and in a timely manner. Significant discrepancies noted during this process should be immediately reported to the CFO, investigated and resolved. These procedures will assist the hospital in establishing reliable internal control for the billing and collection of accounts receivable.

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, 2003

Finding No. 03-16, continued

Area: Accounting & Patient Affairs Department –Patients’ Accounts Receivable

CFDA No. N/A

Auditee Response and Corrective Action Plan, continued:

Management will assign a staff person in accounting to conduct monthly reconciliations of the accounts receivable subsidiary to the general ledger control account.

Employees from other governmental agencies have detailed (temporarily assigned) to GMHA to assist and facilitate the hospital reconcile the subsidiary ledger to the general ledger.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-17

**Area: Patient Affairs Department- Detailed Aging of Accounts Receivable
Subsidiary Ledgers**

CFDA No. N/A

Criteria:

Year-end aging report of accounts receivable subsidiary ledger should be printed and retained for audit trail.

Condition:

There was no immediately available print-out/schedules of the aging of the accounts receivable as of September 30, 2003. The CFO had to extract the Master File records from the AS-400 System and perform the aging report on a spreadsheet. The extracted data did not agree to that of the summary accounts receivable as of September 30, 2003, as the difference was \$1,849,541.

Cause:

There is a lack of specific policies and procedures as to which reports/schedules should be printed and retained in hard copy or in electronic format for monthly and fiscal year end balances. The Patient Affairs Department personnel did not print the detailed aging report at year-end stating that the reports were "too voluminous" to print and maintain.

Effect:

The analyses and reconciliation of the general ledger and the summary totals of accounts receivable in the AS-400 system (subsidiary ledger) cannot be accomplished in a timely manner without the detailed schedule of accounts receivable. Therefore, significant differences and errors continued to occur and accumulate over a period of years.

Prior Year Status:

The prior year financial statements of GMHA were qualified due to the above condition.

Recommendation:

The difference cited above should be reviewed and immediate action should be taken to resolve the discrepancy. The CFO should establish a clear written record-retention policy and ensure that appropriate year-end schedules and records are available when needed. A detailed listing of monthly and year-end reports should be developed and provided to appropriate personnel to ensure that such financial information is produced for account reconciliation, historical and retention purposes.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Finding No. 03-17, continued

**Area: Patient Affairs Department- Detailed Aging of Accounts Receivable
Subsidiary Ledgers**

CFDA No. N/A

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will establish and implement policies and procedures to ensure that all required monthly and annual financial reports are printed and readily available for analysis. These policies and procedures will delineate the number of years these and other financial records should be retained.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-18

**Area: Accounting & Patient Affairs Department - Accounts Receivable
from the Department of Revenue and Taxation (Non-Payer)**

CFDA No. N/A

Criteria:

Sufficient information/transmittal advice received from the Department of Revenue and Taxation for levied tax refunds should be kept on-file for proper posting to patient accounts.

Condition:

At September 30, 2003, we noted unsubstantiated debits to Accounts Receivable- Revenue and Taxation (Non-payer) totaling \$619,841.52. These charges represent delinquent self-pay accounts extracted from the Patient's Accounts Receivable System in the AS-400, where probability of collections is through tax levied procedures.

Cause:

Documents necessary to identify the propriety of the transaction in the account cannot be located. Additionally, there is a lack of internal control over the safekeeping of supporting documents and payment substantiating documents.

Effect:

The Accounts Receivable - Department of Revenue and Taxation (Non-Payer) could be overstated. The Accounts Receivable - Suspense Account may include receipts from Revenue and Taxation. Due to the lack of sufficient documentation, the detail cannot be ascertained. Fraud and errors could exist if known differences are not investigated and resolved in a timely manner.

Recommendation:

The CFO should establish a clear, written record-retention policy and ensure that supporting documents necessary for processing the Accounts Receivable are filed.

Auditee Response and Corrective Action Plan:

We agree with this finding. The Assistant Chief Financial Officer will establish policies and procedures to ensure that all supporting documentation for processing accounts receivable.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-19

Area: Patient Affairs Department - Allowance for Bad Debts and Contractual Adjustments

CFDA No. N/A

Criteria:

Actual uncollectible accounts should be reviewed periodically and the results should be used to adjust the write-off/allowance percentage. Supporting analyses should agree with the allowance provided in the general ledger.

Condition:

At September 30, 2003, the bad debts receivable in the detailed schedule did not agree to the general ledger allowance for bad debts. The difference noted is as follows:

	<u>Per General Ledger</u>	<u>Per Detailed Schedule</u>	<u>Difference</u>
Bad debts Receivable-Self Pay	\$ 56,153,307	\$58,515,236	(\$2,361,929)
Bad debts Receivable-Other	<u>19,966,129</u>	<u>17,488,110</u>	<u>2,478,019</u>
	<u>\$76,119,436</u>	<u>\$76,003,346</u>	<u>\$ 116,090</u>

At September 30, 2003, the adequacy of allowance for contractual adjustments provided in the general ledger were not substantiated by an overall evaluation of the receivables from third-party payor accounts.

Cause:

GMHA lacks well-trained accounting personnel and sufficient manpower to perform the reconciliation. There are a limited number of accountants and accounting technicians in the Accounting Department and the Patient Affairs Department and they are unable to perform the reconciliation in a timely manner.

Effect:

The accounts receivable and revenue accounts appear to be materially misstated. The potential for fraud greatly increases when known account balance differences are not reconciled. Errors or fraud could exist and not be detected.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-19, continued

**Area: Patient Affairs Department - Allowance for Bad Debts and
Contractual Adjustments**

CFDA No. N/A

Prior Year Status:

The prior year financial statements of GMHA were qualified due to the above condition.

Recommendation:

The Chief and Assistant Chief Financial Officer should establish internal control policies and procedures to ensure that adequate allowance for bad debts are provided at year-end based on the overall evaluation of the accounts and reviewing the success rate of collection efforts. Additionally, GMHA should 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, 2003

Finding No. 03-20

Area: Patient Affairs Department –Collection Efforts on Self-Pay Accounts

CFDA No. N/A

Criteria:

Payment and collection policies should be maintained and enforced to ensure collection of accounts receivable on outstanding balances due from self-pay accounts in a timely manner.

Condition:

At September 30, 2003, a significant portion of bad debts receivables consisting of self-pay accounts and those that have been denied by third-party payors and consequently referred to collection agencies totaled approximately \$76 million. Additionally, the self-pay accounts included in the current account receivables referred to the Department of Revenue and Taxation approximated \$8,898,620 is two years past due. The collectibility of the amounts due cannot be determined due to a lack of the overall evaluation of these accounts performed by accounting personnel.

Cause:

When accounts are past due and consequently referred to collection agencies and to other government agencies for collection, no further action or efforts were made by the accounting personnel to assess the collection performance.

Effect:

GMHA's financial difficulty to meet its current and long-term obligations is significantly impaired and attributed to the uncertainty and lack of the collections of its self-pay accounts.

Recommendation:

Collection efforts for these past due accounts should be referred to attorneys for collection or settlement. To settle these old accounts and obtain cash at a time when it is much needed, it is recommended that an individual(s) be assigned the responsibility of reviewing all of the customer accounts and be given authority to make settlements. This action should help the hospital avoid prolonged litigation, save valuable time and resources, and assist the current cash-flow problem.

Auditee Response and Corrective Action Plan:

The Assistant Chief Financial Officer has established a workable plan to increase collection efforts of self-pay accounts. Also, GMHA received a \$4 million government subsidy for self-pay accounts for fiscal year 2005. Self-pay accounts prior to fiscal year 2005 are covered by this subsidy.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-21

**Area: Property Management & Accounting Department –Fixed Asset Register
Reconciliation**

CFDA No. All

Criteria:

Fixed assets balances reported in the general ledger control account should be reconciled to the detailed fixed asset register.

Condition:

There are no procedures for reconciling detailed fixed records to the general ledger on a regular and timely basis. The lack of such procedure has led to the inaccurate reporting of fixed asset cost and depreciation expense in the monthly financial statements. At September 30, 2003, the fixed assets balances per general ledger did not agree with that of the balances in the fixed assets register in the AS-400 system. The differences noted were as follows:

	<u>Per General Ledger</u>	<u>Per Fixed Asset Register</u>	<u>Difference</u>
<u>Cost:</u>			
Hospital Buildings	\$ 51,216,958	\$ 49,419,074	\$ 1,797,884
Long-term care facility	10,660,987	10,675,491	(14,504)
Movable equipment and AS-400 system upgrade	<u>23,094,494</u>	<u>25,419,542</u>	<u>(2,325,048)</u>
Total	<u>\$ 84,972,439</u>	<u>\$ 85,514,107</u>	<u>\$ 541,668</u>
<u>Accumulated Depreciation:</u>			
Hospital buildings	(23,831,095)	(23,832,915)	\$ (1,820)
Long-term care facility	(1,606,140)	(1,615,246)	(9,106)
Movable equipment and AS-400 system upgrade	<u>(19,723,939)</u>	<u>(20,027,690)</u>	<u>(303,751)</u>
Total	<u>(\$ 45,161,174)</u>	<u>(\$45,475,851)</u>	<u>(\$ 314,677)</u>

Cause:

The Accounting Department does not maintain an accurate fixed asset register due to a lack of well-trained staff able to perform the reconciliation in a timely manner. The Accounting Department has relied on maintaining electronic spreadsheets to account for fixed assets and consequently failed to update the detailed fixed asset register maintained in its accounting software system.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-21, continued

**Area: Property Management & Accounting Department –Fixed Asset Register
Reconciliation**

CFDA No. All

Effect:

Depreciation expense could be misstated. Also, the possibility exists that the fixed asset account balance may have included items that have been disposed of or are no longer of future economic benefit. Furthermore, GMHA is not in compliance with applicable Federal regulations.

Prior Year Status:

The above condition was cited as a finding in the prior year audit of the GMHA.

Recommendation:

To prevent the need for major adjustments to the property accounts at the end of each year, it is recommended that the general ledger fixed asset accounts be reconciled to the detailed records on a monthly basis. Additionally, fixed assets should be properly tagged and inventoried bi-annually to ensure that all fixed assets are properly accounted for. The CFO should establish internal control policies and procedures to ensure that the fixed assets general ledger accounts balances are reconciled to the fixed asset register system on a periodic basis by a well-trained employee. Discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will establish policies and procedures to ensure that fixed assets are reconciled on a monthly basis. Detailed governmental employees from other agencies are helping the hospital reconcile the subsidiary to the general ledger.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-22

**Area: Property Management and Accounting Department –Physical
Inventory of Fixed Assets**

CFDA No. All

Criteria:

In accordance with Section 34(f)(3) of the Common Rule, Equipment Management Requirements, governmental agencies that acquire equipment through Federal Funds are required to perform physical inventory and the results reconciled with the equipment records at least once every two years.

Condition:

GMHA did not conduct a physical inventory of fixed assets during the year.

For twelve (12), or 46%, of twenty-six (26) movable equipments tested for physical existence, the following fixed assets could not be located:

<u>Acquisition Date</u>	<u>Asset Number</u>	<u>Description</u>	<u>Acquisition Cost</u>	<u>Location</u>
01/11/1987	956	Analyzer Dupont Dimension	\$ 158,460.00	Laboratory
01/01/1990	1024	Clinix R System	138,625.00	Radiology
09/01/1986	1037	Calibrator, Isotopic	6,750.00	Radiology
07/01/1985	1046	Xray, Mammo-gram Machine	127,670.00	Radiology
02/28/1989	1051	Scanner, Cat Picker	1,144,053.26	Radiology
03/01/1992	1569	Printer, Laser Ektascan	158,619.61	Radiology
08/01/1987	1058	Xray, Radioscope	23,788.00	Radiology
07/13/1995	2954	Pressure Jacke System	29,992.20	Radiology
11/26/1996	3664	Sterilizer, Eagle Steam	104,933.00	Labor & Delivery
05/04/1999	4508	Ultrasound System	125,026.25	Labor & Delivery
09/16/1999	4774	Monitor, Fetal	202,358.00	Labor & Delivery
09/14/1999	4775	Monitor, Viridia	<u>194,898.00</u>	Intensive Care
			<u>\$2,415,173.32</u>	

Cause:

There is a lack of written internal control policies and procedures over the safeguarding of fixed assets to ensure that all fixed assets are properly accounted for. Fixed asset registers are not properly maintained to remove damaged and obsolete assets from the system.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-22, continued

**Area: Property Management and Accounting Department –Physical
Inventory of Fixed Assets**

CFDA No. All

Effect:

GMHA is in noncompliance with applicable Federal Regulations. Additionally, there is the possibility that fixed assets, depreciation expense and accumulated depreciation are materially misstated. Misappropriation of assets may exist and not detected.

Recommendation:

The CFO, in conjunction with the Materials Management Department, should establish internal control policies and procedures to ensure the proper safeguarding of fixed assets. Physical inventory of fixed assets should be coordinated by the Accounting Department and conducted by the Materials Management Department. Significant discrepancies based on physical inventory should be investigated and resolved. This procedure will provide the hospital with an accurate inventory of fixed assets. The resulting fixed asset listing will also provide a strong source of detail and control to establish a future system of safeguards for fixed assets and an accurate schedule from which to record future acquisitions and disposals. At a minimum, property records should include the following data:

1. Description and tag number assigned
2. Location of property unit
3. Cost, purchase order number, and vendor name
4. Condition: new or used
5. Date placed in service
6. Useful life
7. Depreciation method and monthly provision for depreciation expense
8. Date retired or traded-in

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will establish internal control policies and procedures to ensure that fixed assets are reconciled on a monthly basis. Government of Guam from other agencies have been assigned to assist hospital reconcile the detailed fixed asset subsidiary ledger to the general ledger.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-23

Area: Accounting Department - Construction in Progress

CFDA No. 97.039/83.548

Criteria:

The construction in progress account should be monitored on a regular basis to allow for proper presentation as to whether a completed project is an expense or require transfer to the fixed asset module account for proper tagging control and depreciation.

Condition:

At September 30, 2003, project number 034-2001 (Enclosure of Courtyard and Solarium), which was completed in March 2003, was not removed from the construction in progress account in the amount of \$2,715,777.

Cause:

There appears to be a lack of periodic review of the construction in progress account.

Effect:

Construction in progress is overstated in the amount of \$2,715,777 and the general ledger and control account of the Building assets is understated by the same amount. Consequently, depreciation and accumulated depreciation are misstated by approximately \$157,300. An audit adjustment was made to correct the overstatement in the construction in progress account.

Recommendation:

Materials Management Department and the Accounting Department should monitor the status of the construction in progress account on a monthly basis throughout the construction phase. Completed projects should be identified for proper presentation in the financial statements.

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will establish internal control policies and procedures whereby the construction in process is analyzed on a periodic basis.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-24

Area: Accounting Department - Cost of AS-400 System Upgrade

CFDA No. N/A

Criteria:

Fixed assets should be properly recorded in the general ledger and the detailed fixed asset register.

Condition:

GMHA acquired an AS-400 system software upgrade in 1996. The acquisition cost recorded in the general ledger did not agree with the amount recorded in the fixed asset register system. The difference is as follows:

Cost per general ledger	\$ 3,201,832
Cost per fixed assets register system	(<u>3,460,800</u>)
Difference	<u>\$ 258,968</u>

Cause:

There is a lack of internal controls and management oversight over ensuring control balances are reconciled and that fixed asset acquisition costs are accurately reported and accounted for.

Effect:

Depreciation and accumulated depreciation are misstated. An audit adjustment was made to correct the misstatement. However, a significant discrepancy between the general ledger and control accounts still exists in the amount \$2,325,048 for movable equipment, which remain uncorrected at September 30, 2003.

Recommendation

The CFO should establish internal control policies and procedures to ensure accounting personnel perform fixed asset reconciliation between the general ledger control accounts and the fixed asset register.

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will establish internal control policies and procedures to ensure that fixed assets are reconciled on a monthly basis.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-25

Area: Accounting Department – Inventory Reconciliation

CFDA No. N/A

Criteria:

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

Condition

The general ledger control accounts for inventory were not reconciled with the physical count as of September 30, 2003. The differences are as follows:

	<u>Per General Ledger</u>	<u>Per Physical Count</u>	<u>Over-stated Difference</u>
Inventory-General Store	\$ 1,230,302.55	\$ 1,151,043.16	\$ 79,259.39
Inventory-Pharmacy	376,993.23	374,057.01	2,936.22
Inventory-Central Supplies	<u>176,883.68</u>	<u>165,840.04</u>	<u>11,043.64</u>
	<u>\$ 1,784,179.46</u>	<u>\$ 1,690,940.21</u>	<u>\$ 93,239.25</u>

Cause

The cause of the above condition is a lack of internal controls over reconciliations of the general ledger control account to the physical inventory counts.

Effect

The total inventory reported in the general ledger is over-stated by \$93,239.25. However, an audit adjustment was made to the general ledger control account to agree balances to the physical count as of September 30, 2003.

Prior Year Status:

The above condition was cited as a finding in the prior year audit of the GMHA.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-25, continued

Area: Accounting Department – Inventory Reconciliation

CFDA No. N/A

Recommendation

The Materials Management Department, in consultation with the CFO, should establish internal control policies and procedures to ensure that all inventories are properly accounted for and that physical inventories (spot-checks) are conducted periodically throughout the fiscal year to mitigate potential theft, pilferage, and obsolescence due to the expiration of shelf life. Internal controls should also provide for the complete reconciliation of the general ledger to the physical count. The CFO, or his designee, should make periodic reviews to ensure compliance with the internal controls and that accounts are reconciled timely. Any discrepancies noted should be independently investigated and resolved.

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will establish internal control policies and procedures to ensure that all Inventories are reconciled on a periodic basis throughout each fiscal year.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-26

Area: Accounting Department - 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:

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>Over-stated Difference</u>
Accounts payable-trade	<u>\$ 6,286,728.62</u>	<u>\$ 6,198,551.40</u>	<u>\$ 88,177.22</u>

During the audit, certain note installments were reclassified from accounts payable to conform to the confirmation of the balances obtained from the creditors.

Cause:

There is a lack of internal control policies and procedures to ensure that accounts payable control accounts are reconciled with the subsidiary ledger on a monthly basis.

Effect:

An auditor's adjustment was made to the financial statements to correct the misstatements. However, if accounts are not properly reconciled, material errors or fraud could exist and not be detected.

Prior Year Status:

The above condition was cited as a finding in the prior year audit of the GMHA.

Recommendation:

The CFO should establish internal control policies and procedures to ensure that the accounts payable control account and subsidiary ledger are reconciled on a monthly basis by Accounting personnel. All discrepancies should be reported to the CFO, or his designee, investigated, and resolved in a timely manner.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-26, continued

Area: Accounting Department - Accounts Payable

CFDA No. N/A

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will establish internal policies and procedures to ensure that the accounts payable are reconciled on a monthly basis.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-27

Area: Accounting Department -Timely Reconciliation of Accounts

CFDA No. N/A

Criteria:

All general ledger control accounts should be properly reconciled to subsidiary ledgers and related underlying supporting schedules and documentation on a monthly basis by well trained personnel.

Condition:

Detailed schedules supporting the general ledger accounts did not always agree with the general ledger balances for cash, receivables, fixed assets, accounts payable, equity, and various other major accounts. Additionally, year-end required account analyses schedules were concurrently prepared and reconciled during the audit.

Cause:

There is a lack of well trained employees to perform reconciliations of accounts. Additionally, there is also a lack of supervisory review in critical areas of the accounting functions and systems, particularly on the system modules of cash receipts, receivables, fixed assets, and payables.

Effect:

Misstatements exist in various accounts which have resulted in the qualification of our opinion of the financial statements, and if not corrected through stringent and immediate implementation of sound accounting policies, procedures and internal controls, will continue to grow in magnitude. Possibility of errors and fraud could exist and may not be detected. At September 30, 2003, misstatements noted in patient's accounts receivables and fixed assets register remained uncorrected, pending a complete analysis and reconciliation.

Recommendation:

Given the magnitude of the lack of account reconciliation performed, it is imperative that internal control policies and procedures be immediately implemented to ensure that operating results of the hospital are properly accounted for and assets properly safeguarded to avoid potential waste, fraud, and abuse. There should be a sufficient number of competent well trained staff to perform reconciliations and periodic reviews should take place to ensure policies and procedures are being adhered to and reconciliations are being performed in a timely manner.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Finding No. 03-27, continued

Area: Accounting Department -Timely Reconciliation of Accounts

CFDA No. N/A

Auditee's Response and Corrective Action Plan:

The Chief Financial Officer will establish a policy and procedure where the appropriate balance sheet accounts are reconciled on a monthly basis. Employees from other governmental agencies have been assigned to assist the hospital reconcile the subsidiary to the general ledger, for the accounts receivable, fixed assets, inventory, and accounts payable accounts.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-28

Area: Planning/Finance - Efficiency in Managing Federal Grants

CFDA No. 15.875

Criteria:

GMHA should ensure that the capital procurement process under the Compact Impact Grant is tracked and followed-up regularly.

Condition:

In reviewing of the Compact Impact Grant carryover fiscal years 2000 and 2001 activity in fiscal year 2003, we noted slow to dormant procurement procedures in administering this grant. In fiscal year 2003, only 35% or \$379,741 of \$1,095,600 of the available grant was expended from the carryover grant. For eight (8), or 50% of the sixteen (16) Compact Impact grant requisitions tested, conversion of requisitions from the date of receipt by the Material Management Office (MMO) to the Purchase Order date exceeded 90 days, thus, funds were not obligated immediately for the following:

<u>Requisition Number</u>	<u>Items</u>	<u>Requisition Amount</u>	<u>MMO Received Date</u>	<u>Purchase Order Date</u>	<u>No. of Days Requisitions Converted to Purchase Order</u>
R3-8460-045	Infant Transport System	\$135,343	10/03/02	02/21/03	141
R3-8791-227	Computers/Printers Stands for various dept.	33,156	11/06/02	08/12/03	279
R3-7740-224	Total Care Bed Setup	30,207	11/06/02	02/17/03	103
R3-8480-225	Galaxy 3000 Series Power Protec.Back-up	16,500	11/06/02	03/26/03	140
R3-8791-230/ R4-8791-515	Chairs (R3-8791-230 carried forward to FY 2004 with price escalation due to delay; re-routed on 1/5/04)	45,513	10/18/02	01/15/04	436
R3-8791-310	Reception Station	3,820	11/19/02	05/29/03	192

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-28, continued
Area: Planning/Finance - Efficiency in Managing Federal Grants
CFDA No. 15.875

<u>Requisition Number</u>	<u>Items</u>	<u>Requisition Amount</u>	<u>MMO Received Date</u>	<u>Purchase Order Date</u>	<u>No. of Days Requisitions Converted to Purchase Order</u>
R3-8791-989/ R4-8791-514	Various equipment (R3-8791-989 carried forward to FY04 due to delay in processing; re-routed on 1/5/04)	\$ 17,153	07/09/03	01/15/04	190
R3-8791-987/ R3-8791-1077	Various Medical Equipments (Price escalated from original requisitions due to delay in processing; rerouted in 7/1/04)	78,053	07/09/03	07/01/04	356
	Total Tested	<u>\$ 359,745</u>			

GMHA incurred Compact Impact federal expenditures totaling \$379,741 for fiscal year 2003 and reimbursement was not requested until the first quarter of 2004. Additionally, no accrual of federal revenue was made during the year for federal expenditures incurred.

Cause:

The slow execution of purchase orders is in part attributable to the lack of cash flows. GMHA is required to expend its funds prior to the reimbursement of federal funds.

Effect:

Federal Grants could be lost if not obligated and expended within the specific terms of the grant agreements. Federal revenue and amounts due from Grantor were understated. An audit adjustment was made to correct the misstatements.

Recommendation:

The Planning Department should implement procedures in monitoring federally funded programs and ensure federal award/grants are obligated within the terms of the grant, otherwise, there is a potential loss of federal funds to the Hospital. The Accounting Department at GMHA should ensure proper accrual of federal expenditures has been included in the financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-28, continued

Area: Planning/Finance - Efficiency in Managing Federal Grants

CFDA No. 15.875

Auditee Response and Corrective Action Plan:

The Planning Department will implement policies and procedures to properly monitor federal grant programs and take advantage of obligated funds in the year received. The Finance Department will ensure that all assets purchased under federal grant are specifically identified and reported to the Accounting Department to ensure that such assets are properly recorded in the general ledger and reported in the financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-29

Area: Cash Management - Temporarily Restricted Fund Balance

CFDA No. 97.036/83.544

Criteria:

Funds restricted for capital projects should be evaluated periodically to reflect actual activity in the fund and the accurate temporarily restricted fund balance.

Condition:

At September 30, 2003, the temporarily restricted cash maintained in the bank is greater than what has been accounted for as temporarily restricted fund balance. The overstatement is noted as follows:

Fund balance in the temporarily restricted account at September 30, 2003	\$ 493,090
Interest earned during the year, recorded as unrestricted	<u>1,756</u>
Total Cash in the temporarily restricted account	494,846
Accounted for as undisbursed FEMA assistance: Balance of the 1998 FEMA assistance on the repair of back-up chiller damaged from the Typhoon Paka	(<u>335,341</u>)
Unallocated overhead cost of federally funded projects of prior years	<u>\$ 159,505</u>

The funds were not exhausted until the first quarter of fiscal year 2004, therefore, there was no activity in the funds during the fiscal year 2003.

Cause:

There appears to be a lack of understanding and evaluation and review of the validity of the fund. Additionally, contract change orders and changes in specifications contributed to the delay.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-29, continued

Area: Cash Management - Temporarily Restricted Fund Balance

CFDA No. 97.036/83.544

Effect:

There is no material effect in the financial statements. However, the possibility exists that unrestricted cash is understated by the overstatement in restricted cash. The effect is offsetting. Additionally, management is making decisions based on inaccurate financial data.

GMHA is in noncompliance with OMB Circular A-133's cash management requirements. Furthermore, equipment is not restored to an operable state in a timely manner.

Recommendation:

The Planning Department should establish procedures to ensure the evaluation of funds is properly performed on a periodic basis. The Accounting Department should monitor grant funds to ensure amounts are recognized as revenue, expended in a timely manner, and are properly accounted for.

The Accounting Department, in coordination with the Planning Department, 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.

Auditee Response and Corrective Action Plan:

The Planning Department will implement policies and procedures to properly monitor federal grant programs and take advantage of obligated funds in the year received. The Finance Department will ensure that all assets purchased under federal grant are specifically identified and reported to the Accounting Department to ensure that such assets are properly recorded in the general ledger and reported in the financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-30

Area: Accounting System and Chart of Accounts

CFDA No. N/A

Criteria:

Accounting and information systems should be able to facilitate the production of accurate financial information and the related preparation of financial statements on a functional basis, provide for the accountability of assets, and the maintenance of accurate historical record of operations.

Condition:

Based on the results of observations made during our audit, the existing chart of accounts is not prepared on an effective and efficient functional or cost center basis. The current chart of accounts consists of more than 5,300 general ledger accounts. The accounting system fails to produce accurate departmental profit and loss statements and fails to produce accurate financial information. The accounting system also fails to produce the following and the alternative time-consuming procedures being used as follows:

Financial Reports and Accounting Information expected to be generated from the system

Alternative done by Accounting Department

- | | |
|---|---|
| 1. Functional financial statements. | Excel spreadsheet/Lotus spreadsheet |
| 2. Detailed fixed asset register which should include the following data: <ul style="list-style-type: none">• Asset Type• Asset number (TAG Number)• Location of asset/movable equipments• Condition: new or used• Date acquired• Date placed in service• Useful life• Depreciation provision• Date retired or traded | Advanced Lotus spreadsheet updated annually from information/data extracted from the system. |
| 3. Trial balance with user option to print accounts with zero balance and inactive accounts. | Advance Lotus spreadsheet from extracted data from the system, then delete the inactive or zero balances account. |

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-30, continued

Area: Accounting System and Chart of Accounts

CFDA No. N/A

Financial Reports and Accounting Information
expected to be generated from the system.

Alternative done by Accounting Department

- | | |
|---|---|
| 4. All general ledger schedules | Excel spreadsheet updated monthly from the data in the system. |
| 5. Annual record review of all personnel leave transaction activities and compensatory time earned and the corresponding year-end balances. | Prepared manually as needed, by adding the available beginning balance, query the earned hours and the used hours from the system, then ascertain other manual adjustments (i.e. leave-sharing, 4 hours provision at year-end, 100 hours adjustment, etc.), that needs to be included. |
| 6. Accurate daily cash report with control of official receipts system and details of mode of payments. | Reconciliation is performed daily by the Receivable Accounting Clerk and manual journal entries are prepared daily for over 365 instances of cash shortages (overages) to temporary accounts for the difference and approximately 89 instances still unidentified in the accounts receivable suspense account at 9/30/03. |

Cause:

There appears to be a serious lack of control and direction regarding the present accounting system and overall fiscal management.

Effect:

The above condition could result in the following:

1. Cause of misstatements of various accounts balances that were noted in the preceding findings.
2. Substantial risk that irregularities such as fraud and defalcation may exist, and continue undetected.
3. Management may make decisions based on inaccurate financial data and information.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-30, continued

Area: Accounting System and Chart of Accounts

CFDA No. N/A

Recommendation:

The chart of accounts should be designed on a functional and cost center basis. This is a concept that groups expenses by functional area, but retains the expense classification. For example, a general ledger maintained in this fashion would detail the amount of travel expenses within each functional or program area. It is critical for an organization such as GMHA to be able to evaluate the financial results on a functional basis to monitor the success of its programs and activities. We strongly recommend that the chart of accounts be modified in this way to allow for the results of operations of each functional area or cost center to be determined. It is further recommended the reduction and simplification of the chart of accounts, which could greatly enhance the review and reconciliation process and provide better information for guiding and managing the business affairs of the hospital.

Management decisions are based on this type of financial data and inaccurate information will lead to poor stewardship of public funds and of the government enterprise. The management of GMHA should consider obtaining an independent assessment of the current accounting system, work flow processes and the functionality of its financial management information system to ensure that such is used to meet the expectation to produce timely and accurate financial information in an effective and efficient manner.

Auditee Response and Corrective Action Plan:

The Chief Financial Officer is working with the software vendor to reestablish routine financial reports as noted in this finding. Restrictions have been placed on the ability to add or delete financial report from the financial system.

The Chief Financial Officer is developing a new chart of accounts that reduces the number of accounts and department numbers to facilitate the ability to produce system generated profit and loss statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-31

**Area: Prior and Current Year Accruals, Adjustments and
Post Closing Adjustments**

CFDA No. N/A

Criteria:

The Accounting Department should maintain a system of internal control over ascertaining completeness and accuracy of the financial statements for audit.

Condition:

At September 30, 2003, the material misstatements in the financial statements prior to the application of audit procedures and corrections through audit adjustments were the following:

Accounting Department:

1. Annual lump sum leave expense in the general ledger had negative balance of \$461,459.88.
2. Interest expense account nos. 8610-9002 and 8610-9006 had negative balances of \$138,733 and \$305,558, respectively.
3. Prior year accrual of interest expense for Retirement Fund notes payable and Unpaid contributions of \$189,366 and \$603,305, respectively, were not reversed in fiscal year 2003.
4. Year-end accrual of interest expense for fiscal year 2003 on notes payable and unpaid contributions estimated at \$1,636,497 were not included in the year-end financial statements.
5. Completed Project No. 034-2001 on March 2003 Re: Enclosure of Courtyard and Solarium in the Construction in Progress, was not transferred to Building Asset, and therefore not depreciated. Amount not transferred to the proper asset account totaled \$2,715,777.
6. Three instances of mispostings of prior year audit adjustments with the net effect in the beginning balance of unrestricted net assets of \$1,230,580.
7. Accrual of Federal Fund Revenue based on actual expenditures aggregating \$366,640.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-31, continued

**Area: Prior and Current Year Accruals, Adjustments and
Post Closing Adjustments**

CFDA No. N/A

Condition: continued

Uncorrected misstatements due to the lack of review and reconciliations:

Patient Affairs Department:

1. Control Balance difference to the general ledger approximating \$15.6 million. The amount of misstatements for revenues, contractual adjustments, other adjustments and bad debts could not be determined.
2. Management's written disposition, review, and approval of the propriety of the following adjustments, which at September 30, 2003, were currently included in the allowance for bad debts-self-pay account for the following:

<u>Transaction Code</u>	<u>Transaction Definition</u>	<u>Amount at 9/30/03</u>
4010	Without Credit Balance-Self Pay	\$231,897
4011	Without Credit Balance-Medicaid	34,089
4012	Without Credit Balance-MIP	173,965
4013	Without Credit Balance –GovGuam	3,052
4014	Without Credit Balance-Miscellaneous	179,230
4015	Without Credit Balance-Medicare	_____
		<u>\$622,233</u>

Property Management and Accounting Department:

Capital Assets misstatements (refer to finding no. 03-21).

Cause:

There is a lack of internal controls ensuring that accounting records are maintained accurately on a periodic basis. Additionally, there appears to be a lack of competent staff to perform the reconciliations and determine the necessary adjustments for the review and approval of the Comptroller.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-31, continued

**Area: Prior and Current Year Accruals, Adjustments and
Post Closing Adjustments**

CFDA No. N/A

Effect:

Material misstatement of accounts and financial statements exist as a result of this condition. These conditions also attributed to the substantial delay in the audit process and delivery of the final report.

Recommendation:

Management should establish internal control over ascertaining the completeness and accuracy of its financial statements and year-end account schedules.

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will establish internal control policies and procedures to ensure that all appropriate prior and current year accruals, adjustments and post closing adjustments occur on an on-going basis.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-32
Area: Medicare Overpayments
CFDA No. N/A

Criteria:

Management should establish internal controls to ensure that periodic report documents submitted to Health Care Financing Administration (HCFA) are prepared based on timely and accurate financial data; and the review and documentation of appropriate action on reports of regulatory agencies have been properly undertaken.

Condition:

HCFA assessed the efficiency of the hospital for its outpatient and inpatient services, based on its Annual Medicare Cost Report submitted for fiscal year 2003, resulting in a Medicare overpayment to the Hospital in the amount of \$3,629,816. GMHA has not appealed to this lump-sum retroactive adjustment, nor made any documentation of its agreeing to the assessment validity, which requires acceptance and resolution by the Board of Trustees.

Cause:

There appears to be no timely management oversight on matters of Medicare reimbursements methodology.

Effect:

The Hospital suffered additional cash flow problems in the subsequent year, as the \$3,629,816 in addition to its prior years' existing overpayment of \$573,951, began to be withheld from the 2004 Medicare reimbursements.

Recommendation:

The CFO should establish internal control over ensuring that reporting requirements submitted to the HCFA are prepared based on timely and accurate information that are adequately reviewed, and requests for the Tax Equity and Fiscal Responsibility Act (TEFRA) appeals and adjustments, as may be necessary, were performed by a competent employee.

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will establish internal control policies and procedures to ensure that the timely recording of adjustments initiated by Medicare.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-33

Area: Planning/Finance Department - Compact Impact Grant For Fiscal Year 2003 under OIA Grant No. GR370141

CFDA No. 15.875

Criteria:

GMHA should ensure that capital facility repair and acquisitions of equipment administered under Compact Impact Grant passed through the Government of Guam are facilitated in an efficient manner.

Condition

The fiscal year 2003 Compact Impact Grant No. GR370141 passed through the Government of Guam in the amount of \$1.355 million that was awarded on November 12, 2003, and does not appear to be efficiently administered based on the following review of the grant activity as of January 18, 2005:

		<u>Percent of Activity</u>
Procurement Activity during Fiscal year 2004:		
Grant Award Amount (GR370141)	\$1,355,000	100 %
Encumbrance as of September 30, 2004	(805,504)	<u>59%</u>
Unobligated as of September 30, 2004	<u>\$ 549,496</u>	<u>41%</u>
Reimbursement Activity at 9/30/04:		
Incurred expenditures during fiscal year 2004	\$ 246,320	
Reimbursements requested against federal expenditures based on paid invoices as of 9/30/04	<u>79,266</u>	
Unprocessed reimbursement request due to non-payment of vendors in timely manner	<u>\$ 167,054</u>	

Cause:

There appears to be a delay in placing complete requisition requests from various responsible departments for procurement processing.

Effect:

There is no effect in the financial statements. However, the possibility exists that the grant may not be obligated within the terms of the grant agreement. Additionally, due to the delay in paying vendors, incurred expenditures cannot be processed in a timely manner.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-33, continued

**Area: Planning/Finance Department -Compact Impact Grant For Fiscal Year
2003 under OIA Grant No. GR370141**

CFDA No. 15.875

Recommendation:

GMHA should ensure internal controls over administering grant under the Compact Impact Fund are facilitated in a more efficient manner. Vendors under grant expenditures should be paid within a reasonable time so that the reimbursement process will be maximized in timely manner.

Auditee Response and Corrective Action Plan:

The Planning Department will implement policies and procedures to ensure to monitor federal grant programs and take advantage of obligated funds in the year received. The Finance Department will ensure that all assets purchased under federal grant are recorded in the financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-34

**Area: Notes Payable in arrears and Unpaid Contributions with
Government of Guam Retirement Funds**

CFDA No. N/A

Criteria:

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

Condition:

In March 2003, GMHA defaulted to pay the amount due in full for its notes payable originating from amounts in arrears with the Government of Guam Retirement Fund (the Retirement Fund). At September 30, 2003, GMHA had not taken action to consummate a new payment arrangement with the Retirement Fund for its notes payable in arrears approximating \$6.6 million of principal, interest, and penalties.

At September 30, 2003, the unpaid contributions to the Retirement Fund comprising of payroll periods for fiscal years 2000 through 2003 has no written formal promissory note or payment arrangement. The breakdown of the Retirement Fund's unpaid contributions at September 30, 2003 is as follows:

Member Share and Government Share	\$ 8,426,677
Interest and penalties on due on unpaid contributions	<u>1,239,483</u>
Total	<u>\$ 9,666,160</u>

Cause:

The hospital failed to remit required payments due to insufficient cash flow from operations.

Effect:

The Hospital is in default on its note payment to the Retirement Fund. The employees may not be allowed to receive retirement benefits upon retirement until contributions plus penalties and interest are paid to the Retirement Fund.

Prior Year Status:

The above condition was cited as a finding in the prior year audit of the GMHA.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-34, continued

**Area: Notes Payable in arrears and Unpaid Contributions with
Government of Guam Retirement Funds**

CFDA No. N/A

Recommendation:

The Management of GHMA should renegotiate payment terms of its exiting note payable to the Retirement Fund. Efforts should be made to either seek appropriations from the General Fund, or cut costs through staff reductions, increase fees for services, and intensify its efforts to collect on past due outstanding accounts receivables.

Auditee's Response and Corrective Action Plan:

The Hospital Administrator and Chief Financial Officer made an attempt to renegotiate the note payable with the Guam Retirement Fund during fiscal year 2004. This effort was not successful because GMHA did not pay make payments to the Fund pursuant to a court order.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. : 03-35
Area : Reporting
CFDA NO. : 15.875
**Program Name: Economic, Social and Political Development of the Territories
and the Freely Associated States**

Criteria:

In accordance with OMB Circulars A-133 and A-87, amounts reported on federal financial reports should be based on accurate financial data from accounting system.

Condition:

Amounts reported in the Financial Status Report (FSR-279) did not agree with actual recorded amounts general ledger for the following:

	Activity for Reporting Period <u>01/01/03- 06/30/03</u>	Activity for Reporting Period <u>07/01/03- 12/31/03</u>
<u>GR000014/GR000048:</u>		
Total paid expenditures per General Ledger	\$ 209,553.36	\$ 341,789.07
Expenditures (Outlays) reported per FSR 269A	<u>0.00</u>	<u>0.00</u>
Difference	<u>\$ 209,553.36</u>	<u>\$ 341,789.07</u>

Additionally, the SF272 for reporting period 01/01/03 through 06/30/03 reported zero disbursements, although actual expenditures totaled \$209,553.36.

Cause:

The federal financial reports were prepared by employees lacking knowledge of federal reporting requirements.

Effect:

Financial report submitted to grantor agency was misstated. GMHA is in noncompliance with applicable federal reporting requirements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Finding No. : 03-35, continued
Area : Reporting
CFDA NO. : 15.875
**Program Name: Economic, Social and Political Development of the Territories
and the Freely Associated States**

Recommendation:

GMHA establish internal accounting policies and procedures to ensure accurate federal financial reporting of expenditures and request for reimbursements. Amounts reported on federal financial reports should be based on actual amounts recorded in the general ledger. Federal financial reports should be completed by competent individuals knowledgeable of the program requirements. Federal financial reports filed with errors should be corrected and resubmitted.

Auditee's Response and Corrective Action Plan:

The Chief Financial Officer will establish a policy and procedure to ensure the proper reporting in accordance with OMB Circulars A-133 and A-87.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. : 03-36
Area : Reporting
CFDA No. : 15.875, 97.039/83.548
**Program Name: Economic, Social and Political Development of the Territories
and the Freely Associated States**

CFDA No. : 97.039/83.548
Program Name: Hazard Mitigation Grant

Criteria:

In accordance with applicable federal requirements under Section 52 of the Common Rule, Financial Reporting, SF-269 or SF-269A should be submitted no later than 30 days after the end of each specified reporting period for quarterly or semi-annual reports, and 90 days for annual and final reports.

Condition:

The SF-269 for CFDA #15.875 for reporting period from 01/01/03-06/30/03 was submitted November 10, 2003 or 103 days late.

The SF-269 for CFDA No. 97.039/83.548 for the quarter reporting period covering 10/01/02-12/31/02 was not submitted; however, a final report was submitted on March 7, 2003 inclusive of 10/1/02 to 12/31/02 final activities.

Cause:

There is a lack of internal controls over ensuring compliance with applicable federal reporting. Management represented that the reporting delay was due to Typhoon Pongsona that struck Guam in December 2002.

Effect:

GMHA is not in compliance with applicable federal financial reporting requirements.

Recommendation:

GMHA should ensure compliance with the applicable federal requirements on financial reporting and controls over accurate financial information/data.

Auditee's Response and Corrective Action Plan:

The Chief Financial Officer will establish a policy and procedure to ensure the proper reporting in accordance with SF-269 and/or SF-269A.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-37

Area: Worker's Compensation

CFDA No. N/A

Criteria:

Pursuant to Public Law 19-35:6 of the Worker's Compensation Law, the total compensation, excluding medical services and supplies, for any injury or death shall in no event exceed the sum of one hundred thousand dollars (\$100,000). Furthermore, in cases of disability compensable under Section 9109(c.) of Chapter 9 of Title 22 GCA, the total compensation for such disability and for any partial disability sustained in addition therein shall not exceed the aggregate sum of one hundred thousand dollars (\$100,000).

Condition:

The total cumulative amount of compensation received since the time of employee's injury exceeded the maximum amount of \$100,000 for the following:

<u>Employee #</u>	<u>Date of injury</u>	<u>Compensation received (FY1995 – FY2004)</u>	<u>Overpayment</u>
1. 557485	7/18/1992	\$ 118,461.90	\$ 18,461.90
2. 281740	4/11/1990	\$ 119,596.40	<u>\$ 19,596.40</u>
			<u>\$ 38,058.30</u>

Furthermore, the total worker's compensation noted above could be understated due to inadequacies and unavailability of records prior to fiscal year 1995. Therefore, the overpayments may be more than what is noted above.

Questioned Costs:

Known questioned costs of \$38,058.30 exist as a result of this condition.

Cause:

There is a lack of internal controls regarding the monitoring of the payments made for employee's worker's compensation.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-37, continued
Area: Worker's Compensation
CFDA No. N/A

Effect:

GMHA is not in compliance with the Guam Public Law 19-35:6. Furthermore, the disbursements made to these employees may affect the financial statements if condition persists.

Recommendation:

An investigation should be launched to determine the exact amount of payment and seek reimbursement from these employees. Since records prior to fiscal year 1995 were inaccessible in the system, a thorough review should be done to determine the amount of compensation given to each employee since the time of their injury and the overpayments made to each employee should be sought and paid back to the hospital.

GMHA should enforce the policy set forth under the public law and closely monitor payments made to employees who are claiming worker's compensation. The Human Resources Department should establish and implement internal control policies and procedures to ensure that worker's compensation is paid to eligible employees in accordance with Public Law 19-35:6.

Auditee Response and Corrective Action Plan:

The Chief Financial Officer will head an investigation to determine the amount of Worker's Compensation owed to GMHA. The Chief Financial Officer will ensure adherence to the policies set forth by established public laws and seek repayments from the employees mentioned in the finding.

The Personnel Department will establish policies and procedures to ensure Worker's Compensation is paid according to Public Law 19-35:6.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-38

Area: Procurement - Period of Availability

CFDA No. N/A

Criteria:

According to the GMHA Procurement procedures, a purchase order is cancelled upon expiration date and any remaining funds are forfeited. However, for special orders such as construction projects, an amendment to the existing purchase order is issued and authorized to use the remaining funds.

Condition:

For two (or 4%) of the forty-five purchase orders tested, there were vendor invoices paid subsequent to the purchase order's expiration date on September 30, 2003 for the following:

	<u>PO No.</u>	<u>Vendor No.</u>	<u>Total amount of invoices paid</u>
1.	23000086	6000	\$ 1,453.56
2.	23000072	6010	<u>9,622.18</u>
		Total	<u>\$11,075.74</u>

Cause:

There appears to be a lack of internal controls to ensure that the correct procedures are in effect once a purchase order expires. Furthermore, vendor invoices may have been received later than usual which may go beyond the expiration date and therefore result in payments being processed late.

Effect:

GMHA is not in compliance with its procurement rules and regulations. Furthermore, the total payments made for vendor invoices under a particular purchase order may exceed the authorized amount approved by the Budget Office that should account for either the items purchased or services performed for that specific period.

Recommendation:

Materials Management Department should inform Accounting Department of open purchase orders before the fiscal year end to ensure that any funds remaining are accounted for and proper procedures are taken to prepare amendments to the existing purchase orders, especially for items that have not been received or services that have not been completed as of September 30, 2003.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-38, continued

Area: Procurement- Period of Availability

CFDA No. N/A

Auditee Response and Corrective Action Plan:

The Materials Management Department will establish policies and procedures that involve informing the Accounting Department of open purchase orders prior to each fiscal year-end. These procedures should include steps to amend existing purchase orders for items that have not been received as of fiscal year end.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-39

Area: Procurement – Payments in Excess of Purchase Order Amount

CFDA No. N/A

Criteria:

Pursuant to the GMHA procurement procedures, payments made to a vendor for purchases or services must not exceed the authorized amount stated on the purchase order. However, if there are additional purchases and/or services required under the specifications of the purchase order, then an amendment to the purchase order must be issued noting the additional amount approved by the Budget Office.

Condition:

For four (or 9%) of the forty-five purchase orders tested, the total amount of vendor invoices paid as of September 30, 2003 exceeded the authorized amount stated on the purchase order for the followings:

	<u>PO No.</u>	<u>Vendor No.</u>	<u>Total amount of invoices paid</u>	<u>Amount on purchase order</u>	<u>Variance</u>
1.	23000065	1031	\$1,010,433.26	\$ 843,352.80	\$ 167,080.46
2.	23000070	1021	201,604.45	180,000.00	21,604.45
3.	23000243	1036	130,320.00	127,500.00	2,820.00
4.	23000008	4032	<u>64,218.99</u>	<u>63,894.99</u>	<u>324.00</u>
		Total	<u>\$1,406,576.70</u>	<u>\$1,214,747.79</u>	<u>\$ 191,828.91</u>

Cause:

There is a lack of internal controls to ensure that the correct procurement procedures are in effect. Furthermore, vendor invoices may have been received later than usual which may result in payments being processed late.

Effect:

GMHA is not in compliance with its procurement rules and regulations. Furthermore, there may be a material effect on the financial statements if condition persists.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-39, continued

Area: Procurement – Payments in Excess of Purchase Order Amount

CFDA No. N/A

Recommendation:

The Accounting Department should reconcile the accounts payable balance in the general ledger with open invoices on a monthly basis to verify whether there are sufficient funds remaining on each purchase order prior to processing payments for vendor invoices.

Auditee Response and Corrective Action Plan:

The Materials Management Department will establish policies and procedures to monitor amounts on purchase orders as compared to invoices received from vendors. The Accounting Department will establish policies and procedures to reconcile general ledger accounts payable balance to open invoices on a monthly basis.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-40

Area: Procurement - Requisitions Order Form : No Authorizing Signature

CFDA No. N/A

Criteria:

In accordance with the GMHA procurement procedures, prior to preparing a purchase order, a requisition order must be prepared by the requesting department that states the specific items or services needed and the total cost of the item/service based on the best selection from the vendor quotes received. Furthermore, there should be an authorization from the Budget Office approving the total amount of funds requested. Thereafter, the purchase order is prepared and signed by the Hospital Administrator in which the details noted within should agree to the requisition order.

Condition:

For three (or 7%) of the forty-five purchase orders tested, the requisition orders attached to the purchase order file were not approved by the Budget Office authorizing the total amount of funds for the following:

	<u>PO No.</u>	<u>Vendor No.</u>	<u>Amount on purchase order</u>
1.	23001316	4177	\$ 93,476.28
2.	23001348	6016	64,750.00
3.	23001551	7510	94,254.10
		Total	<u>\$252,480.38</u>

Furthermore, there was no requisition order on file for purchase order #23000072 for \$111,420.52 dated 10/7/02.

Cause:

There appears to be a lack of internal controls to ensure that the correct procurement procedures are in effect.

Effect:

GMHA is not in compliance with its procurement procedures. Furthermore, there is no assurance that there are adequate funds available if there is no approval from the Budget Office authorizing the funds for the particular requisition order.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Finding No. 03-40, continued

Area: Procurement - Requisitions Order Form : No Authorizing Signature

CFDA No. N/A

Recommendation:

The Materials Management Department should have a checklist to ensure that the proper information and authorized signatures are present in preparing the purchase orders.

Auditee Response and Corrective Action Plan:

The Materials Management Department will establish policies and procedures to ensure that all pertinent information and authorized signatures are present in the preparation of purchase orders.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-41

Area: Procurement- Bid Award: No Authorizing Signature

CFDA No. N/A

Criteria:

In accordance to Section 3-202.16 of the GMHA Procurement Rules & Regulations, following an award of a bid or request for proposal (RFP), a record showing the basis for determining the successful bidder shall be made a part of the procurement file.

Condition:

For two (or 4%) of the forty-five purchase orders tested, the Bid Invitation and Award or the Request for Proposal form was not signed by the Hospital Administrator which should also indicate the contract amount according to the selected bid or RFP for the following:

	<u>PO No.</u>	<u>Vendor No.</u>	<u>Amount on purchase order</u>
1.	23002966	4030	\$ 95,105.00
2.	23003442	7994	<u>55,445.00</u>
	Total		<u>\$ 150,550.00</u>

Cause:

There is a lack of internal controls to ensure that the correct procurement procedures are in effect.

Effect:

GMHA is not in compliance with its procurement procedures.

Recommendation:

The Materials Management Department should complete their checklist to ensure that the proper information and authorized signatures are present during the awarding of a bid or RFP.

Auditee Response and Corrective Action Plan:

The Materials Management Department will ensure adherence to section 3-202.16 of GMHA's Procurement Rules & Regulations, which requires all pertinent information and authorized signatures are present in the awarding of a bid or request for proposal.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-42

Area: Procurement – Pre-Award Bid Prior to Settlement of Protest

CFDA No. N/A

Criteria:

Pursuant to Section 9-101.03.2 of GMHA's Procurement Rules and Regulations, protestors may file a protest on any phase of solicitation or award including, but not limited to, specifications preparation, bid solicitation, award, or disclosure of information marked confidential in the bid or offer. Also, in accordance to Section 9-101.05, when a protest has been filed within fourteen (14) days and before an award has been made, the Hospital Administrator shall make no award of the contract until the protest has been settled.

Condition:

For purchase order #23000207, an initial protest was made to the Hospital Administrator for Bid No. 004-02, which is for trash hauling services for fiscal year 2003. The Supply Management Administrator sent a response and the bid protestor sent another request for reconsideration dated 2/15/02. The final response from Supply Management Administrator was sent on 2/22/02 with the same answer and initial selection of first vendor was kept. However, per review of Bid Invitation to Award, contract was awarded on 1/31/02, prior to the protest date.

Cause:

It appears that documentation of the protest did not reach all of the proper authorizing personnel before making the final award of the bid or RFP to the selected vendor.

Effect:

GMHA is not in compliance with its procurement rules and regulations.

Recommendation:

Once the Materials Management Department receives a protest, a copy should be forwarded immediately to the Hospital Administrator and any other authorizing personnel as to meet the deadline of responding to the protestor in a timely manner.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Finding No. 03-42, continued

Area: Procurement – Pre-Award Bid Prior to Settlement of Protest

CFDA No. N/A

Auditee Response and Corrective Action Plan:

The Materials Management Department will ensure adherence to sections 9-101.03.2 and 9-101.05 regarding protest in the solicitation or awarding of bids. The Materials Management Department will immediately contact the Hospital Administrator in the event of a protest in the awarding of bids.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-43

Area: Procurement- No Formal Contract

CFDA No. N/A

Criteria:

In accordance with Section 2-111 of GMHA's Procurement Rules & Regulations, the Hospital Administrator may act as the purchasing agent and contract on GMHA's behalf for the purposes of procuring the services of physicians, lawyers, dentists, accountants, and other professionals. Furthermore, the Hospital Administrator may approve standard form contracts or purchase orders. Thereafter, contracts or purchase orders made on such standard form may be executed with the approval of the Board of Trustees.

Condition:

For purchase order #23003753, there is no original contract on file for consultation services of the Laboratory Director for the period covering from March 1, 2003 to September 30, 2003. The only documentation on file was a letter from Laboratory Director requesting to the Hospital Administrator to renew the contract for the subsequent period covering from October 1, 2003 to March 31, 2004.

Cause:

GMHA did not comply with its procurement rules and regulations.

Effect:

The proper procurement process was not carried out and there may be unauthorized purchases in relation to the services requested.

Recommendation:

The Hospital Administrator should review and authorize all pending contracts before any type of service is performed. Furthermore, there should be a checklist on the procurement file to determine whether all of the pertinent documentation is accurate and complete.

Auditee Response and Corrective Action Plan:

The Materials Management Department will ensure adherence to section 2-111 of GMHA's Procurement Rules & Regulations, which requires the Hospital Administrator to review and authorize all pending contract before any type of services is performed.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-44

Area: Pharmacy Department - Loan and Borrowing of Pharmaceuticals and Supplies

CFDA No. N/A

Criteria:

GMHA should maintain written internal control policies and procedures for the loan and borrow of pharmaceuticals and supplies.

Condition:

There are no defined written internal control policies and procedures in place for the loan and borrowing of pharmaceutical and supplies in Pharmacy Department and in Materials Management Supply. The current control forms in use in the Pharmacy Department are only controlled by the date and not by sequential number. There is no periodic monitoring of the balances of these transactions. The aggregate total of the loan and borrow of pharmaceutical documentation spanning from 1996 to December 2004 are as follows:

Accumulated costs of pharmaceuticals that GMHA loaned to various Pharmacies	\$ 256,333
Less: Accumulated costs of pharmaceuticals that GMHA borrowed from various Pharmacies	<u>(117,515)</u>
Excess of costs of pharmaceuticals loaned to various pharmacies over costs of pharmaceuticals borrowed	<u>\$138,818</u>

Subsequent to December 31, 2004, the detail of loan and borrowing of pharmaceuticals had not been compiled. Therefore, the costs of borrowed from and loaned to various Pharmacies could not be determined.

Effect:

There is the possibility that pharmaceuticals and IV Solutions expenses may be overstated. Additionally, due to the controlling forms used are only controlled by dates, the possibility exists that the loan and borrowed documents compiled may be incomplete. Misappropriation of assets may exist and not detected.

Cause:

There is a lack of written internal control policies and procedures in the safeguarding of the assets to ensure that pharmaceuticals are properly accounted for.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-44, continued

Area: Pharmacy Department - Loan and Borrowing of Medications and Supplies

CFDA No. N/A

Recommendation:

GMHA should establish written internal control policies and procedures in monitoring the loan and borrowing of medications and supplies, and ensure that assets are properly safeguarded against fraud and misappropriation of assets.

Auditee Response and Corrective Action Plan:

The Material Management Department will establish policies and procedures regarding the loan and borrowing of pharmaceuticals and supplies. The Materials Management Department will report the loan and borrowing of pharmaceuticals and supplies to the Accounting Department, so these appropriate receivables or payables are recorded in the general ledger.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Finding No. 03-45

Area: Notes Payable in Arrears - Guam Power Authority

CFDA No. N/A

Criteria:

GMHA should maintain written formal promissory notes or payment arrangement for the amounts in arrears with Guam Power Authority.

Condition:

During 2003, GMHA defaulted on seven (7) monthly installments of \$45,965 and additional interest of \$4,079 totaling \$325,834 with Guam Power Authority promissory note agreement. These installments were for November 2002, January 2003, April 2003, May 2003, July 2003 through September 2003, confirmed by GPA as follows:

Balance confirmed by Guam Power Authority	\$ 1,421,129
Expected balance should note was complied under the terms of the agreement	(<u>1,095,295</u>)
Defaulted installments	<u>\$ 325,834</u>

Cause:

The Hospital failed to remit required payments due to insufficient cash flow from operations.

Effect:

The Hospital is in default on its note payment with the Guam Power Authority. Additional interest and penalties may be imposed as a result of this condition.

Recommendation:

The management of GHMA should either seek appropriations from the General Fund, or cut costs through staff reductions, increase fees for services, and intensify its efforts to collect on past due outstanding accounts receivables.

Auditee's Response and Corrective Action Plan:

The note with the Guam Power Authority was recalculated in conjunction with the Office of Bureau Budget and Management Resources in fiscal year 2004.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings

Finding No. 2002-01—Cash Receipts

Condition: There was 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 were then forwarded to the Business Office for input into the patient billing system.

Corrective

Action: 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.

Current

Status: This matter had not been fully resolved in 2003 as we noted that management is still in the process of reviewing the procedures to remove the redundancy.

Finding No. 2002-02—Cash Receipts

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

Corrective

Action: Management has 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.

Current

Status: This finding was resolved subsequent to 2003 as noted above in management plan of corrective action.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-03—Cash Disbursements

Condition: For seven (or 6%) out of 115 disbursements tested, it was noted that the payment request forms only had the Comptroller's signature and was missing the signature of the Hospital Administrator.

Corrective

Action: 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.

Current

Status: This condition is considered unresolved as we noted current finding for a similar condition in Finding 03-05.

Finding No. 2002-04—Operations: Payroll

Condition: For four (or 7%) out of sixty items tested, it was noted that the payment request forms for various payroll payables were not signed by the Hospital Administrator. The only signature present was from the Comptroller.

Corrective

Action: 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.

Current

Status: This condition is considered unresolved as noted in Finding number 03-05.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-05—Personnel

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

Corrective

Action: 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 review.

Current

Status: This condition was not resolved as noted in our current Finding number 03-09.

Finding No. 2002-06—Payroll: Accrued Leave

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.

Corrective

Action: 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.

Current

Status: This condition is unresolved as noted current year Findings numbers 03-11 and 03-12.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-07—Procurement: Sole Source Method

Condition: For one (or 3%) out of thirty-five purchase orders tested, it was 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.

Corrective

Action: The supplies ordered on this purchase order were not interchangeable, and were equipment specific; therefore, this purchase order was required to continue the flow of supplies for the outgoing equipment, until the new equipment and supplies were in place. We should have cited the code to “extend an 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.

Current

Status: This condition is considered unresolved as noted in similar in procurement findings in 2003. Therefore, the questioned cost of \$572,994 still exists.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-08—Procurement: Competitive Sealed Bidding Method

Condition: For one (or 3%) out of thirty-five purchase orders tested, it was 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. Furthermore, there was no written justification for selecting the higher bid.

Corrective

Action: In reviewing purchase order 22001250, the decision to select 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.”

Current

Status: This finding is considered resolved as management has implemented the above plan of corrective action.

Finding No. 2002-09—Procurement

Condition: For four (or 11%) out of thirty-five purchase orders tested, it was noted that there was no documentation of vendor invoice and/or receiving report. Therefore, a questioned cost in the amount of \$26,177.24 resulted due from this condition.

Corrective

Action: 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.

Current

Status: This condition has not been resolved, as it appears that a questioned cost of \$26,177.24 still exists.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-10—Accounts Receivable

Condition: The accounts receivable subsidiary ledger was not reconciled to the general ledger on a monthly basis.

Corrective

Action: 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 to staff persons, lacking knowledge of accounts receivable that may have contributed to the discrepancy noted. 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.

Current

Status: This condition is unresolved as noted in our current year 2003 Findings numbers 03-16, 03-17 and 03-18.

Finding No. 2002-11—Accounts Receivable

Condition: The accounts receivable confirmations received from payors did not agree with subsidiary ledger summary report. Management was not able to reconcile the accounts to determine the correct balance.

Corrective

Action: 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. Management will assign a staff person in accounting to conduct monthly reconciliations of the accounts receivable Subsidiary to the general ledger control account.

Current

Status: This condition is considered unresolved, as management has not been able to reconcile its accounts receivable subsidiary to the general control account.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-12—Allowance for Bad Debts and Contractual Adjustments

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.

Corrective

Action: Management hired a Chief Financial Officer to aid in the correct presentation of accounts receivable and other major accounts in the GMHA financial statements. Management will conduct a historical and current analysis of bad debts and contractual adjustments to determine a reasonable allowance percentage.

Current

Status: This condition is unresolved as noted in our current year 2003 Finding number 03-19.

Finding No. 2002-13—Fund Balance/Net Assets

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.

Finding No. 2002-13—Fund Balance/Net Assets

Corrective

Action: 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.

Current

Status: This condition is considered unresolved as noted in Finding number 03-31.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-14—Fixed Asset Register Reconciliation

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.

Corrective

Action: 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.

Current

Status: This condition is unresolved as noted in our current year 2003 Findings numbers 03-21, 03-22 and 03-23.

Finding No. 2002-15—Accounts Payable

Condition: As of September 30, 2002, the accounts payable general ledger control account was not reconciled to the accounts payable subsidiary ledger.

Corrective

Action: 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.

Current

Status: This condition is unresolved as noted in our current year 2003 Finding number 03-26.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-16—Notes Payable: 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 to 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.

Corrective

Action: 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.

Current

Status: This condition is unresolved as noted in our current year 2003 Findings numbers 03-34 and 03-35.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-17—Contractual Allowances

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.

Corrective

Action: 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. Furthermore, Management will conduct a historical and current analysis of bad debts and contractual adjustments to determine a reasonable allowance percentage.

Current

Status: This condition is unresolved as noted in our current year 2003 Finding number 03-19.

Finding No. 2002-18—Cash Management

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 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.

Corrective

Action: 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.

Current

Status: This condition is unresolved as noted in our current year 2003 Findings numbers 03-28, 03-29 and 03-33.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-19—Inventories

Condition: GMHA's general ledger control accounts of its inventories were not reconciled with the physical count as of September 30, 2002. The total inventory per general ledger was understated by \$93,670.89 due to this condition. However, an audit adjustment was made to the general ledger control account to agree balances to physical count as of September 30, 2002.

Corrective

Action: 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.

Current

Status: This condition is unresolved as noted in our current year 2003 Finding number 03-25.

Finding No. 2002-20—All departments: Password Access

Condition: There was 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.

Corrective

Action: By the 1st week of December 2004, MIS will submit a new proposed password policy for review and approval. 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. Upon approval of the new password policy, informational circular notifying all hospital staff of the new policy and compliance will be disseminated. 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.

Current

Status: This condition is considered resolved.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-21—All departments: Software Licensing

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

Corrective

Action: 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, MIS will upgrade the operating software thus allowing the system to automatically restrict employees from installing unlicensed software.

Current

Status: This condition is considered resolved.

Finding No. 2002-22—Safety Department: Patient Valuables in Safe Custody of GMHA

Condition: It was noted that four (or 20%) of the patient's valuable envelopes in safe custody of the hospital had been found to be altered, and one (or 1%) had been sealed empty. Furthermore, envelopes had no controlling tags or numbers, nor embossed patient's addressograph card present in the valuable envelopes. GMHA had no written policy as to disposition of long unclaimed valuable envelopes in the safe custody of the hospital.

Corrective

Action: 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.

Current

Status: This condition is considered unresolved, as management has not been able to fully implement its plan of corrective during 2003.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-23—Security Department (GMHA-Main and Skilled Nursing Unit)

Condition: The Lost and Found Register Log of GMHA-Main office 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 main safe and the SNU safe. Additionally, there were no record documentations of any lost and found items that had been turned over to the police department to evidence that policy and procedures are being followed.

Corrective

Action: 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. Timelines shall be followed for holding lost and found items and 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. Lost items shall be turned over to the Guam Police Department for those items not returned to their rightful owner within thirty days.

Current

Status: This condition is considered resolved.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Year Ended September 30, 2003

2002 Audit Findings, Continued

Finding No. 2002-24—Inventory: Pharmaceuticals

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.

Corrective

Action: 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. Pharmaceutical supplies have since been placed under the custody of the Pharmacy Department, and are secured in a new location.

Current

Status: This condition is considered unresolved as noted in Finding number 03-25.

GUAM MEMORIAL HOSPITAL AUTHORITY

SUMMARY OF UNRESOLVED QUESTIONED COSTS
SEPTEMBER 30, 2003

	<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 2002	\$ 1,811,359	\$ -	\$ -	\$ 1,811,359
Questioned costs for fiscal year ending 2003	<u>872,724</u>	<u>-</u>	<u>-</u>	<u>872,724</u>
Total unresolved questioned costs At September 30, 2003	<u>\$ 2,684,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,684,083</u>