

GUAM MEMORIAL HOSPITAL AUTHORITY

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

SEPTEMBER 30, 1999



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

Board of Trustees
Guam Memorial Hospital Authority:

We have audited the financial statements of the Guam Memorial Hospital Authority (GMHA) as of and for the year ended September 30, 1999, and have issued our report thereon dated January 31, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GMHA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect GMHA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as finding numbers 1 through 7.

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

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

Deloitte & Touche LLP

January 31, 2000

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Schedule of Findings Year Ended September 30, 1999

1. Accounts Receivable

Criteria:

Patient receivable accounts should be adequately aged for the proper identification of old and potentially uncollectible balances.

Condition:

Current year hospital billings for hemodialysis patients were reflected in the 1996 and prior categories of the patient account receivables aging schedule.

Cause:

This condition appears to have been caused by the maintaining of hemodialysis patients as active in-house patients due to the frequency of their visits. The billing system will continue to record charges to these patient accounts, but will age them based on the patients' entry date as they are not discharged after each visit.

Effect:

There is no material effect on the financial statements, but this condition could result in the improper recording of an allowance and bad debt expense based on an aging analysis of the patient receivable.

Recommendation:

Hemodialysis patients should be properly discharged after each visit to prevent this situation from reoccurring.

Auditee Response dated March 14, 2000:

We agree with this recommendation in principle. Medicare requires continuous billing (same patient # and medical record) for a single episode of care. The software vendor has been contacted to allow for a "discharge" of the patient without the need to transfer to a new patient number or a new medical record.

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Schedule of Findings Year Ended September 30, 1999

2. Fixed Assets

Criteria:

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

Condition:

We could not locate one fixed asset out of five selected. Through further investigation, it was noted that the asset was disposed of in 1994 but had not been removed from the fixed asset listing. The fixed asset register balance does not agree to the general ledger balance.

Cause:

The cause of this condition is unknown.

Effect:

Fixed asset balances may be misstated.

Prior Year Status:

A similar condition was identified in the 1998 schedule of findings.

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. Timely reconciliation between the general ledger and the register should be performed. Additionally, consideration should be given to the performance of a fixed assets physical inventory, as this procedure does not appear to have occurred within the last three fiscal years. We recommend that this procedure be performed biennially.

Auditee Response dated March 14, 2000:

We agree with this recommendation. During FY 2000, GMHA is intending to perform a fixed asset inventory and institute above-mentioned procedures to document disposal of assets.

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Schedule of Findings Year Ended September 30, 1999

3. Inventory

Criteria:

Inventory items should be accounted for on count sheets during physical inventory procedures. Additional items found during recounts should be noted with a plus sign and the number of additional items located; (i.e. +15).

Condition:

Quantities of two out of eight items tested from the Central Supply Room inventory listing did not agree to quantities on the identified count sheets.

Cause:

The cause of this condition is unknown.

Effect:

The inventory balance may be misstated by an immaterial amount.

Prior Year Status:

A similar condition was identified in the 1998 schedule of findings.

Recommendation:

Employees involved in the inventory count should be advised of the proper use of count sheets during all counts. Adequate count sheet control should be exercised with count areas identified being assigned pre-numbered sheets and the use of a count sheet log to properly control the issuance and return of prenumbered count sheets. Additionally, consideration should be given to the performance of comparisons between the pre-count inventory listings and the final inventory listing for the identification of potential material variances and the possibility of item re-count.

Auditee Response dated March 14, 2000:

We agree with this recommendation. This practice will be put in place for the FY 2000 Financial Audit.

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Schedule of Findings Year Ended September 30, 1999

4. Costs Related to Disasters

Criteria:

Costs related to disasters should be accounted for separately from normal operating expenses.

Condition:

GMHA has been unable to provide support for costs incurred in the recovery from a supertyphoon, which struck Guam in December 1997. It appears that many of these disaster costs may have been recorded as normal operating expenses.

Cause:

The cause of this condition is unknown.

Effect:

GMHA has been unable to provide support for certain costs included in its insurance and Federal Emergency Management Agency claims.

Recommendation:

The Planning Department has been noted as being responsible for the coordination of disaster claims. This department should improve reporting and communication procedures for the updating of claims to the Accounting Department in order to ensure that all related costs and expenses are recorded.

Auditee Response dated March 14, 2000:

We agree with this recommendation. The Authority agrees that Planning and Accounting should communicate and both be responsible for accounting and documenting disaster claims.

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Schedule of Findings Year Ended September 30, 1999

5. Cash

Criteria:

Checks greater than three months outstanding should be reviewed for validity and potential cancellation.

Condition:

Outstanding checks totaling \$59,400 were noted as being outstanding greater than three months.

Cause:

The cause of this condition is unknown.

Effect:

This condition may result in the immaterial misstatement of the cash and accounts payable balances.

Recommendation:

The outstanding check register should be evaluated on a quarterly basis for potential cancellation of old outstanding checks.

Auditee Response dated March 14, 2000:

We agree with this recommendation.

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Schedule of Findings Year Ended September 30, 1999

6. Accounts Payable

Criteria:

Suspense accounts should be properly reconciled in a timely manner.

Condition:

Four out of four unbilled purchase order receipts outstanding at September 30, 1999 tested were noted as being received but were not recorded to the corresponding supplier payable account as of January 28, 2000. One out of four items tested appears to have been paid without a corresponding reversal of the unbilled purchase order liability.

Additionally, the remaining balance in the unbilled purchase order receipt account is being reversed to the unbilled purchase order receipt adjustment expense account at month end.

Cause:

The cause of this condition is unknown.

Effect:

The effect of the above condition may cause misstatement of both the supplier payable accounts, the unbilled purchase order receipt account, and miscellaneous expense account balances.

Recommendation:

The unbilled purchase order receipts account should be periodically reconciled and items received and billed should be cleared from the account on a regular basis.

Auditee Response dated March 14, 2000:

We agree with this recommendation. Currently, the General Accounting Supervisor is performing monthly reconciliation and analysis on the unbilled purchase order receipts.

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Schedule of Findings Year Ended September 30, 1999

7. Restricted Fund Contributions

Criteria:

The restricted fund should only be used to record contributions that are restricted by an outside party for use for a specific purpose or project. Board restricted or management restricted assets, although restricted for a specific purpose, are still considered unrestricted for financial statement presentation purposes and should be classified in the unrestricted fund.

Condition:

Contributions totaling \$5,000, not specified for a specific purpose by the donor were recorded in the restricted fund. Additionally, \$125,000 in earthquake claim payments received were recorded in the restricted fund.

Cause:

The cause of this condition is unknown.

Effect:

Restricted and unrestricted fund balances may be misstated by offsetting amounts.

Prior Year Status:

A similar condition was identified in the 1998 schedule of findings.

Recommendation:

Only contributions restricted by an outside party for a specific use or purpose should be recorded in the restricted fund. Assets restricted by Board designation or by other internal restrictions should be recorded in a separate category in the unrestricted fund.

Auditee Response dated March 14, 2000:

We agree with this recommendation. In FY 2000, GMHA has reconciled and identified all restricted funds, their purpose, and balances remaining.