

GUAM MEMORIAL HOSPITAL AUTHORITY

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

SEPTEMBER 30, 1998



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

Board of Directors
Guam Memorial Hospital Authority:

We have audited the financial statements of the Guam Memorial Hospital Authority (GMHA) as of and for the year ended September 30, 1998, and have issued our report thereon dated October 11, 1999, which report was modified because we were unable to verify the valuation of accounts receivable and the completeness of recorded revenues. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Board of Directors and management of GMHA. However, this report is a matter of public record and its distribution is not limited.

Deloitte + Tatche LLP

October 11, 1999

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-1 - Fixed Assets

Criteria:

The FX module should be updated in a timely manner for fixed additions.

Condition:

Various adjusting journal entries were recorded to increase the FX module balance to reflect fixed asset additions for the fiscal year.

Cause:

This condition is directly related to the non-recording of additions without all supporting documentation being received by the accounting department.

Effect:

The fixed assets account balance and the corresponding accumulated depreciation and depreciation expense may be misstated.

Recommendation:

GMHA should establish procedures to record fixed asset additions upon receipt of the vendor invoice and upon receipt of item as evidenced by a receiving report from the Materials Management Department. Additionally, the accounting department should make every effort to verify that the asset has been placed in service prior to its recording to the FX module.

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-2 - Fixed Assets

Criteria:

Fixed assets, and its respective accumulated depreciation, should be properly recorded.

Condition:

Fully depreciated fixed assets, and their related accumulated depreciation, are not being included in the report generated by the FX module. It appears that the FX module depreciation report was set up to reflect items which still have a depreciable base.

Cause:

The cause of this condition is unknown.

Effect:

Although this condition does not appear to have a significant effect on the financial statements.

Recommendation:

We recommend that the system vendor be consulted and the FX module be modified to generate a detailed fixed asset listing (listing the asset, historical cost, asset life, monthly depreciation, and cumulative accumulated depreciation) by asset type for management's control and monitoring purposes.

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-3 - Fixed Assets

Criteria:

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

Condition:

There were no disposals for the fiscal year ended 9/30/98. Through further investigation, it was noted that the FX module had not been properly adjusted to reflect fixed asset items surveyed out.

Cause:

The cause of this condition is unknown.

Effect:

The fixed asset listing may be misstated by an immaterial amount.

Recommendation:

Procedures should be established to allow for the identification of surveyed fixed asset items, received by the Materials Management, on the current survey form. Upon identification of these items, the related survey form should be forwarded to the accounting department for proper upgrading of the FX module for the item disposed.

Additionally, a fixed asset physical inventory should be conducted on a departmental basis. This should include identification of asset, serial number, asset number, location, and department assigned. Upon completion, noted variances should be investigated and the FX module adjusted.

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-4- Inventory

Criteria:

Inventory items should be properly recorded on count sheets during physical inventory procedures. Additional items found during recounts should be properly noted as additions.

Condition:

Several inventory item quantities could not be traced to the totals per the count sheets.

Cause:

The cause of this condition is unknown.

Effect:

The inventory balance may be misstated by an immaterial amount.

Recommendation:

Employees involved in the inventory count should be advised of the proper use of count sheets during all counts. Additional items should be noted as an addition to the count sheet (i.e. +5)

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-5 - Cash Receipts

Criteria:

Credit card batch totals should be run on a daily basis.

Condition:

Credit card batch totals are not being run on a regular basis.

Cause:

Credit card batch totals are run at the discretion of the cashiers.

Effect:

Timely reconciliation of the Daily Cash Report can not be completed until all credit sales for a particular day are totaled.

Recommendation:

Implement a policy requiring cashier's to run batch totals on a daily basis or at the end of each cashier's shift.

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-6 - Cash Receipts

Criteria:

Supporting remittance advice for every cash receipt should be filed.

Condition:

Four out of the forty-three receipts tested could not be substantiated with a copy of remittance advice or total amount of receipt from which patients account was credited.

Cause:

The cause of this condition is unknown.

Effect:

Claims of payment can not be properly investigated which could result in disagreements with insurance companies and other third party payers.

Recommendation:

Supporting documentation for each remittance advise should be correctly filed and accounted for in a timely manner following the payment receipt.

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-7 - Donations

Criteria:

The restricted fund should be used only to record those donations that are restricted by the third party as to be used for a specific purpose or project. The restricted fund should be accounted for on an individual project basis.

Condition:

Donations in the amount of \$19,100 were recorded in the Restricted fund that were not designated by the third party as to be used for a specific purpose. GMHA was unable to provide us with restricted fund balance amounts on a project by project basis.

Cause:

The cause of this condition is unknown.

Effect:

The effect of the above condition may cause misstatement of both the restricted and unrestricted fund's account balances.

Recommendation:

The restricted fund should be used only to record those amounts donated that are restricted by the third party as to use for a specific purpose. Each project should be accounted for on an individual project basis, identifying the third party, and the restricted use of the donation.

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-8 - Payroll

Criteria:

Change in pay rate due to incrementals should be applied in a timely manner to employee's paychecks.

Condition:

Retro-active pay in large lump sums is being released to employees. One employee in particular received 3 incrementals in one payperiod resulting in retro active pay of \$14,065.

Cause:

Untimely application of new payrates.

Effect:

Employees are not receiving their raises in a timely manner. Salary expense may be misstated on a period to period basis.

Recommendation:

Implement new wage rates in a timely manner.

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-9 - Cash Receipts

Criteria:

Minimal adjustments and transactions should be made involving the cash account.

Condition:

Reconciliation of daily receipts frequently requires the use of the cash shortage/overage account in material amounts.

Cause:

The cause of this condition is unknown.

Effect:

Unreconciled differences noted in the daily receipts may indicate that there is a potential for the misstatement of the individual payer account receivable balances due to the incorrect posting of receipts to the cash shortage/overage account.

Recommendation:

Review and evaluate the receipt system for the possible implementation of procedures to immediately match patient receipts to the corresponding patient identification number upon receipt from the patient or the patients insurance provider. Additionally, reconciliations should be performed within the next two days following the receipt as delays in reconciliation may result in the non discovery of misstatements in a timely manner.

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-10 - Cash Receipts

Criteria:

Transaction codes should be established for proper recording of transactions.

Condition:

Accounts receivable balances in Account # 1023.2000 (A/R Other) and a debit balance in accounts payable account # 2062.0000 (Due to HMSA) were erroneous due to incorrect transaction codes.

Cause:

Transcodes used in the Business Department are erroneously affecting accounts.

Effect:

Balances in A/R and A/P accounts may be misstated.

Recommendation:

Correct transcodes to reflect proper accounts.

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-12 - Malpractice Accrual

Criteria:

Statement of Financial Accounting Standards (FASB) # 5 requires that a contingent liability be accrued if it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Condition:

During our review of the Risk Manager's litigation report, there were several malpractice cases where it was probable that a liability had been incurred and the amount of the loss could be estimated but no accrual had been recorded.

Cause:

The cause of the above condition is not known.

Effect:

Expenditures and liabilities appear to be immaterially understated.

Recommendation:

We recommend that GMHA periodically review the status of all litigation to determine if a loss may need to be accrued based on the requirements of FASB # 5. In cases where the loss is estimated within a range and no amount in the range is considered the most likely, the minimum amount within the range is to be accrued.

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Schedule of Internal Control Findings Year Ended September 30, 1998

Finding Number 98-11 - Retirement Fund Liability

Criteria:

Reconciliation of liability accounts should be done in a timely manner.

Condition:

During fiscal year 1998, GMHA signed a note payable to the Government of Guam Retirement Fund without first reconciling its records to those of the Retirement Fund. As a result, GMHA was required to record an additional Retirement liability.

Cause:

The cause of the above condition is not known.

Effect:

The Retirement liability and related expense required adjustment.

Recommendation:

GMHA should reconcile liability accounts prior to entering into any repayment agreements with creditors.

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Resolution of Prior Year's Findings Year Ended September 30, 1998

All reportable conditions from the prior year Report on the Internal Control Structure dated August 17, 1999, have been resolved except the following which are included as findings in the current year:

Prior Year Finding <u>Number</u>	Corresponds <u>To</u>	Current Year Finding <u>Number</u>
97-6		98-2
97-4		98-8