

GUAM MEMORIAL HOSPITAL AUTHORITY

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

SEPTEMBER 30, 2001



**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, 2001, and have issued our report thereon dated June 17, 2002. 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 2001-01 to 2001-04, 2001-06, 2001-08, and 2001-10.

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 and Questioned Costs as finding numbers 2001-01 through 2001-10.

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, of the reportable conditions described above, we consider finding number 2001-04 to be a material weakness.

This report is intended solely for the information of the Board of Trustees and management of GMHA, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

June 17, 2002



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Trustees
Guam Memorial Hospital Authority:

Compliance

We have audited the compliance of the Guam Memorial Hospital Authority (GMHA) 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, 2001. GMHA's major federal programs are identified in the Summary of Auditors' Results Section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of GMHA's management. Our responsibility is to express an opinion on GMHA's compliance based on our audit.

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 GMHA'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. Our audit does not provide a legal determination on GMHA's compliance with those requirements.

As described in finding number 2001-04 in the accompanying Schedule of Findings and Questioned Costs, GMHA did not comply with requirements regarding procurement that are applicable to its Economic, Social, and Political Development of the Territories and the Freely Associated States (CFDA #15.875) program. Compliance with such requirements is necessary, in our opinion, for GMHA to comply with requirements applicable to that program.

In our 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, 2001.

Internal Control Over Compliance

The management of GMHA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered GMHA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.


We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect GMHA's ability to administer a major federal program in accordance with applicable laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 2001-04 and 2001-10.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 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, we consider the reportable condition described in finding number 2001-04 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of GMHA as of and for the year ended September 30, 2001, and have issued our report thereon dated June 17, 2002. Our 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 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. This schedule is the responsibility of the management of GMHA. Such schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Trustees and management of GMHA, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.


June 17, 2002

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Schedule of Expenditures of Federal Awards Year Ended September 30, 2001

<u>Grantor/Pass Through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Expenditures</u>
U.S. Department of the Interior Passed Through the Government of Guam: Economic, Social, and Political Development of the Territories and the Freely Associated States	15.875	\$ 1,654,515
Federal Emergency Management Agency Passed Through the Government of Guam: Public Assistance	83.544	-
Hazard Mitigation Grants	83.548	<u>738,667</u>
Total		<u>\$ 2,393,182</u>

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

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Schedule of Findings and Questioned Costs September 30, 2001

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, one of which was considered a material weakness.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Organization's major programs are:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Economic, Social, and Political Development of the Territories and the Freely Associated States	15.875
Hazard Mitigation Grants	83.548

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2001-01	Procurement: Competitive Sealed Bidding Method	\$ -
2001-02	Procurement: Procurement Methods	\$ -
2001-03	Procurement: Sole Source Method	\$ -
2001-04	Procurement: Emergency Method	\$1,224,089
2001-05	Accounts Receivable Reconciliation	\$ -
2001-06	Litigation Settlements	\$ -
2001-07	Fixed Assets Register Reconciliation	\$ -
2001-08	Payroll	\$ -
2001-09	Contract Allowances	\$ -
2001-10	Cash Management	\$ -

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Schedule of Findings and Questioned Costs September 30, 2001

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2001-04	Procurement: Sole Source Method	\$1,224,089
2001-10	Cash Management	\$ -

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Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-01
Area: Procurement: Competitive Sealed Bidding Method
CFDA #: N/A
Questioned Costs: \$0

Criteria:

In accordance with GMHA procurement rules and regulations section 3-202, the competitive sealed bidding method should result in selection of the vendor who meets bid specifications and submits the lowest bid.

Condition:

For 1 (or 4%) out of 25 procurement transactions, bids were solicited for several items under bid packet number GMHA 010-99. Vendor #1049 was selected to provide four of those items under purchase order number 21000022 despite submissions of lower bids from other vendors, and no rationale for such selection is documented in the procurement file, as follows:

<u>Vendor No.</u>	<u>Item No. 12</u>	<u>Item No. 15</u>	<u>Item No. 19</u>	<u>Item No. 23</u>
1049	\$ 2.60	\$ 1.60	\$ 1.38	\$ 12.00
A	\$ 4.05	\$ 1.59	No bid	No Bid
B	\$ 2.40	\$ 1.26	\$ 1.54	\$ 8.66
C	\$ 1.94	\$ 1.15	\$ 1.32	\$ 5.66

Cause:

There appears to be weak internal controls over ensuring compliance with GMHA procurement rules and regulations section 3-202.

Effect:

There is no known effect on the financial statements as a result of this condition; however, GMHA is in noncompliance with GMHA procurement rules and regulations.

Recommendation:

Supply Management should strengthen internal controls to ensure that the competitive sealed bidding method results in selection of the vendor who meets bid specifications and submits the lowest bid in accordance with GMHA procurement rules and regulations section 3-202. If the selected vendor did not submit the lowest bid, then justification for such selection should be documented in the procurement file.

Auditee Response and Corrective Action Plan:

In a letter provided to the auditors on November 6, 2002, the auditee provided the following response:

Complete supporting documents by end users (physicians & nurses) and the Product Standardization Committee on disapproved products for surgical and medical procedures will be filed with the bid packets to justify non selection of products, although low bid was offered. This procedure is currently ongoing and coordinated between the Inventory Management Officer (IMO) and Buyer Supervisor since FY 2001.

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Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-02
Area: Procurement: Procurement Method
CFDA #: N/A
Questioned Costs: \$0

Criteria:

The appropriate procurement method should be applied.

Condition:

Out of 25 purchase orders/contracts, we noted the following conditions:

1. For 3 (or 12%), Guam Memorial Hospital Authority (GMHA) procurement regulations section 3-204.02.03 for small purchases less than \$5,000 was cited as the method for procuring the following purchases in excess of \$5,000:

	<u>P.O. No.</u>	<u>Vendor No.</u>	<u>P.O. Amount</u>
1.	21000622	1047	\$ 836,309
2.	21000770	5002	\$ 133,333
3.	21001156	7448	\$ 479,145

2. For 1 (or 4%), two different procurement methods were cited for the purchase of the following:

<u>P.O. No.</u>	<u>Vendor No.</u>	<u>P.O. Amount</u>
21001761	8219	\$ 107,600

Based on discussions with the administrator materials management, sole source procurement (section 3-205) was cited in error. The other section cited, 3-501.09.02, states that indefinite quantity contracts shall be reviewed every six months to determine the continued need for such contracts. However, the effective date of the contract is December 22, 1998 through December 21, 2001, and there is no documentation on file to indicate that the required review was performed.

Cause:

There appears to be weak internal controls over ensuring that the appropriate procurement method is applied.

Effect:

GMHA is in noncompliance with GMHA procurement regulations. GMHA awarded purchase orders/contracts to vendors who might not have otherwise been selected if the more appropriate competitive sealed bidding method were applied.

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Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-02, Continued
Area: Procurement: Procurement Method
CFDA #: N/A
Questioned Costs: \$0

Recommendation:

GMHA should strengthen internal controls to ensure that the responsible personnel determines and applies the appropriate procurement method. GMHA procurement regulations section 3-204.02.03. should not be applied to procure goods/services in excess of \$5,000.

Auditee Response and Corrective Action Plan:

In a letter provided to the auditors on November 6, 2002, the auditee provided the following response:

PO 21000622: The wrong authority was cited on the purchase order. This PO was for supplies for the fifth and final year of a five year contract ending September 30, 2001. The appropriate authority should have been either/or, or both 3-207.06 (Request for Proposals) or 3-501.09.3 (Requirements Contract). The original contract was negotiated on Sep 16, 1996, to begin in fiscal year 96-97, beginning Oct 1, 1996 and ending Sep 30, 2001.

PO 21000770: The wrong authority was cited on the purchase order. This PO was for the Hospital to exercise the option to extend the service contract. The original contract on the Request for Proposal was awarded on PO 20000004, for a six month period beginning Oct 1, 1999 through Mar 2000, however funding was exhausted in 2.9 months. PO 21000770 was to fund and extend the existing contract for an additional 2 months. The appropriate authority should have been either/or, or both 3-207.06 (Request for Proposals) or 3-501.09.3 (Requirements Contract). The original contract was negotiated on Oct 1, 1999 for six months, beginning Oct 1, 1999 and ending Mar 31, 2000. The contract had the options available for an additional six months extension and subsequent renewal for an additional year, at one year periods, not to exceed three (3) consecutive periods.

PO 21001156: The wrong authority was cited on the purchase order. This PO was for the Hospital to exercise the option to renew and extend the service contract. The original contract on the Request for Proposal was awarded on PO 20001371, for a one year period beginning Jan 1, 2000 through Jan 1, 2001. PO 21001156 was to fund and extend the existing contract for an additional 12 months as recommended GMHA's Insurance Consultant, ARMTECH, Inc. The appropriate authority should have been 3-207.06.

PO 21001761: The wrong authority was cited on the purchase order. The purchase order was to continue delivery of fuel supply originally procured under PO 21000046, the last of a three year contract under bid #006-98. During the execution of PO 21000046, the Exxon Mobil assets were bought by South Pacific Petroleum and therefore assume liability on the balance sheet of the fuel contract ending Sep 30, 2001. Subsequently, the balance of the fuel contract under PO 21000046 was canceled for Exxon Mobil and PO 21001761 was generated under South Pacific Petroleum's name. The appropriate authority for this PO should have read Chapter 3-202 since the contract was originally on a formal bid invitation contract.

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Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-02, Continued
Area: Procurement: Procurement Method
CFDA #: N/A
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: Citation of the proper procurement authority will be posted on all subsequent purchase orders. To ensure consistency, assign the proper authority to any subsequent orders related to the initial purchase order citing the same authority. Buyer Supervisor must adequately review all purchase orders prior to Supply Administrator's review and approval. Discuss any concerns on proper assignment of authorities with Assistant Supply Administrator.

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Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-03
Area: Procurement: Sole Source Method
CFDA #: N/A
Questioned Costs: \$0

Criteria:

In accordance with GMHA procurement rules and regulations 3-205, the GMHA administrator, or designee must determine in writing that conditions to justify sole source procurement have been met, including an analysis showing at least 10% in cost savings from non-Guam vendors.

Condition:

1. For 5 (or 20%) out of 25 purchase orders/contracts, the use of sole source procurement was approved in writing by the GMHA administrator. However, such approval document does not provide a rationale for the vendor selected for the following purchase orders:

<u>P.O. No.</u>	<u>Vendor No.</u>	<u>P.O. Amount</u>
21001761	8219	\$107,600
21002646	8159	\$365,000
21002648	8159	\$143,730
21003119	7569	\$359,216

2. Furthermore, vendor #7569 is not a Guam vendor, and there is no documentation on file of a cost-savings analysis.
3. Additionally, the contract signed with vendor number 8159 allows the vendor to unilaterally replace existing equipment without being subject to Government of Guam procurement rules and regulations and obligates GMHA to reimburse the vendor's replacement costs.

Cause:

There appears to be weak internal controls over the proper use of the sole source procurement method. Also, there appears to be frequent overriding of such internal controls by the GMHA administration in existence during FY2001.

Effect:

There is no known effect on the financial statements as a result of this condition; however, GMHA appears to be in noncompliance with GMHA procurement rules and regulations.

Recommendation:

The administrator should not approve requests for use of sole source procurement unless the rationale for vendor selection is stated on the request form or documented on file. Additionally, GMHA contracts should include clauses that subject vendors to Government of Guam rules and regulations.

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Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-03, Continued
Area: Procurement: Sole Source Method
CFDA #: N/A
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

In a letter provided to the auditors on November 6, 2002, the auditee provided the following response:

PO 21002646 & PO 21002648: This was considered the appropriate authority for these purchase orders. The purchase orders were to amend the original PO 20003681 decreasing the order for two (2) Radiologic and Fluoroscopic System to one (1) system each. The balance of funds after the decrease was used to procure the items on these purchase orders. These purchase orders were part of the upgrade on the existing equipment as executed in the contract on August 2000, Section IV, 4.1n. Since the Consultant was required to upgrade the existing equipment, the purchase order was appropriately awarded to the Consultant in accordance with the contract. Since the initial order was ordered under Chapter 3-206, Emergency Procurement, it would probably be suitable to cite 3-206 since these were amendments to the original order, maintaining consistency of the authorization.

Corrective Action: Determination must be made for citing proper authority for amendments to original purchase orders. To ensure consistency, assign proper authority to any subsequent orders related to the initial purchase order citing the same authority. Buyer Supervisor must adequately review all purchase orders prior to Supply Administrator's review and approval. Discuss any concerns on proper assignment of authorities with Assistant Supply Administrator.

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Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-04
Area: Procurement: Emergency Method
CFDA #: 15.875
Questioned Costs: \$1,224,089

Criteria:

In accordance with GMHA procurement rules and regulations 3-206 for emergency procurement, written rationale for the vendor selection shall be included in the contract file.

Condition:

For 4 (or 44%) out of 9 purchase orders/contracts, there is no written rationale for the selection of the following vendors:

	<u>P.O. #</u>	<u>Item</u>	<u>Vendor Number</u>	<u>Item Amount</u>
1.	20003681	Fluoroscopy Units (Legacy)	8159	\$ 633,789
2.	20003796	Image Reader	8159	71,800
		Imaging		94,400
		Image Reader, Fuji		46,500
		ID Terminal, Fuji		18,600
		Vidar Diagnostic		27,500
		Dicom Interface		12,500
3.	21001702	Cardiovascular Ultrasound	8188	219,000
4.	21002777	Radiologic & Fluoroscopic Upgrade	8159	100,000
				<u>\$ 1,224,089</u>

Cause:

There appears to be weak controls over ensuring that the written rationale for vendor selection in an emergency procurement is maintained on file.

Effect:

GMHA is in noncompliance with procurement rules and regulations 3-206 and OMB Circular A-133 procurement requirements. A questioned cost of \$1,224,089 exists.

Recommendation:

GMHA should strengthen internal controls to ensure that the responsible personnel document the rationale for selecting a vendor in an emergency procurement.

Auditee Response and Corrective Action Plan:

In a letter provided to the auditors on November 6, 2002, the auditee provided the following response:

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Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-04, Continued
Area: Procurement: Emergency Method
CFDA #: 15.875
Questioned Costs: \$1,224,089

Auditee Response and Corrective Action Plan, Continued:

PO 20003681 and 20003796: 3-206. Emergency Procurement. This paragraph cites that “a written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file”. However, it further states that “the requirements for a written determination for the emergency shall be met if the procurements are being made on the basis of the Governor’s declaration of an emergency situation by Executive Order if such order states that emergency procurement may be resorted to for the purposes of the Order”. This requirement was solicited as a Request for Proposal (RFP) as advertised on May 22, 2000. The submission date was 10:00 am, June 14, 2000. Two vendors submitted proposals which were opened on June 15, 2000. However, on September 2000, the purchase orders were prepared and executed under emergency procurement conditions Executive Order 2000-7, otherwise provisions of radiology services for GMHA would have been compromised. Although the procurement was executed under emergency conditions, it must be noted that 5 of 6 vendors responded to the price quotation solicitation and the award was subsequently awarded to Heart & Vascular Institute.

Note: Subsequent requirements solicited under the Request for Proposals process have been managed in accordance with procurement regulations. Materials Management department has ensured that the process is completed and all supporting documents are on file.

Corrective Action: Continue to maintain supporting documents on all Requests for Proposals.

PO 21001702: 3-206. Emergency Procurement. This paragraph cites that “a written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file”. However, it further states that “the requirements for a written determination for the emergency shall be met if the procurements are being made on the basis of the Governor’s declaration of an emergency situation by Executive Order if such order states that emergency procurement may be resorted to for the purposes of the Order”. It must be noted that a formal bid packet was prepared and is on file but the process was subsequently determined to be procured under emergency procurement. Two contractors submitted their price quotations and JMI Healthcare Services was the lowest bidder.

Corrective Action: Complete any formal bid process started and close out procurement procedures properly and accordingly. For future actions, obtain hard copy and place in file on who authorized procurement under emergency conditions and cancellation of the formal bid process.

PO 21002777: 3-206. Emergency Procurement. This paragraph cites that “a written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file”. However, it further states that “the requirements for a written determination for the emergency shall be met if the procurements are being made on the basis of the Governor’s declaration of an emergency situation by Executive Order if such order states that emergency procurement may be resorted to for the purposes of the Order”. Given the fact that the original purchase order for the equipment replacement was awarded to Heart and Vascular Institute and since the Consultant was required to upgrade the existing equipment, the purchase order was appropriately awarded to the Consultant in accordance with the contract.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-04, Continued
Area: Procurement: Emergency Method
CFDA #: 15.875
Questioned Costs: \$1,224,089

Auditee Response and Corrective Action Plan, Continued:

Note: Perhaps it was also appropriate to cited 3-206, Emergency Conditions, since the original orders were executed under this authority.

Corrective Action: To ensure consistency, assign the proper authority to any subsequent orders related to the initial purchase order citing the same authority. Buyer Supervisor must adequately review all purchase orders prior to Supply Administrator's review and approval. Discuss any concerns on proper assignment of authorities with Assistant Supply Administrator.

Auditor Response:

We do not dispute the use of emergency procurement due to the local emergency declaration. However, federal funds were used for this purchase. Federal regulations supercede the local emergency declaration. We have not been provided documents indicating the rationale for vendors selected. Therefore, this condition remains a finding and questioned cost.

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Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-05
Area: Accounts Receivable Reconciliation
CFDA #: N/A
Questioned Costs: \$0

Criteria:

The accounts receivable control account and subsidiary ledger should be reconciled.

Condition:

At September 30, 2001, balances per the accounts receivable control account and subsidiary ledger were approximately \$84 million and \$103 million, respectively.

Cause:

There appears to be a lack of controls over reconciliations of the accounts receivable control account and subsidiary ledger.

Effect:

Accounts receivable could be misstated.

Recommendation:

The Authority should establish internal controls to ensure that the accounts receivable control account and subsidiary ledger are reconciled by the responsible personnel on a periodic basis (i.e., monthly). Any discrepancies should be immediately investigated and resolved.

Auditor Response:

During the audit, the accounts receivable control account and subsidiary ledger were reconciled.

Auditee Response dated January 28, 2003: We agree with the recommendation. We have assigned an Accountant to reconcile the A/R control account and subsidiary ledgers. The reconciliation is also reviewed by General Accounting Supervisor.

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Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-06
Area: Litigation Settlement
CFDA #: N/A
Questioned Costs: \$0

Criteria:

In accordance with the Government Claims Act, all claims shall be filed with the Claims Officers responsible for the department or agency against which the claim is made, and the Claims Officer shall cause each claim received by him to be investigated to determine its merits. In the case of autonomous agencies, the attorney representing such agency is authorized to settle a suit against the agency he represents subject to the approval of the governing board of the agency, or if no board exists, to the approval of the chief executive officer of said agency. No action shall be instituted, nor judgement granted, for a sum in excess of the amount of the claim presented to the Claims Officer. Line agencies shall be liable in tort for not more than \$100,000 in an action for wrongful death, nor for more than \$300,000 in any other tort actions. The autonomous agency shall pay the amount allowed in an approved settlement.

Condition:

Shortly after September 30, 2000, GMHA paid two settlements in apparent noncompliance with the Government Claims Act, as follows:

1. In one case, no claim was filed with the GMHA Claims Officer; however, a potential claimant was paid \$300,000. The settlement agreement was approved by the attorney representing GMHA eight months subsequent to the payment.
2. In the other case, GMHA paid the tort claimant \$50,000 in excess of the maximum \$100,000.

Cause:

There appears to be a lack of internal controls over the claims process. For both cases cited in the condition above, it appears that GMHA legal counsel was not consulted in a timely manner.

Effect:

GMHA is in noncompliance with the Government Claims Act.

Recommendation:

GMHA should establish and implement internal controls to ensure that all settlements are made in accordance with the Government Claims Act. Only claims reviewed by the Claims Officer and legal counsel and determined to have merit should be paid. Furthermore, no sum should be paid in excess of either the claim presented to the Claims Officer, or the maximum liability of GMHA in accordance with the Government Claims Act.

Auditee Response dated January 28, 2003: We agree with the recommendation. The position of Risk Manager is currently vacant but being filled by another GMHA employee. GMHA also has an enpanelled Board of Trustees. Fiscal Affairs/Accounting is now more aware of the required documents before processing settlement payments.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-07
Area: Fixed Asset Register Reconciliation
CFDA #: N/A
Questioned Costs: \$0

Criteria:

Fixed asset balances per the general ledger and fixed asset register should be reconciled.

Condition:

At September 30, 2001, fixed asset balances per the general ledger and fixed asset register are not reconciled.

Cause:

There appears to be a lack of controls over maintenance of the fixed asset register.

Effect:

Fixed assets could be misstated. Furthermore, there is a potential that the loss or theft of fixed assets may not be detected in a timely manner.

Recommendation:

The Authority should establish internal controls to ensure that fixed asset balances per the general ledger and fixed asset register are reconciled by the responsible personnel on a periodic basis (i.e., monthly). Any discrepancies should be immediately investigated and resolved.

Auditor Response:

During the audit, the general ledger and fixed asset register were reconciled.

Auditee Response dated January 28, 2003: We agree with the recommendation. We have assigned an Accountant to reconcile the general ledger fixed assets balance and fixed assets register. The reconciliation is also reviewed by the General Accounting Supervisor.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-08
Area: Payroll
CFDA #: N/A
Questioned Costs: \$0

Criteria:

Supplemental pay rates, such as night differential pay, should be approved by the Civil Service Commission prior to implementation.

Condition:

In fiscal year 2001, nurses were paid night differential pay at a rate of 20%, without proper authorization by the Civil Service Commission. In addition, GMHA is unable to assess total overpayments due to such unapproved supplemental pay.

Cause:

Supplemental pay rates were not submitted to the Civil Service Commission for approval prior to implementation.

Effect:

GMHA might be violating the law unknowingly.

Recommendation:

The responsible personnel should strengthen internal controls over supplemental pay. Prior to implementing changes in supplemental pay rates, the responsible personnel should obtain written approval from the Civil Service Commission.

Auditee Response dated January 28, 2003: Personnel Services, Fiscal Services and Administration is now more aware of the importance of having CSC approve supplemental pay rates before implementing them. Personnel Services is the responsible section to work with CSC on matters relating to hiring and paying employees.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-09
Area: Contractual Allowances
CFDA #: N/A
Questioned Costs: \$0

Criteria:

Contractual allowance estimates should be based on negotiated payer agreements, historical collection analyses, and/or other rational basis.

Condition:

GMHA increased the rates of contractual allowances for most of its payers during fiscal year 2001. GMHA personnel were unable to provide the rationale, either negotiated payer agreements or historical collection analysis, for these rate increases.

Cause:

There appears to be weak internal controls over ensuring that contractual allowance estimates are based on such rational bases as negotiated payer agreements or historical collection analyses.

Effect:

Revenues and receivables could be understated.

Recommendation:

Contractual allowances recorded in the financial statements should be based on such rational bases as negotiated payer agreements or historical collection analyses. GMHA should accumulate collection data for each class of payers and develop a historical collection data base to support contractual allowance rates.

Auditee Response dated January 28, 2003: We agree with the recommendation. The General Accounting Supervisor is assigned to review the percent applied for each payor category to arrive at the Contractual Allowance. Billing and collection data is used to arrive at percentages being used to calculate the Allowance for Bad Debts (Contractual Allowance). The percentages are adjusted on a quarterly basis, reviewed and approved by Hospital Comptroller.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2001

Finding Number: 2001-10
Area: Cash Management
CFDA #: 83.544
Questioned Costs: \$0

Criteria:

In accordance with OMB Circular A-133 cash management requirements, the time elapsed between the transfer of funds from the grantor and the disbursement of funds by the grantee must be minimized.

Condition:

A total of \$391,359 in cash advances received from Federal Emergency Management Agency in November 1998 remains in the Other Accounts Payable deferred revenue account as of September 30, 2001.

Cause:

There appears to be a lack of internal controls over ensuring that the time elapsed between the transfer of funds from the grantor and the disbursement of funds by the grantee is minimized.

Effect:

The grantee appears to be in noncompliance with OMB Circular A-133 cash management requirements and may be required to remit the advance to the grantor agency.

Recommendation:

The grantee 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 dated January 28, 2003: We agree with this recommendation. The current ongoing FEMA mitigation projects are on reimbursement basis. This means that GMHA has to pay the vendors first and request BBMR to draw down the funds after. The draw down request is complete with copies of the invoice and check payment.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2001

There are no prior findings relative to Federal Awards.