

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

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**INDEPENDENT AUDITORS' REPORTS ON**  
**INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2013**

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

Board of Trustees  
Guam Memorial Hospital Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Guam Memorial Hospital Authority (the Authority), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2013, and the related statements of revenues and expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 27, 2014.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2013-1 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

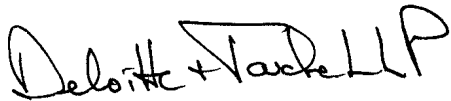
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

## **The Authority's Response to Findings**

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

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

June 27, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees  
Guam Memorial Hospital Authority:

### **Report on Compliance for Each Major Federal Program**

We have audited the Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2013. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-2. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

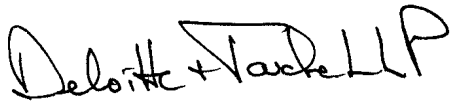
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the Guam Memorial Hospital Authority as of and for the year ended September 30, 2013, and have issued our report thereon dated June 27, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

June 27, 2014

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

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Expenditures</u>
<b>U.S. Department of the Interior</b>		
Passed through the Government of Guam:		
Economic, Social and Political Development of the Territories:		
15.875	Compact Impact FY 2007 - Pharmaceutical Supplies & Equipment	\$ 128,618
15.875	Compact Impact FY 2008 - Emergency Backup Chiller System	110,327
15.875	Compact Impact FY 2009 - OR HVAC Upgrade	4,495
15.875	Compact Impact FY 2009 - Structural Assessment	26,549
15.875	Compact Impact FY 2011 - Lab Information System	397,920
15.875	Compact Impact FY 2013 - Compact of Free Association	<u>6,000,000</u>
	Total U.S. Department of the Interior	<u>6,667,909</u>
<b>U.S. Department of Health and Human Services</b>		
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements:	
	HPP Grant FY 2012	46,478
	HPP Grant FY 2013	<u>1,638</u>
		48,116
	Emergency System for Advance Registration of Volunteer Health Professionals (ESAR):	
93.089	ESAR 2010	47,018
	National Bioterrorism Hospital Preparedness Program:	
93.889	Bioterrorism Hospital Preparedness Grant FY 2011	<u>156,256</u>
	Total U.S. Department of Health and Human Services	<u>251,390</u>
<b>U.S. Department of Homeland Security</b>		
Passed through the Government of Guam:		
97.067	Homeland Security Grant Program	<u>59,762</u>
	Total U.S. Department of Homeland Security	<u>59,762</u>
	Total Federal Awards	<u>\$ 6,979,061</u>
Reconciliation to the basic financial statements:		
	Pharmaceutical supplies, healthcare services and payables	\$ 5,929,530
	Capitalized as property and equipment	813,824
	Federal program expenditures recorded as nonoperating expenses	<u>235,707</u>
		<u>\$ 6,979,061</u>

See accompanying notes to schedule of expenditures of federal awards.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

(1) Scope of Audit

The Guam Memorial Hospital Authority (the "Authority") is a component unit of the Government of Guam (GovGuam), a governmental entity created on July 26, 1977 under Public Law No. 14-29 as an autonomous agency of GovGuam. Only the transactions of the Authority are included within the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the Authority's cognizant agency for the Single Audit.

Programs Subject to Single Audit

A Schedule of Expenditures of Federal Awards is presented for each Federal program related to the U.S. Department of the Interior, U.S. Department of Health and Human Services and U.S. Department of Homeland Security, which are subject to OMB Circular A-133.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. All expenses and capital outlays are reported as expenditures.

Matching Costs

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

Indirect Cost Allocation

The National Bioterrorism Hospital Preparedness Grant allows, upon prior grantor approval, an indirect cost allocation of 10% of certain administrative expenses to be charged against the grant. The Authority did not charge indirect costs against this program during fiscal year 2013.



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2013

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |   |            |
|---|------------|
| 1. Type of auditors' report issued:   | Unmodified |
| Internal control over financial reporting:  |            |
| 2. Material weakness(es) identified?  | No         |
| 3. Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes        |
| 4. Noncompliance material to the financial statements noted?                                | No         |

*Federal Awards*

Internal control over major programs:

- |   |               |
|---|---------------|
| 5. Material weakness(es) identified?  | No            |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness?                               | None reported |
| 7. Type of auditors' report issued on compliance for major programs:  | Unmodified    |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes           |
| 9. The Authority's major programs were as follows:  |               |

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

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$300,000 |
| 11. The Authority qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?                              | No        |

**Section II – Financial Statement Findings**

<u>Finding Number</u>	<u>Findings</u>
2013-1	Patient Receivables

**Section III – Federal Award Findings & Questioned Costs**

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2013-2	15.875	Equipment and Real Property Management	\$ -

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No. 2013-1 - Patient Receivables

Criteria: Measures and actions should be undertaken to collect and address long outstanding and increasing receivables.

Condition: Patient receivables increased by \$15,042,121 (or 7%) from \$220,538,849 at September 30, 2012 to \$235,580,970 at September 30, 2013. Based on the Authority's analysis, the allowance for contractual adjustments and estimated uncollectible accounts increased by \$26,930,456 (or 14%) from \$187,797,152 at September 30, 2012 to \$214,727,608 at September 30, 2013.

Cause: The cause of the above condition appears to be declining economic conditions.

Effect: The effect of the above condition is the potential for inadequate cash flows to meet current obligations.

Recommendation: We recommend that the Authority continue its effort to follow up on outstanding patient receivables and continually review existing collection measures and strategies to further develop other plans to address increasing patient receivables.

Prior Year Status: The matter relating to patient receivables as described above was reported as a finding in the Single Audit of the Authority for fiscal years 2010, 2011 and 2012.

Auditee Response and Corrective Action Plan: GMHA has taken several steps to correct this problem:

1. GMHA released a RFP for a collection agency. This contract should be finalized by 6/30/2014. GMHA will transfer many self-pay and un-paid accounts to the collection agency.
2. GMHA updated its criterion for submitted accounts to the Guam Department of Revenue and Taxation. GMHA submitted \$54 million of accounts in the 2<sup>nd</sup> calendar quarter of 2014.
3. GMHA's Business Office staff will continue to reconcile receivables with local insurers including Medicare, Medicaid and the Medically Indigent program.
4. GMHA will present a recommendation to "write-off" over \$175 million of uncollectible, old accounts receivable. This will provide more accurate information for GMHA's Board and external users of the data.
5. GMHA is negotiating a contract with an independent 3<sup>rd</sup> party to manage coding, billing and collection of claims from governmental and private insurers. This should improve accounts receivable management.
6. GMHA will upgrade its revenue cycle and patient registration software in August 2014 – bring more sophistication and capabilities to the revenue cycle and accounts receivable.

Contact Person: Alan C. Ulrich

Corrective Action: In process

Proposed Completion Date: August 31, 2014

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

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-2  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Agency: U.S. Department of the Interior  
Grant: Compact Impact Grants  
Requirement: Equipment and Real Property Management  
Questioned Cost: \$0

Criteria: In accordance with applicable federal equipment and real property management guidelines, the grantee shall adequately safeguard and maintain equipment and property acquired with federal funds.

Condition: Of 25 federal fixed assets tested, the following were noted:

1. Two (8%) were fully depreciated and were sighted. However, they have not been used for several years and GMHA has no immediate plans for future use:

<u>Tag #</u>	<u>Description</u>
5236	Mammogram Unit, Breast
5266	Anesthesia, Ohmeda

2. One (4%) was fully depreciated and represented several asset items under multiple purchase orders. Several of the items could not be located. Additionally, several items had been surveyed but were not removed from the fixed asset listing.

<u>Tag #</u>	<u>Description</u>
5740	CPR Manikins

Cause: Compliance with appropriate maintenance of federal fixed assets does not appear to have been monitored.

Effect: The Authority appears to be in noncompliance with applicable equipment and real property requirements.

Recommendation: We recommend that compliance with applicable equipment and real property requirements occur.

Prior Year Status: Noncompliance with applicable equipment and real property requirements was reported as a finding the Single Audit of the Authority for fiscal year 2012.

Auditee Response and Corrective Action Plan: GMHA will remove the fully depreciated and unused equipment. GMHA's department managers will be asked to communicate changes in the status of fixed assets to GMHA's fixed asset accountant.

Contact Person: Aniceto Jun Infante

Corrective Action: Improved departmental communication

Proposed Completion Date: July 31, 2014

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

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2013

Questioned Costs:

For the year ended September 30, 2013, the following questioned costs were noted and prior questioned costs resolved:

	Questioned Costs Set Forth in Prior <u>Audit Report</u>	Questioned Costs Resolved during Fiscal Year <u>2013</u>	Questioned Costs at <u>September 30, 2013</u>
Unresolved Questioned Costs FY 2012	\$ <u>2,201,988</u>	\$ _____ -	\$ 2,201,988
Questioned Costs for FY 2013			_____ -
			\$ <u>2,201,988</u>

Summary Schedule of Prior Audit Findings

As of September 30, 2013, the status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2012 is as follows:

Finding No. 2011-1 – Not corrected. See corrective action plan to Finding No. 2013-1.

Finding No. 2011-2 – Corrective action has been taken.

Finding No. 2011-3 – Corrective action has been taken.

Finding No. 2011-4 – GMHA’s Finance Staff are working with the auditors to identify procurements that comply with federal guidance.

Finding No. 2012-1 – Not corrected. See corrective action plan to Finding No. 2013-1.

Finding No. 2012-2 – Corrective action has been taken.

Finding No. 2012-3 – Corrective action has been taken.

Finding No. 2012-4 – GMHA’s Finance Staff are working with the auditors to identify procurements that comply with federal guidance.

Finding No. 2012-5 – Not corrected. See corrective action plan to Finding No. 2013-2.