

GUAM MEMORIAL HOSPITAL AUTHORITY

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

FOR THE YEAR ENDED SEPTEMBER 30, 2006



CERTIFIED PUBLIC ACCOUNTANT

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

To the Board of Trustees
Guam Memorial Hospital Authority:

I have audited the financial statements of Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of and for the year ended September 30, 2006, and have issued my report thereon dated March 23, 2007, which report was qualified due to my inability to determine the propriety of accounts receivable, bad debt expense, and the related allowance for bad debts and contractual adjustments, capital assets net of accumulated depreciation, and the related depreciation expense. Except as discussed in the preceding sentence, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing the audit, I considered GMHA's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect GMHA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-01 through 06-19.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I consider items 06-01 through 06-06, 06-08, 06-09 and 06-13 to be material weaknesses.

I also noted other matters involving the internal control over financial reporting that I have reported to management of the Guam Memorial Hospital Authority in a separate letter dated March 23, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GMHA's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs (pages 107 through 171) as items number 06-02, 06-12, 06-15 and 06-19.

I also noted certain immaterial instances of noncompliance that I have reported to management of the Guam Memorial Hospital Authority in a separate letter dated March 23, 2007.

This report is intended for the information of the Board of Trustees and management of the Guam Memorial Hospital Authority, the Office of the Public Auditor of Guam, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than the specified users. However, this report is a matter of public record and its distribution is not limited.


Hagåtña, Guam
March 23, 2007

GUAM MEMORIAL HOSPITAL AUTHORITY

**REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH
MAJOR FEDERAL AWARDS PROGRAM**

FOR THE YEAR ENDED SEPTEMBER 30, 2006



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Board of Trustees
Guam Memorial Hospital Authority:

Compliance

I have audited the compliance of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. GMHA's major federal programs are identified in the Summary of Auditor's Results section on page 105 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GMHA's management. My responsibility is to express an opinion on GMHA's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GMHA's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of GMHA's compliance with those requirements.

As described in items number 06-13, 06-14, 06-16 through 06-19 in the accompanying Schedule of Findings and Questioned Costs, GMHA did not comply with requirements regarding cash management, financial management, property management, and allowable costs/cost principles that are applicable to its major federal programs described in the accompanying Schedule of Major Federal Award Programs (page 105). Compliance with such requirement is necessary, in my opinion, for the GMHA to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, GMHA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

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 my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect GMHA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned costs as items 06-13, 06-14, and 06-16 through 06-19.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 06-13, and 06-16 through 06-18 to be material weaknesses.

Schedule of Expenditures of Federal Awards

I have audited the basic financial statements of GMHA as of and for the year ended September 30, 2006, and have issued my report thereon dated March 23, 2007, which report was qualified due to my inability to determine the propriety of accounts receivable, bad debt expense and the related allowance for bad debts and contractual adjustments; and capital assets net of accumulated depreciation, and the related depreciation expense. My audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 103 is presented for additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Board of Trustees and management of the Guam Memorial Hospital Authority, the Office of the Public Auditor of Guam, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

J. Scott Magliari & Company
Hagåtña, Guam
March 23, 2007

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Grantor/Pass-through Grantor/Program Title	CFDA Number	Program or Award Amount	Receivable from Grantor/ (Due to Grantor) 09/30/05	Cash Receipts FY 2006	Expenditures FY 2006	Receivable from Grantor/ (Due to Grantor) 09/30/06
U.S. Department of the Interior						
Passed Through the Government of Guam:						
Economic, Social, and Political Development of Territories and Freely Associated States:						
Compact Impact FY 2000-2001-For capital capital improvement and medical equipment	15.875	\$ 1,095,600	\$ -	\$ 21,779	\$ 21,779	\$ -
Compact Impact FY 2003-For facility repairs and equipments	15.875	1,355,000	-	445,844	486,217	40,373
Compact Impact FY 2004-For capital improvement and medical equipment	15.875	1,500,000	-	167,839	167,839	-
Compact Impact FY 2005-For pharmaceuticals, diagnostic supplies and equipment	15.875	2,211,600	570,262	570,262	-	-
Compact Impact FY 2006- For Medical Personnel and Equipment and Pharmaceuticals vendor payables	15.875	4,108,000	-	3,895,960	3,895,960	-
Compact Impact FY 2006- For diabetes program	15.875	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
U.S. Department of Interior Total		<u>10,420,200</u>	<u>570,262</u>	<u>5,101,684</u>	<u>4,571,795</u>	<u>40,373</u>
U.S. Department of Homeland Security						
Federal Emergency Management Agency (FEMA)						
Pass-through the Government of Guam:						
Hazard Mitigation Programs-Northwall (PW 5-1)	97.039/83.548	711,181	-	1,222	1,222	-
Hazard Mitigation Programs- Generator roll-up doors and baffle walls (PW No. 07)	97.039/83.548	86,750	-	80,678	80,678	-
Hazard Mitigation Programs-Main lobby and front stairwell enclosure (PW 20)	97.039/83.548	1,359,553	-	-	-	-
Hazard Mitigation Programs-2nd floor wall hardening and window replacement (PW 27)	97.039/83.548	429,245	-	-	43,106	43,106
Public Assistance-Earthquake (DR 1397)	97.036/83.544	93,402	52,776	56,666	3,890	-
Public Assistance-Typhoon Pongsona (PW-5)	97.036/83.544	<u>1,040,399</u>	<u>-</u>	<u>5,987</u>	<u>5,987</u>	<u>-</u>
FEMA Total		<u>3,720,530</u>	<u>52,776</u>	<u>144,553</u>	<u>134,883</u>	<u>43,106</u>
U.S. Department of Health and Human Services						
Passed Through the Government of Guam:						
National Bioterrorism Hospital Preparedness Program						
Grant No. URMC00058-02-03 (FY 2002-2003)	93.003	888,414	-	165,000	165,000	-
Grant No. URH0C3852-01-03 (FY 2004)	93.003	738,414	76,689	481,459	404,770	-
Grant No. URHS05599-01-00 (FY 2005)	93.003	<u>485,709</u>	<u>-</u>	<u>45,858</u>	<u>45,858</u>	<u>-</u>
U.S. Dept. of Health and Human Services Total		<u>2,112,537</u>	<u>76,689</u>	<u>692,317</u>	<u>615,628</u>	<u>-</u>
U.S. Department of Health and Human Services						
Passed Through the Government of Guam:						
Administration for Native American (ANA), Guam Medical Residency Program						
	41.51	<u>293,000</u>	<u>1,864</u>	<u>13,169</u>	<u>47,200</u>	<u>35,895</u>
Total Federal Awards Expended		<u>\$ 16,546,267</u>	<u>\$ 701,591</u>	<u>\$ 5,951,723</u>	<u>\$ 5,369,506</u>	<u>\$ 119,374</u>

Note 1. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the grant activity of GMHA and is presented on the accrual basis of accounting.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

I have audited the basic financial statements of Guam Memorial Hospital Authority (GMHA) and issued a qualified opinion.

Internal control over financial reporting:

- Material weaknesses were identified? x yes no

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

- Noncompliance material to financial statements noted? x yes no

Federal Awards

Internal control over major programs:

- Material weaknesses were identified? x yes no

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

The auditor's report on major program compliance for GMHA having three major programs expresses a qualified opinion based on identified reportable conditions, which, in my opinion, are considered to be material weaknesses.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

 x yes no

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

PART I - SUMMARY OF AUDITOR'S RESULTS, Continued

Identification of major programs:

<u>CFDA#</u>	<u>PROGRAM</u>
15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States
93.003	National Bioterrorism Hospital Preparedness Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk audit? yes x no

PART II - FINANCIAL STATEMENT FINDINGS

There were instances of noncompliance noted that should be reported in accordance with Government Auditing Standards, which are presented in the following pages as items 06-01 through 06-15.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
06-01	Patient Affairs Department-Accounts Receivable (Unmatched Cash Receipts)	\$ -
06-02	Patient Affairs Department-Medicare Billings with Pending Unique Physician Identification Number (UPIN)	-
06-03	Inadequacies of the AS-400 System to generate accurate Detailed Aging of Accounts Receivable	-
06-04	Management and Accounting Department – Allowance for Doubtful Accounts and Contractual Adjustments	-
06-05	Patient Affairs Department – GMHA’s Current Receivables and Bad Debt Receivables on Self Pay Accounts	-
06-06	Patient Affairs Department – GMHA’s Current Receivables on MIP and MAP Accounts	-

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

PART II - FINANCIAL STATEMENT FINDINGS, Continued

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
06-07	Patient Affairs Department – Government of Guam payroll deduction terms.	\$ -
06-08	Differences in Major Third-Payor Confirmation Reply	-
06-09	Inventory in Pharmacy Department	-
06-10	Allowance for Obsolescence	-
06-11	Management of GMHA –Services to the Government of Guam Inter-governmental agencies	-
06-12	Procurement – Prepayment	411,846
06-13	Property Management and Accounting Department - Physical Inventory of Fixed Assets	-
06-14	Accounting Department – Recording of Federally sponsored activities in the general ledger	-
06-15	Restricted Fund – Pharmaceutical Fund	-
	Total Questioned Cost	<u>\$ 411,846</u>

PART III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

I noted certain reportable conditions and instances of noncompliance, which are presented in the following pages as items 06-13, 06-16 through 06-19.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
06-13	Property Management and Accounting Department - Physical Inventory of Fixed Assets	\$ -
06-16	Activities Allowed or Unallowed; Allowable Costs/Cost Principles	195,943
06-17	Cash Management - Compact Impact 2006	-
06-18	Cash Management – National Bio-Terrorism 2004	-
06-19	Personnel Department - Testing Designated Positions (TDP) for Random Drug Tests	-
	Total Questioned Costs	<u>\$ 195,943</u>

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-01

Area: Patient Affairs Department – Accounts Receivable (Unmatched Cash Receipts)

CFDA No.: N/A

Criteria:

Unmatched cash receipts should be resolved in a timely manner.

Condition:

It was noted that a coordinated effort was made by the Accounting Department and the Business Office to identify and reduce the number of prior years unmatched cash receipts and apply the payments to the proper accounts. However, at September 30, 2006, there continued to be balances of unposted cash receipts awaiting proper documentation or payment back-up from various payers. At September 30, 2006, the unmatched cash receipts and its approximate count of unposted cash receipts and adjustments are as follows:

<u>Payers/Third party payers</u>	<u>Year received</u>	<u>Unposted Payment/ Adjustments Count</u>	<u>Net Amount 09/30/06</u>
Medicare	2001 through 2005	17	\$ (5,863.45)
Medicaid (DOA)	2005	1	(1,474.90)
Medically Indigent Program	1999 through 2006	7	(246,938.75)
Pacificare	2004 through 2006	20	92,971.37
Netcare	2006	1	(457.14)
Veterans Administration & US Treasury Checks	2002 through 2006	30	(52,879.81)
Commonwealth of the Northern Mariana Islands	2005	1	(40,754.00)
Local Insurances	2002 through 2006	30	(71,917.22)
Collection Agencies	2003 through 2006	11	<u>(6,788.80)</u>
Net unmatched cash receipts as of September 30, 2006			(334,102.70)
Less: Subsequently identified and posted to proper patient account subsidiary ledger			<u>151,841.62</u>
Unmatched cash receipts			<u><u>\$ (182,261.08)</u></u>

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-01, continued

Area: Patient Affairs Department – Accounts Receivable (Unmatched Cash Receipts)

CFDA No.: N/A

Cause:

Third-party payers have not responded to GMHA's request to provide the supporting documentation for payments to GMHA. Consequently, the unmatched cash receipts were posted to accounts receivable-suspense account pending identification of and posting to the proper patient's subsidiary account.

Effect:

Individual patient's subsidiary ledgers are misstated due to unposted payments that have been recorded in the accounts receivable-suspense account for unmatched cash receipts account. The potential for fraud increases when known account balance differences are not reconciled in a timely manner.

Prior Year Status:

The above condition cited as finding in the prior year audits 2002 through 2005.

Recommendation:

It is understood that a formal policy was drafted and scheduled to be implemented effective fiscal year 2007. However, the Chief Financial Officer should oversee the full implementation of this internal control policy and related procedures and closely monitor the accounting and processing of unmatched cash receipts collections posted in the accounts receivable-suspense account and evaluate the effectiveness of those control procedures. Additionally, GMHA should correspond with all third-party payers and advise them of the hospital's new policy requiring itemized documentation comprising payment remittances.

Auditee Response and Corrective Action Plan:

The Hospital does accept the finding on a provisional basis. As it is noted by our auditors, the Hospital has made great strides in identifying payments received. Upon receipt of an indeterminate payment, a form written correspondence is initiated to the payer. The Hospital will continue to work with third-party payors on submitting the appropriate information to be properly posted to the patient Hospital account. The Hospital has been and continues to be diligent in ensuring that prior to the transmission of patient claims to the respective responsible party, all supporting documents and identifying particulars are attached so as to allow the reimbursement process to be methodical.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-01, continued

Area: Patient Affairs Department – Accounts Receivable (Unmatched Cash Receipts)

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Conversely, the Hospital does understand the importance of posting received payments to the appropriate patient accounts

The Hospital will continue its internal coordination between that of the Business Office and the Accounting Department in identifying the indeterminate payment at the time receipt, the immediate distribution of the written correspondence requesting for further information on the indeterminate payment, and the timely recording of the payment upon proper identification. The funds will continue to be posted to a suspense account until such time that it is relieved. Upon the recommendation of our auditors, the Hospital will communicate to all payers the urgency and importance of prescribing the correct patient number with the remittance of payment and send monthly reminders.

The Hospital will also ensure that the policy formulated to address indeterminate payments will be updated if appropriate.

Responsible parties:

Business Office Manager -	Education, execution, compliance with the approved internal policy. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Also ensure that all required entries into the Hospital's Information system be performed and reflect the correct patient status.
Patient Affairs Cashier -	Initially identify the payment as being indeterminate, flag such payments as indeterminate, post the payment once they have been properly identified, and work with both the Administrative Assistant and Accountant II to resolve the indeterminate payments status.
Patient Affairs Administrative Assistant -	Issuance of follow up correspondence
Accountant II -	Responsible to reconcile the suspense account.
Business Office Manager & General Accounting Supervisor -	Review and compile aged indeterminate payments for presentation to the BOT.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-01, continued

Area: Patient Affairs Department – Accounts Receivable (Unmatched Cash Receipts)

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Responsible parties, continued:

Chief Financial Officer - Responsible to report the status of the finding and balance of indeterminate payments to the Hospital Administrator, BOT Planning & Finance Committee, BOT Audit Committee.

Board of Trustees Planning & Finance Committee (BOT P&FC) - Provide guidance, approval, and acceptance as to the disposition of indeterminate payments.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-02

Area: Patient Affairs Department - Medicare Billings with Pending Unique Physician Identification Number (UPIN)/Physician Identification Number (PIN) or or deficiency of both requirements.

CFDA No.: N/A

Criteria:

Management should adopt and strictly enforce a policy that would ensure healthcare claims under the Medicare Program associated with the requirements of UPIN or PIN be facilitated in a timely manner.

Condition:

GMHA did not obtain and certain doctors did not provide either UPIN, PIN or both, as required for medical services claims to be properly submitted to the Medicare Program for reimbursements. As a result, GMHA has annually written-off receivables due from Medicare billings as follows:

<u>Fiscal years ending September 30:</u>	<u>Patient Number/ or Billing Count</u>	<u>Gross Professional Fees written-off</u>
2006	3,685	\$ 599,338.60
2005	1,985	305,322.45
2004	3,142	365,692.21
2003	2,059	<u>380,981.73</u>
Total		1,651,334.99
	Less: Estimated contractual adjustments	(<u>1,321,076.99</u>)
	Loss revenues, net	<u>\$ 330,258.00</u>

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-02, continued

Area: Patient Affairs Department - Medicare Billings with Pending Unique Physician Identification Number (UPIN)/Physician Identification Number (PIN) or or deficiency of both requirements.

CFDA No.: N/A

Condition, continued:

Some of the above amounts written-off may still be reversed and turned into cash flow pending compliance with UPIN/PIN, and should Management intercede in placing measures in obtaining them for the following:

<u>Name</u>	<u>Service Status in the GMHA</u>	<u>Amount of Pending Claims</u>	<u>Total # of Billing Claims</u>
Physician 1	Current & Active	\$ 158,121.37	1,126
Physician 2	Current & Active	127,211.00	243
Physician 3	Current & Active	124,691.23	653
Physician 4	Current & Active	71,544.00	121
Physician 5	Current & Active	70,561.97	493
Physician 6	Current & Active	39,878.10	345
Physician 7	Current & Active	35,233.00	57
Physician 8	Current & Active	35,091.09	199
Physician 9	Current & Active	28,500.25	211
Various Radiology and Diagnostic Doctors	Current & Active	113,965.87	836
47 other identifiable Physicians	Current & In-active	<u>254,740.41</u>	1,045
Total		1,059,538.29	
Less: Estimated contractual adjustments		(<u>847,630.63</u>)	
Potential cash flow, net		<u>\$ 211,907.66</u>	

Cause:

Internal control policies and procedures have not been fully implemented and enforced by senior GMHA management to obtain the required UPIN/PIN's from existing and new physicians providing medical care to medicare patients.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-02, continued

Area: Patient Affairs Department - Medicare Billings with Pending Unique Physician Identification Number (UPIN)/Physician Identification Number (PIN) or or deficiency of both requirements.

CFDA No.: N/A

Effect:

GMHA is incurring revenue loss from Medicare billings arising from the unbilled services and cash flows have been adversely affected. The potential exists for Medicare provider physicians to independently bill Medicare for services rendered while performing the same services at GMHA. Unless management is able obtain necessary information from its doctors, there is the likelihood that the same problem will exist in future periods and in a more material amount.

Prior Year Status:

The above condition was cited as finding in the prior year audit 2005. There appears no significant progress in 2006.

Recommendation:

The Hospital Administrator should coordinate with the Medical Director to communicate with all house physicians to obtain the deficiency requirement. Management should strengthen and monitor its internal control policies and procedures and ensure to mitigate revenue loss attributed by medical doctors of GMHA for non-compliance of the requirements of Medicare billing programs.

Auditee Response and Corrective Action Plan:

Beginning October 2006 after the finding was identified in the FY 2005 audit, a collaborative effort was initiated between the Medical Staff Office, the Medical Records Department, Patient Affairs/Business Office and the Human Resources Department to obtain the different Physician Identifiers. Since that time, the Hospital has secured over seventy five percent (75%) out of one hundred and sixty eight (168) Hospital credentialed physicians and other clinical providers NPI numbers as of the April 30, 2007 Hospital Credentialed Physician Roster from Medical Staff. The Hospital shall maintain 100% compliance for all Hospital credentialed physicians and clinicians to possess an NPI.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-02, continued

Area: Patient Affairs Department - Medicare Billings with Pending Unique Physician Identification Number (UPIN)/Physician Identification Number (PIN) or or deficiency of both requirements.

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

The Hospital would like to take this opportunity to delineate the difference and importance been the acronyms PIN, UPIN, and NPI and their relation to Medicare.

PIN*	Provider Identification Number	Medicare Requirement
UPIN	Unique Physician Identification Number	Medicare Requirement
	Ineffective: May 23, 2007	
NPI	National Provider Identifier	HIPAA Requirement
	Effective: May 23, 2007	

* Although the PIN shall not be required on the billing forms: HCFA1500 and UB04 in order to be billed to Medicare, the physician will still be required to have a PIN in order for the claim to be valid and reimbursable to the Hospital.

Medicare (or CMS – Center for Medicare and Medicaid Services) will be phasing out the use of the UPIN and replacing it with the NPI effective May 23, 2007. CMS has required that prior to a physician obtaining a PIN, the physician must possess an NPI. Therefore, the focus of the Hospital has been to either obtain the NPI from physician if they should already possess one or apply for an NPI for the physician if they do not already have one. The Hospital had progressed in processing the PIN applications but was deferred upon notice from Noridian Administrative Services, LLC (responsible to accept, process, and maintain enrollment application for Medicare) dated April 9, 2007 received on April 16, 2007. Noridian had returned all submitted applications due to the inconsistency as to who was the Hospital's Appointing Authority. The former Hospital Administrator was still on Noridian's record as the authorized Hospital appointing authority. The CMS form to address these issues was subsequently submitted and accepted by Noridian. The Hospital is in the reiterative process of securing physician data and signatures for those physicians in possession of an NPI and is in need of a PIN. Again, this requirement to possess both an NPI and PIN is necessary only for claims submitted by the Hospital for Medicare patients. All other billings to other health insurances will only require the physician's NPI.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-02, continued

Area: Patient Affairs Department - Medicare Billings with Pending Unique Physician Identification Number (UPIN)/Physician Identification Number (PIN) or or deficiency of both requirements.

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

As cited from the following website, an overview of what is an NPI is and it's importance:

“The National Provider Identifier (NPI) is a Health Insurance Portability and Accountability Act (HIPAA) Administrative Simplification Standard. The NPI is a unique identification number for covered health care providers. Covered health care providers and all health plans and health care clearinghouses will use the NPIs in the administrative and financial transactions adopted under HIPAA. The NPI is a 10-position, intelligence-free numeric identifier (10-digit number). This means that the numbers do not carry other information about healthcare providers, such as the state in which they live or their medical specialty. Beginning May 23, 2007 (May 23, 2008, for small health plans), the NPI must be used in lieu of legacy provider identifiers in the HIPAA standards transactions.

The Hospital will continue its aggressive internal efforts to ensure that all physicians have an NPI and PIN. If they do not, the Hospital will obtain both the NPI and PIN on behalf of the physician. The Medical Staff, who is responsible to ensure that new incoming physicians are properly credentialed, has integrated both the NPI and PIN application into the Hospital's credentialing package. They have also been working with both the Medical Director and the Business Office in Hospital in processing the appropriate application for both the NPI and PIN. The Medical Staff and Business Office have and will be attending medical department staff meetings to coordinate with unaccounted for physicians. The Medical Director will be the enforcing component in working with both Medical Staff and the Physician in having both the NPI and PIN.

Responsible parties:

Medical Staff -

Identify incoming physicians and inform the Billing Supervisor in Patient Affairs. Include Medicare applications as a part of the credentialing package. Ensure that such applications are properly channeled to the correct Medicare contractor. Upon receipt of the Medicare identifier, the information will be forwarded to Patient Affairs for incorporation into the Hospital's Information system.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-02, continued

Area: Patient Affairs Department - Medicare Billings with Pending Unique Physician Identification Number (UPIN)/Physician Identification Number (PIN) or or deficiency of both requirements.

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Responsible parties, continued:

Patient Affairs -	Maintain an appropriate physician listing who are lacking the proper Medicare legacy identifier. Coordinate with the Medical Staff office as to who those physicians are delinquent. Provide Medical Staff office newly established Medicare requirements (blank applications) to be incorporated as a part of the official Hospital credentialing process.
Medical Staff & Business Office Manager -	Education, execution, and compliance with the approved internal policy
Business Office Manager -	Responsible to report to the Chief Financial Officer the progress as of this finding.
Credentialed Physicians -	Responsible to be properly credentialed and thus provide the necessary demographics and signatures required to properly fill out all Medicare applications.
Medical Director -	Will work with physicians who are found to be noncompliant with such Medicare mandates.
Chief Financial Officer -	Responsible to report to the Hospital Administrator, BOT Planning and Finance Committee, and BOT Audit Committee compliance level and value of noncompliance.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-03

Area: Inadequacies of the AS-400 System to generate accurate Detailed Aging of Accounts Receivable

CFDA No.: N/A

Criteria:

The GMHA's AS-400 accounting system of the Patient Information should be able to generate an accurate financial report of accounts receivable aging on a timely basis.

Condition:

GMHA's accounting system is not able to generate accurate aging reports for its accounts receivable. Currently, the Business collection Supervisor extracts patient receivables information through data query procedures and then uses Excel spreadsheet to manually age its accounts receivables which is time consuming and inefficient.

Cause:

The cause of this condition stems from software deficiencies referred to and unresolved by the software vendor.

Effect:

There is no known material effect on the financial statements. However, the approach of querying patient accounts receivable for aging and preparing Excel spreadsheet is time consuming and laborious for the collection department.

Recommendation:

The Management Information Systems (MIS) Department in coordination with the Hospital Administrator (or its designee) should immediately follow-up with the software vendor to determine the status of resolving of the cause of the system's inability to generate an accurate accounts receivable aging report. Efforts should be undertaken to eliminate the need the manual data processing. Until this matter is resolved by the software vendor, management should consider having the MIS Department write a program capable of downloading patient accounts receivable data and age the receivables based on periods specified by accounting and management. This would eliminate the inefficient time-consuming monthly process of manually determining the proper aging of receivables.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-03, continued

Area: Inadequacies of the AS-400 System to generate accurate Detailed Aging of Accounts Receivable

CFDA No.: N/A

Recommendation, continued:

Management decisions are based on accounts receivable aging and inaccurate information will lead to poor stewardship, especially decisions to write-off uncollectible patient accounts receivable. Ensuring automated and accurate aging reports that are system generated can yield significant time savings. Currently, GMHA is receiving technical assistance from the USDA Graduate School as part of its Financial Management Improvement Plan (FMIP). This software deficiency should be included as part of the hospital's FMIP.

Manual aging reports for accounts receivable should be closely monitored and reviewed by management to evaluate potential uncollectible patient receivables.

Auditee Response and Corrective Action Plan:

The Hospital accepts finding 06-03 but does considers the finding to be fully resolved and does not expect a repeat of the finding in the future. Previously, the Hospital has been unable to fulfill the auditor's request of providing detailed patient accounts receivable information. The auditor wanted to test the reliability of the report generated from the system, the Aged Accounts Receivable Summary. In lieu of a system report, the Hospital provided the auditor a query report. The query report, after a certain level of manipulation by the Hospital, provided a close facsimile to the auditor's desired request which was unacceptable.

This inability to generate an accurate Detailed Aging of Accounts Receivable on-demand within the Hospital's AS/400 Patient Management System was promptly logged in with the Hospital's Information System Provider, Keane.

Subsequent to the issuance of this finding, on April 10, 2007 the implementation of version 5.0 upgrade of the GMH Patient Management System enabled the Hospital the ability to generate an accurate on-demand Detailed Aging of Accounts Receivable report exists within the User-Defined Selectable Aged Trial Balance section of the Patient Management, Accounts Receivable Menu on the AS/400 System.

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Year Ended September 30, 2006

Finding No.: 06-03, continued

**Area: Inadequacies of the AS-400 System to generate accurate Detailed
Aging of Accounts Receivable**

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

On May 4, 2007 the MIS department was successfully able to validate the summary with the corresponding detail of several financial classes. Henceforth, the requirement has been met for the criteria identified for this finding. The Business Office has been provided the technical service on the proper utilization of this mechanism and therefore removes the time consuming task of developing queries and downloading to spreadsheets.

Hospital management will closely monitor and review the Detailed Aging of Accounts Receivable report on a monthly basis to evaluate potential uncollectible patient receivables.

Responsible parties:

Business Office Manager -

Regularly validate the Aged Summary Accounts Receivable report with that of the Detailed Aging of Accounts Receivable Report. Maintain adequate records of the Aged Summary Accounts Receivable Report and the Detailed Aging of Accounts Receivable Report for reference. Be able to generate both the Aged Summary Accounts Receivable Report and the Detailed Aging of Accounts Receivable Report as requested. Coordinate with the MIS department in the event that such mentioned reports become inoperable.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-04

Area: Management and Accounting Department
– Allowance for Doubtful Accounts and Contractual Adjustments

CFDA No.: N/A

Criteria:

Management is responsible for the fair presentation of its financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Management is also responsible for adopting sound accounting policies and procedures for establishing and maintaining internal control environment that will, among other things, record, process, summarize and report transactions consistent with management's assertions embodied in the financial statements. Despite the inherent uncertainties, management is responsible for estimating the amounts recorded in the financial statements in accordance with GAAP.

A written policy should be maintained for establishing an allowance for doubtful accounts and estimates for contractual adjustments based on historical analyses, or available evidential matter, supporting management assertions on the valuation of revenues and receivables.

Condition:

At September 30, 2006, GMHA did not have a formal written policy for determining its accounting estimates for provisions for bad debts, contractual allowances and adjustments. Actual amounts denied or down-coded by the third-party payors are not reviewed in a timely manner nor properly compared to against agreed upon contractual adjustments to ensure that

The following estimates applied in the accounts receivable have not been substantiated by a formal written policy for determination and approval of provisions for contractual adjustments and doubtful accounts:

<u>Last Six Years</u>	<u>Bad Debts Provision</u>	<u>Contractual Adjustments & Estimated Self -Pay Bad debts</u>	<u>Total Provisions</u>	<u>Gross Patient Revenues</u>	<u>Percent of Provision to Gross Patient Revenues</u>
Fiscal Year 2006	\$13,863,210	\$30,301,140	\$44,164,349	\$110,829,136	39.8%
Fiscal Year 2005	12,623,724	33,403,779	46,027,503	103,161,746	44.7%
Fiscal Year 2004	12,495,905	33,680,499	46,176,404	102,483,000	45.1%
Fiscal Year 2003	8,497,165	33,078,624	41,575,789	97,402,769	42.7%
Fiscal Year 2002	3,967,182	31,767,385	35,734,567	98,839,776	36.2%
Fiscal Year 2001	9,854,190	34,526,685	44,380,875	106,654,687	41.7%

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-04, continued

Area: Management and Accounting Department
– Allowance for Doubtful Accounts and Contractual Adjustments

CFDA No.: N/A

Cause:

Management has not established written internal control policies and procedures for determining and approving provisions for bad debts, third party contractual adjustments and allowances, and writing-off bad debts.

Effect:

GMHA is potentially losing million of dollars from its inability to determine actual contractual adjustments for each of its major third party payors and self-pay patients. Management's failure to develop and implement policies and procedures for contractual adjustment is causing an economic burden and financial strain on both GMHA and the general fund of the government of Guam. Moreover, the patient accounts receivable may be misstated by a material amount. Also, the potential exists for inappropriate or fraudulent write-offs to occur and not detected in a timely manner.

Prior Year Status:

GMHA financial statements for fiscal years 2002 through 2005 were qualified due to the above condition. In March 2007, the General Accounting Supervisor was tasked to develop an appropriate policy for the Board of Trustees' consideration and approval. However, policies and procedures have not yet been reviewed and approved.

Recommendation:

Amounts realizable from third-party payors for health care services are usually less than the provider's full established rates for those services. Internal control policies and procedures should be established and implemented to document GHMA's methodology for determining accounting estimates for contractual adjustments and allowances, estimates for uncollectible patient receivables to ensure that the write-off of such amounts are identified in a timely manner and properly approved.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-04, continued

Area: Management and Accounting Department
– Allowance for Doubtful Accounts and Contractual Adjustments

CFDA No.: N/A

Recommendation, continued:

The Quality Management Administrator, in conjunction with the Assistant Chief Financial Officer, should start accumulating current and historical data on claims denied and other related explanations for contractual adjustments and allowances to develop a trend analysis for each major payor class. Once accumulated, this information should be analyzed and investigated to ascertain relevant causes of major contractual adjustments (billing errors, miscoding, disallowed services, etc.) to mitigate and reduce such amounts and error rates and to determine whether the prospective rates for services are in-line with the actual fees for services.

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding. In attempt to address this prior year audit finding, the General Accounting Supervisor did formulate a methodology based on a twelve (12) month rolling average of Hospital billings, payments, and write-offs which would provide the recognized percentage on a quarterly basis. The methodology to determine the Hospital's allowable allowance for doubtful accounts was formally adopted with BOT resolution 07-62 on March 1, 2007, Wednesday, Board of Trustees regular meeting. Note that because this was a recently adopted methodology, the Hospital has been unable to truly formulate a concrete baseline to determine the viability of the methodology. The Accounting department will continue to validate and track the numbers. The Accounting department estimates that upon the completion of a period of one full year utilizing the approved BOT methodology, a re-evaluation will be conducted as to its reliability.

In addition to the adoption of a methodology for the Accounting department to comply with, the Assistant Chief Financial Officer in conjunction with the Acting Quality Management Administrator has reinstated the Post Discharge Audit of Hospital claims in February 2007. The intent is that during the four (4) day internal billing process after the patient has been discharged, Utilization Review Coordinators (URC) review Hospital claims in relation to the patient's medical charts to make the appropriate changes to the Hospital claim prior to them being transmitted to the respective third-party payor resulting in what is called a, "clean claim". This internal review has greatly decreased the number of denials from third-party payors. The URCs work with the responsible revenue generating departments in correcting apparent billing errors so as to further minimize the repeat of billing errors. The Hospital is unable to do a 100% review of all Hospital claims because of the inadequate number of URCs. Currently, the URCs are only able to review Hospital claims within predetermined threshold amounts.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-04, continued

Area: Management and Accounting Department
– Allowance for Doubtful Accounts and Contractual Adjustments

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Currently, contractual allowance is identified on the remittance advice provided by the third-party payors on a per patient basis that is recorded in the Hospital's Information System. Thus the amount reported in the Hospital's Information System is the actual contractual allowance as negotiated with the health insurance companies. The staff of Patient Affairs performs a 100% validation of all received remittance advices from the third-party payors ensuring that the contractual allowance is net of the patient's share and non-covered benefits. This means of netting the contractual adjustment after the deduction of the patient's share and non-covered benefits from the total billed claim amount will be a clearly defined negotiating issue in the upcoming FY08 negotiations with health insurances.

Finally, since January 2007, the Patient Registration department has been aggressively identifying the appropriate patient share and non-covered benefits based on the patient's health insurance coverage resulting in the Hospital being able to bill a netted amount to the third-party payor. The patient is clearly informed at the point of registration of the impending charges. If possible, collection occurs. If not, the amount is collected at the point of discharge. This has consequently resulted in the Hospital shortening its collection period and increasing monthly collection. Although the increase in collection is modest, the process of educating the public of their financial responsibility is one that must be consistently impressed upon the users of the Hospital.

Prior to the institution of the collection upfront, the collection period of the patient's share and non-covered benefits was lengthy. Upon receipt of the remittance advice, the identified patient share and non-covered benefits were billed to the patient. This process would entail, at a minimum, a forty five (45) day period. Often times, the patient would be troubled over the extended length of time taken for the bill identifying their share of the medical expenses to be generated. This slight change of now aggressively collecting upfront alleviates the patient's concern.

This process should be qualified on the basis that the Hospital has been only able to institute this up front collection for inpatient and outpatient services. The Hospital is Federally prohibited from collecting or discussing financial liability/ability from an Emergency Room patient until medical services has been fully rendered in accordance Emergency Medical Treatment and Active Labor Act.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-04, continued

Area: Management and Accounting Department
– Allowance for Doubtful Accounts and Contractual Adjustments

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

With such measures in place in FY2007, the Hospital believes it will have more of an baseline information to further refine the acceptable level of allowance for doubtful accounts and contractual adjustment.

Responsible parties:

- | | |
|----------------------------------|--|
| Utilization Review Coordinator - | Continue the Post Discharge Audit of Hospital Claims. Continue to work with revenue generating departments in correcting billing errors. Report on a monthly basis results of the Post Discharge Audit to Hospital Management. |
| Chief of Admission - | Continue to perform up-front collection from Inpatient and Outpatient in accordance to expected and actual rendered medical services and uniformity to the patient's health insurance coverage. |
| General Accounting Supervisor - | Development of an appropriate internal department policy. To educate the staff, ensure implementation and compliance with the approved internal policy. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Timely compilation of information for presentation to the BOT P&FC. Ensure that the general ledger reflects the correct entry. Adherence to the approved BOT methodology in determining the acceptable and recognized level for allowance of doubtful accounts. Recommend appropriate change(s) to the BOT methodology if warranted. Report to the Chief Financial Officer the progress as to the use of the BOT approved methodology |
| Accountant III - | Timely entry of the approved journal entry. |
| Collection Supervisor - | Provision of the required billing and collection data to the General Accounting Supervisor on a monthly basis. |
| BOT P&FC - | Provide guidance, approval, and acceptance of presented monthly contractual allowance estimates. |

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-05

**Area: Patient Affairs Department – GMHA’s Current Receivables and Bad Debt
Receivables on Self Pay Accounts**

CFDA No.: N/A

Criteria:

Management should establish written internal control policies and procedures ensuring proper monitoring of current accounts receivable and bad debts receivable.

Condition:

At September 30, 2006, the self-pay patient accounts of GMHA disclosed significant amount of potential write-off in the near term as follows:

	<u>Per Books 09/30/06</u>	<u>Aged < 1 year</u>	<u>Aged 1 -2 years</u>	<u>Aged over 2 years</u>
Current patient receivable-self pay				
Flagged for referral to DRT	\$ 27,618,793	\$ 7,716,614	\$11,905,445	\$ 7,996,734
Flagged under financial arrangements	2,640,033	301,289	580,141	1,758,603
Flagged with legal counsel, litigations, and pending litigations	1,919,607	4,735	164,193	1,750,679
Flagged self pay and referral to collections	<u>16,030,212</u>	<u>11,709,182</u>	<u>2,344,727</u>	<u>1,976,303</u>
Sub-total	<u>48,208,645</u>	<u>19,731,820</u>	<u>14,994,506</u>	<u>13,482,319</u>
Bad debt receivable-self pay				
Referred to DRT	24,790,668	9,230	1,553,740	23,227,698
Referred to collection agencies	<u>9,863,488</u>	-	<u>74,196</u>	<u>9,789,292</u>
Sub-total	<u>34,654,156</u>	<u>9,230</u>	<u>1,627,936</u>	<u>33,016,990</u>
Gross patient self-pay receivable	82,862,801	<u>\$19,741,050</u>	<u>\$16,622,442</u>	<u>\$ 46,499,309</u>
Less: Allowance for bad debts	(<u>75,720,337</u>)			
Self-pay receivable, net	<u>\$ 7,142,464</u>			

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-05, continued

**Area: Patient Affairs Department – GMHA’s Current Receivables and Bad Debt
Receivables on Self Pay Accounts**

CFDA No.: N/A

Cause:

There was a lack of monitoring on self pay accounts in prior years. The adequate and proper evaluation was not made in a timely manner.

Effect:

The bad debt losses on self pay patient accounts adversely impacted the operation of the hospital and management’s objectives. The potential exists that a significant write-off which approximates the allowance for bad debts could eventually happen in the near term. The hospital may not be able to continue as going concern entity without the continuing subsidy from the Government of Guam.

Prior Year Status:

The GMHA financial statements for fiscal years 2002 through 2005 were qualified due to misstatements noted in the GMHA’s patient accounts receivable and uncertainty of collections of self-pay receivables.

Recommendation:

Management should establish adequate internal control policies and procedures to properly evaluate the collectability of all accounts receivable on a monthly basis, earlier identify potential write-offs. This will assist in managing the hospital’s cash flows.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-05, continued

**Area: Patient Affairs Department – GMHA’s Current Receivables and Bad Debt
Receivables on Self Pay Accounts**

CFDA No.: N/A

Auditee Response and Corrective Action Plan:

The Hospital agrees with the audit finding. The Hospital is mandated to accept every person and render quality medical care despite of their ability to reimburse accordingly. The negative impact has resulted in this finding. In an effort to lessen the negative impact of self pay patients, the Hospital has implemented the following:

1. November 2005, the Hospital successfully recruited and employed the position of a Program Coordinator II. This position is responsible to assist self pay patients (those without any health insurance coverage) to qualify into either or both the Medically Indigent Program and Medicaid Program. Self Pay patients are interviewed to determine qualifying ability in accordance to the program standards as promulgated by the Department of Public Health and Social Services (DPHSS). Upon submission of the application to DPHSS, the employee coordinates with the Benefits Coordinator for the MIP and or MAP coverage.

The Program Coordinator II interviews over five hundred Self Pay patients monthly and has a success rate of approximately 45%.

2. The Hospital has engaged the procurement of collection agencies services. The Business Office has been gearing up by identifying Self Pay accounts for referral to the awarded collection agencies.
3. The Hospital has successfully referred Self Pay accounts to the Department of Revenue and Taxation for garnishment of tax return. It was announced in April 2007 that the government will be able to issue earned income tax credit (EITC) to qualified tax payers. Hopefully, this will net the Hospital over one million dollars (\$1M) in reimbursement of outstanding Hospital claims.
4. The Hospital is working on developing a definition of a “charity” account. Briefly these would be patient who would be able to prove their inability to attain health insurance and at the same time as unable to qualify for MIP and or MAP. Such charity accounts would be monitored, accumulated, and reported to the island’s policy makers for their ultimate disposition.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-05, continued

**Area: Patient Affairs Department – GMHA’s Current Receivables and Bad Debt
Receivables on Self Pay Accounts**

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

After internal and external collection efforts have been exhausted, the Hospital will refer to its write-off policy. Such exhausted accounts would be compiled by the Hospital in formulating a legislative request with the island’s policy makers in providing reimbursement.

The Hospital will continue to abide by its mandate of accepting patients but at the same time, it must be clearly understood the difficult position the Hospital is put in as a result. It is beyond the control of the Hospital as to the financial ability or inability to reimburse for services rendered.

Responsible parties:

- | | |
|----------------------------|--|
| Business Office Manager - | Develop a policy on the proper handling and processing of “Charity” accounts. Upon approval of the policy, monitor and provide Hospital management regular reports on the “Charity” accounts. Ensure the Self Pay accounts identified for Collection Agency referrals are processed upon the award of Collection agencies for the Hospital. Follow up with Dept. of Rev & Taxation on the imminent payment of tax garnished accounts from EITC. The development, education, and monitoring for compliance of a comprehensive and encompassing Credit and Collection Policy. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Upon BOT approval ensure accounts properly reflect as being written-off in the Hospital’s Information system. |
| Staff of Business Office - | Full compliance with Credit and Collection Policy. |
| Chief Financial Officer - | Provide the Hospital Administrator, BOT Planning and Finance Committee, and BOT Audit Committee supporting data on “Charity” accounts. |

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-06

**Area: Patient Affairs Department – GMHA’s Current Receivables on MIP and MAP
Accounts**

CFDA No.: N/A

Criteria:

Management should enhance collection efforts from appropriate agencies for services rendered under Medically Indigent and Medicaid programs.

Condition:

Based on my review of the aging and collectability of GMHA’s receivables relevant to the Medically Indigent Program (MIP) and Medicaid (MAP) third-party payers, I noted an increase in estimates of allowance for contractual adjustments and poor collections during the year as follows:

<u>MIP</u>	<u>2006</u>	<u>2005</u>	<u>% to Total</u>		<u>Increase (Decrease) Rate</u>
			<u>2006</u>	<u>2005</u>	
Aged over 2 years	\$ 3,003,517	\$ 2,231,495	21%	15%	6%
Aged 366-730 days	1,769,703	1,302,935	12%	8%	4%
Aged 181-365	2,149,375	2,807,680	15%	19%	(4%)
Aged 121-180	<u>2,411,559</u>	<u>2,029,699</u>	<u>17%</u>	<u>13%</u>	<u>4%</u>
Total aged over 120 days	9,334,154	8,371,809	65%	55%	10%
Aged current and less 120 days	<u>5,177,111</u>	<u>6,542,436</u>	<u>35%</u>	<u>45%</u>	<u>(10%)</u>
Total	14,511,265	14,914,245	100%	100%	-
Less: allowance for contractual adjustments	(<u>8,271,421</u>)	(<u>6,198,515</u>)	<u>57%</u>	<u>43%</u>	<u>14%</u>
Net patient receivable, MIP	<u>\$ 6,239,844</u>	<u>\$ 8,715,730</u>	<u>43%</u>	<u>57%</u>	(<u>14%</u>)

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-06, continued

**Area: Patient Affairs Department – GMHA’s Current Receivables on MIP and MAP
Accounts**

CFDA No.: N/A

Condition, continued:

<u>MAP</u>	<u>2006</u>	<u>2005</u>	<u>% to Total</u>		<u>Increase (Decrease) Rate</u>
			<u>2006</u>	<u>2005</u>	
Aged over 2 years	\$ 2,273,877	\$ 1,925,989	13%	17%	(4%)
Aged 366-730 days	1,795,543	796,832	10%	7%	3%
Aged 181-365	4,081,031	1,354,187	23%	12%	11%
Aged 121-180	<u>3,415,786</u>	<u>1,573,980</u>	<u>20%</u>	<u>14%</u>	<u>6%</u>
Total aged over 120 days	11,566,237	5,650,988	66%	50%	16 %
Aged current and less 120 days	<u>5,968,513</u>	<u>5,614,932</u>	<u>34%</u>	<u>50%</u>	<u>(16%)</u>
Total	17,534,750	11,265,920	100%	100%	-
Less: allowance for contractual adjustments	(<u>9,994,808</u>)	(<u>5,874,606</u>)	<u>57%</u>	<u>52%</u>	<u>5%</u>
Net patient receivable, MAP	<u>\$ 7,539,942</u>	<u>\$ 5,391,314</u>	<u>43%</u>	<u>48%</u>	<u>(5%)</u>

Cause:

The patient accounts receivable due from the MIP and MAP programs are not properly reconciled, monitored and evaluated for collectability in a timely manner. In addition, pursuant to GMHA mandate, it maintains an open door policy and cannot refuse service to anyone that comes through its doors for medical treatment with or without medical insurance, or financial ability to pay for such services.

Effect:

The allowance for contractual adjustments of patient receivables from MIP and MAP totaled \$18,266,229, or 57% of total MAP and MIP’s gross patient receivables negatively impact cash flows from operations and continued financial strain on meeting current accounts payables. Additionally, until GMHA is able to establish proper controls and monitoring procedures, it will not be able to accurately determine the full financial impact of providing medical treatment to indigent individuals, thus causing a need for continued subsidies from the government of Guam’s general fund.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-06, continued

**Area: Patient Affairs Department – GMHA’s Current Receivables on MIP and MAP
Accounts**

CFDA No.: N/A

Prior Year Status:

The GMHA financial statements for fiscal years 2002 through 2005 were qualified due to misstatements noted in the GMHA’s patient accounts receivable and the uncertainty of self-pay collections.

Recommendation:

GMHA should adopt internal control policies and procedures over monitoring and evaluating the aging of delinquent receivables, and develop necessary controls to mitigate eventual write-off of delinquent patient accounts receivable. The collection of these receivables should be monitored on a monthly basis and followed up with the respective agencies to receive full or installment payments in a timely manner. As part of management’s monitoring efforts, the accounting department should start accumulating historical financial data on accounts written off relating to indigent/charitable care to assist its efforts setting up contractual adjustment rates for self-pay patients and seek subsidies from the government of Guam.

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding. The Hospital has performed due diligence in billing the third-party payor responsible for MIP and MAP claims. In addition the Hospital has taken additional measures by meeting with the Administrator for the Bureau of Health Care Financing (BHCF) at the Department of Public Health on May 3, 2007. The goal of the meeting was to come to an understanding as to the reconciliation of billed MIP and MAP Hospital claims. Several issues were brought up as a result of the initial meeting:

1. As a part of the billing process, each batch of claims is summarized with a corresponding billing transmittal. This transmittal serves two purposes, proof that the claims were billed and sent and proof that the intended third-party payor received the claims.

This is important in the reconciliation process between the two government entities in that if the Hospital is able to prove that MIP and MAP claims were received by BHCF, then such claims are valid and must be processed accordingly.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-06, continued

**Area: Patient Affairs Department – GMHA’s Current Receivables on MIP and MAP
Accounts**

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

2. Emergency Claims clearly not noted as being medically necessary by the Triage nurse and the Hospital physician will be immediately denied.
3. Claims denied by BHCF and subsequently rebilled by the Hospital after being medically justified will continue to be denied by BHCF.
4. BHCF is working to enable the Hospital to receive actual payment remittances. Currently Hospital staff must manually determine the patient share, non-covered benefits, and contractual adjustment for each paid patient. This is a cumbersome and time consuming process for the Hospital.

As noted, this is the first of a series of meetings between the two government entities and that such fruitful assemblages will continue. Because of the age of a majority of MIP and MAP claims, the reconciliation process will be concentrated effort on both parties. Distinctly, upon completion of the reconciliation process, the funding of reconciled claims will be an issue that must be contended with by the island’s policy makers.

Again it is very important to note that what is represented in the audit report is gross MIP and MAP billed amounts. MIP and MAP mirror the Medicare reimbursement process and thus inpatient claims are reimbursed on a per diem basis and outpatient claims on a percentage basis. Because of the nature of both MIP and MAP, patient share and non-covered benefits is usually held to a minimum. The remaining balance is what is recognized as contractual adjustment or billed amounts written off by the Hospital. Thus, it is misleading to the reader to interpret the amounts cited in this finding as the Hospital being able to receive millions of dollars from MIP and MAP.

Due to the considerable amount of gross MIP and MAP billings already incurred by the Hospital and on a monthly basis (approximately \$2M each for MIP and MAP), the Hospital will continue to aggressively work to with BHCF to reconcile outstanding accounts.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-06, continued

**Area: Patient Affairs Department – GMHA’s Current Receivables on MIP and MAP
Accounts**

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Responsible parties:

Accounting Technician Supervisor - Continue to meet with BHCF in reconciling outstanding MIP and MAP Hospital claims. As a result of agreed upon reconciliation terms, ensure that such is reflected in the Hospital’s Information System Patient Information module, respective MIP or MAP patient account. Report to the Chief Financial Officer regularly as to the status of the reconciliation.

Business Office Manager - The development, education, and monitoring for compliance of a comprehensive and encompassing Credit and Collection Policy. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Compiling and forwarding of MIP and MAP accounts for write-off approval by the BOT P&FC. Upon approval such accounts must be reflected as being written-off in the Hospital’s Information system.

Staff of Business Office - Compliance with said Credit and Collection Policy.

Chief Financial Officer - Provide the necessary support needed by the Hospital staff involved in the reconciliation process as needed. Report the status of the finding to the Hospital Administrator, BOT Planning and Finance Committee, and BOT Audit Committee.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-07

Area: Patient Affairs Department – Government of Guam payroll deduction terms

CFDA No.: N/A

Criteria:

Written internal control policies and procedures should be developed for payment terms involving Government of Guam payroll deduction arrangements. Management is responsible for the proper valuation and presentation of accounts receivable in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition:

At September 30, 2006, certain self-pay arrangements through Government of Guam payroll deductions (including GMHA) have repayment terms ranging 5 to 20 years and beyond, classified as current receivables in the control account and subsidiary ledgers. The review of the aging report at September 30, 2006 as compared to 2005 disclosed evidence of accelerating payment arrangement of long-term basis all classified as current as follows:

	<u>Count of of Patient Billing</u>	<u>Total</u>	<u>Aged < 1 year</u>	<u>Aged 366-730</u>	<u>Aged over 2 years</u>
<u>2006 Aging Status</u>					
Government of Guam Agencies payroll deduction arrangements	<u>2,202</u>	<u>\$ 2,164,149</u>	<u>\$ 195,038</u>	<u>\$ 371,546</u>	<u>\$1,597,565</u>
% to Total		<u>100%</u>	<u>9%</u>	<u>17%</u>	<u>74%</u>
<u>2005 Aging Status</u>					
Government of Guam Agencies payroll deduction arrangements	<u>2,122</u>	<u>\$ 2,034,057</u>	<u>\$ 411,147</u>	<u>\$ 160,995</u>	<u>\$1,461,915</u>
% to Total		<u>100%</u>	<u>20%</u>	<u>8%</u>	<u>72%</u>

Cause:

There is a lack of management oversight over monitoring and evaluation of aging of receivables.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-07, continued

Area: Patient Affairs Department – Government of Guam payroll deduction terms

CFDA No.: N/A

Effect:

The current patient accounts receivable may be overstated and may not properly presented in the financial statements. At September 30, 2006, the current portion of the Government of Guam payroll deduction arrangement is not determined.

Prior Year Status:

The GMHA financial statements for fiscal years 2002 through 2005 were qualified due to misstatements noted in the GMHA's patient accounts receivable. A draft internal control policy and procedures to enhance patient receivables with Government of Guam Agencies is represented by management to be in effect in fiscal year 2007.

Recommendation:

GMHA should discontinue providing excessive long-term repayment arrangements that obviously exceed the patient's reasonable life span. GMHA management should seek legal advice on whether these repayments arrangements can be modified to increase the monthly payments and shorten the repayment period. The above-mentioned financial class should be evaluated to determine proper classification of accounts collectible that are collectible within one year.

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding. During the audit period on June 2006, the Patient Affairs Office addressed an interim change on the Payment Agreement and Payroll Deduction criteria that no Agreement/Deductions exceeds the 3-year period or equal to 78-pay period.

Currently the Patient Affairs Office are reviewing files and will propose and submit for Legal Counsel review on prior Payment Agreements/Payroll Deductions beyond the 3-years.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-07, continued

Area: Patient Affairs Department – Government of Guam payroll deduction terms

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Responsible parties:

- | | |
|---------------------------|---|
| Business Office Manager - | Monitor the progress of action plan as stated above. Report to the Chief Financial officer the progress of reprogramming of payment agreements/payroll deductions beyond the allowable three year term. |
| Chief Financial Officer - | Responsible to report to the Hospital Administrator, BOT Planning and Finance Committee, and BOT Audit Committee the progress of the finding. |

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-08

Area: Differences in Major Third-Payor Confirmation Reply

CFDA No.: N/A

Criteria:

Timely reconciliation of differences noted between major third-party payer or customer should be investigated and resolved as soon as possible.

Condition:

Accounts receivable confirmations received from the major third-party payors disclosed variances when compared to the subsidiary ledger. These discrepancies were referred provided to accounting department for investigation and explanation for such differences. However, reconciliations were not provided for the following:

	<u>Per GMHA Subsidiary Ledger 09/30/06</u>	<u>Per Confirmation</u>	<u>Subsidiary Ledger overstated (understated)</u>
Local Insurance -A	\$ 2,401,966.47	\$ 751,294.68	\$ 1,650,671.79
Local Insurance- B	1,224,080.03	2,098,228.26	(874,148.23)
Local Insurance- C	819,281.84	349,720.41	469,561.43
Dept. of Public Health and Social Services for:			
Medicaid Program	17,535,551.55	5,845,275.89	11,690,275.66
Medically Indigent Program	<u>14,511,265.02</u>	<u>3,219,691.70</u>	<u>11,291,573.32</u>
	<u>\$ 36,492,144.91</u>	<u>\$12,264,210.94</u>	<u>\$24,227,933.97</u>

Cause:

There is a lack of monitoring and internal control policies and procedures to ensure that receivables are reconciled in a timely manner. In addition, there appears to be a lack of personnel to perform the reconciliation, and investigate the differences. However, the significant variances noted above could be related to long due outstanding receivables in MIP and MAP with days old of over 120 days and over 2 years old as disclosed in Finding No. 06-06.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-08, continued

Area: Differences in Major Third-Payor Confirmation Reply

CFDA No.: N/A

Effect:

Receivables and revenues could be materially misstated. Management might make decisions based on unreliable data. Errors or fraud could exist and not be detected in a timely manner.

Prior Year Status:

The GMHA financial statements for fiscal years 2002 through 2005 were qualified due to misstatements noted in the GMHA's patient accounts receivable. A draft internal control policy and procedures to enhance patient receivables is represented by management to be in effect in fiscal year 2007.

Recommendation:

The Chief Financial Officer, in conjunction with the Business Office should assign individual(s) to reconcile each major third party payor and investigate the reliability of the patient receivables. Discrepancies should be researched and resolved as soon as possible. Management should increase its effort in this area with the overall aim of reduction in the number and amount of delinquent and potentially worthless receivables.

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding but takes exception. A staff of the Business Office, an Accounting Technician Supervisor, took the initiative and started working with the four (4) local insurance companies in settling outstanding patient accounts. An aged trial balance of detailing the outstanding accounts is transmitted to the third party payor for reconciliation. It would be communicated to the Accounting Technician Supervisor as to what is needed to bring closure (proof of billing transmittal or additional supporting documentation). This constant "working" the accounts with the third-party payor has resulted in the Hospital receiving payment on a more regular basis. The age of the remaining accounts do not go beyond that of one hundred and twenty (120) days.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-08, continued

Area: Differences in Major Third-Payor Confirmation Reply

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

This informal reconciliation process has been in effect since February 2006. In order for the Hospital to fully rectify the finding, the staff will formalize the process by:

1. Communicating with the third-party payors of the Hospital's intent to reconcile with the insurance companies on a monthly and identify the authorized Hospital staff to conduct the reconciliation.
2. Transmitting the Aged Trial Balance to each of the local insurance companies by the 10th of each month.
3. The copies will be signed by the respective insurance company as proof of receipt.
4. The staff will document reconciliation meetings held with the insurance companies.
5. Work to provide the insurance companies the medical information needed to bring closure to the account.

Responsible parties:

Business Office

Accounting Technician Supervisor - Formalize and continue the reconciliation process. Provide monthly status reports to the Chief Financial Officer.

Business Office manager -

Draft the letter to the local insurance companies formally communicating of the intent to reconcile on a monthly basis and identify the authorized Hospital Staff who is to conduct the reconciliation.

Medical Health Records

Administrator -

Provide full support to the Accounting Technician Supervisor in providing the necessary medical documentation as required by the insurance companies.

Chief Financial Officer -

Provide full support to the Accounting Technician Supervisor as required. Report the progress of the finding to the Hospital Administrator, BOT Planning and Finance Committee, and BOT Audit Committee.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-09

Area: Inventory in Pharmacy Department

CFDA No.: N/A

Criteria:

GMHA should develop and establish formal written policies and procedures over control of inventory in the pharmacy department. A sound accounting and control procedures over inventory will enhance control of assets and better financial information.

Condition:

Inventory in the pharmacy department is not maintained in the inventory subsidiary module of the AS 400 system (inventory module accounting software). Except for control drugs maintained in the manual record, there is no formal recording system over the movement of the pharmaceuticals in the pharmacy department to provide an accurate accounting for or an up-to-date listing of on-hand inventory to ensure internal control and accountability of pharmaceutical inventory. At September 30, 2006, prior to the physical count of inventory in the pharmacy department, the general ledger balances for pharmacy department was \$0. A book adjustment of \$\$1,278,187.60 was recorded by GMHA representing physical count in the pharmacy department not reflected in the general ledger in prior year.

Effect:

The pharmaceutical inventory could be materially misstated. Expired drugs could exist and actual pharmaceuticals inventory on-hand may not determinable. Furthermore, potential misappropriation of assets could exist and not be detected.

Prior Year Status:

The above condition was cited as a finding in the fiscal year audit 2005. The relevant finding of lack of segregation of duties finding in the prior year was noted resolved in 2006. Furthermore, in December 2006, a written policy and procedures for handling of inventory in the pharmacy department was drafted for implementation effective February 2007.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-09, continued

Area: Inventory in Pharmacy Department

CFDA No.: N/A

Recommendation:

Management in conjunction with the MIS department should implement an inventory system that tracks all pertinent information in the pharmacy department in such a manner that inventory requisitioned from the pharmacy warehouse, issuances to floors, expired drugs and pharmaceuticals, can be properly accounted for and accurately recorded. Management should conduct a thorough evaluation of its existing internal control, accounting policies and procedures and segregation of duties for accounting for inventory in the pharmacy department to properly safeguard assets from theft, waste, fraud and abuse.

Accounting procedures should be modified to ensure that pharmaceutical inventory is only expensed once it is actually dispensed and charged to patient accounts for proper matching of revenue and expenditures.

This would benefit the pharmacy department by providing an up-to-date listing of on-hand inventory information with which management decision making will be improved and timely.

Auditee Response and Corrective Action Plan:

Keane's (Software Support for Guam Memorial Hospital), upgraded the Pharmacy module to a 5.0 version on April 10, 2006. The Pharmacy Staff was trained on using the upgraded version. Problems identified during the training period were resolved working with the software support.

Pharmacy will be responsible to conduct an annual physical inventory, with the assistance from the Materials Management division in order to close out the records from the past and to key-in the actual inventory counts by July 2007.

The Pharmacy will be generating reports on inventory analysis, values, and on hand quantities on a monthly basis or as requested by management as a result of the software upgrade.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-09, continued

Area: Inventory in Pharmacy Department

CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

Responsible parties:

Chief Pharmacist -	Responsible for implementation of the departmental inventory control and monitoring. Also responsible to maintain all inventory sheets.
Supply Management Administrator -	Review of and reconciliation with Supply Management inventory data.
Accounting General Supervisor -	Responsible to ensure that the proper journal entry to reflect the proper inventory level as supported by the physical inventory.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-10

Area: Allowance for Obsolescence

CFDA No.: N/A

Criteria:

GMHA should establish a policy in determining an allowance for obsolete inventory, pharmaceuticals and drugs becoming expired.

Condition:

During physical count observation of inventory in the pharmacy department, I noted various expired and soon to expire pharmaceuticals on-hand. GMHA does not have an established policy in determining allowance for such potential obsolescence. At September 30, 2006, the allowance for obsolescence was \$300,000 and was not substantiated by a documented rational analysis to determine its adequacy at September 30, 2006.

Cause:

There is lack of internal control over ensuring appropriate inventory reserves are provided for in the financial statements.

Effect:

The potential exists for inventory to be misstated by an inappropriate allowance for pharmaceutical becoming obsolete or expiring on or shortly after September 30, 2006.

Prior Year Status:

The above condition was reported in the management letter during the audit of fiscal year 2005.

Recommendation

The Supply Administrator should develop and establish policies and procedures for determining the allowance for obsolete pharmaceutical inventory. The accounting department should be responsible to review the procedure and computational methodology with respect to all aspects of the inventory to ensure that accurate and reliable financial information is produced and properly recorded in the general ledger.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-10, continued

Area: Allowance for Obsolescence

CFDA No.: N/A

Auditee Response and Corrective Action Plan:

We agree the proper procedures were not adhered to; to correct the problem, the Pharmacy Director assigned his staff to conduct a spot inventory in their areas, utilizing a color coding system by months, to determine the actual expiration date. The Pharmacy Director will prepare a survey and/or capital returns forms and present them to the Supply Management Administrator (SMA). This is done to maintain current, accurate inventory records and purchasing reports. Adjustments are charged to the appropriate expense account.

This procedure was implemented as of October 2006.

Responsible parties:

Supply Management
Administrator -

Responsible to work with the Pharmacy Director as to the full resolution of this finding before the end of FY2007. Responsible to ensure that expired pharmaceuticals are properly disposed within federal mandates. Responsible to report the progress of this finding to the Chief Financial Officer.

Pharmacy Director -

Responsible to work with the Supply Management Administrator as to the full resolution of this finding before the end of FY2007. Responsible to ensure expired pharmaceuticals are properly disposed as within federal mandates.

Chief Financial Officer -

Responsible to report the progress of this finding to the Hospital Administrator, BOT Planning & Finance Committee, and BOT Audit Committee.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-11

**Area: Administration of GMHA – Services to the Government of Guam
Inter-governmental agencies**

CFDA No.: N/A

Criteria:

The authorization to provide services or facilities should result in the preparation of an accounting record to recognize allowable billings and facilitate the collection of inter-governmental charges for services.

Condition:

GMHA renders monthly catering services and issues supplies to inter-governmental agencies (Department of Mental Health and Substance Abuse, and Guam Fire Department) without certainty of collections. At September 30, 2006, the outstanding receivable for the two agencies was \$558,650, of which \$386,526 and \$113,516 has been outstanding over 2 years and 1 year, respectively.

Cause:

The Government of Guam did not fund the above expenditures incurred by its departments and line agencies through an authorized annual budget appropriation.

Effect:

At September 30, 2006, GMHA's other accounts receivable, which mainly consist of the above amount, is overstated due to uncollectability of the amount accounts. GMHA is rendering services with the inter-governmental agencies without assurance of payment, which also contributed losses to the hospital. An auditor's adjustment to reflect management's provision for bad debts of 100% uncollectible or \$558,650, was recorded at September 30, 2006.

Prior Year Status:

The above condition was reported in the management letter during the audit of fiscal year 2005. GMHA is continually providing services to the above agencies without guarantee of payment.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No. 06-11, continued

**Area: Administration of GMHA – Services to the Government of Guam
Inter-governmental agencies**

CFDA No.: N/A

Recommendation:

Management should obtain formal written agreements or memorandum of understanding (MOU) for providing and payment of services rendered to inter-governmental agencies. Such agreements or MOU's should include among others repayment terms, type of services and supplies to be provided, authorization and approval of appropriate officials. Such documentation will enhance the control environment over other accounts receivable through authorized budget appropriations and formal documented agreements.

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding.

On March 26, 2007, the Hospital Administrator met with the Department of Mental Health and Social Services and the Office of Communication Integration Officials to discuss development of an MOU for services provided to that agency, to include appropriate billings. A draft has been developed and the MOU will be finalized by July 2007.

The Chief of Environmental Services has conducted a review of lost linens and the Hospital met with Guam Fire Department officials on May 23, 2007 and will formalize an MOU by June 2007.

Responsible parties:

Hospital Administrator -	Development and promulgation of the MOU between the Hospital and respective inter-governmental agencies.
Supply Management Administrator -	Identify inter-governmental agencies the Hospital should have an MOU. Ensure compliance with approved MOU. Report to the Chief Financial Officer as to the progress of this Finding.
Chief Environmental Services -	Ensure compliance with approved MOU.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-12
Area : Procurement - Prepayments
CFDA No.: N/A

Criteria:

Pursuant to the GMHA procurement procedures, prepayments should not be made to the vendors for purchases or services prior to receiving the products, goods or services.

Condition:

I noted numerous open purchases for which prepayments were made. Four or 6% of the 60 purchase orders tested, remain open in the purchase order receiving module as follows:

<u>Purchase Order No.</u>	<u>Vendor No.</u>	Amount of Open <u>Purchase Order</u>	<u>Remarks</u>
26002089	8269	\$ 118,685	No services/product receipt, partial payment was made on 10/2/06, check no. 105749 and recorded as other prepaid expenses.
26004286	8269	105,502	No services/product receipt, partial payment was made on 12/28/06, check no. 106484 and recorded as other prepaid expenses.
26004736	1056	88,225	No services/product receipt, partial payment was made on 2/12/07, check no. 106741 and recorded as other prepaid expenses.
26004753	7592	<u>99,434</u>	No services/product receipt, full payment was made on 12/26/06, check no 106465 and recorded as other prepaid expenses.
Total		<u>\$ 411,846</u>	

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-12, continued
Area : Procurement - Prepayments
CFDA No.: N/A

Cause:

There is lack of adequate internal controls to ensure that the correct procurement procedures are adhered.

Questioned Costs:

A questioned cost of \$411,846 exists as a result of this condition.

Effect:

GMHA is not in compliance with its procurement rules and regulations. Prepayments were not properly cleared in a timely manner due to lack of internal control related to the receiving of product and/or services. The potential exist for a material misstatement of the financial statements if this condition persists, and if the prepayment account is not properly monitored, and the possibility of overpayment could exist and not properly be applied and detected in a timely manner.

Prior Year Status:

The above condition was reported in the management letter during the audit of fiscal year 2005. The practice of prepayments by GMHA pertains mostly to purchases of supplies and pharmaceuticals due to GMHA's poor credit history and continued delinquency with its vendors.

Recommendation:

Management should strengthen internal control over procurement receiving and compliance to applicable procurement law.

Auditee Response and Corrective Action Plan:

After further research, we found that invoices were not forwarded to our receiving department to complete the cycle before checks were released to the vendors for payment.

We agree that proper procedures were not adhered to. To correct the problem, the Supply Management Administrator has created a checklist to follow step-by-step process for prepayments. The checklist will help us to ensure that these findings do not occur in future purchases for GMHA. Thus the process has been implemented.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-12, continued
Area : Procurement - Prepayments
CFDA No.: N/A

Auditee Response and Corrective Action Plan, continued:

The Supply Management Administrator also informed the Accounting that any checks processed for prepayments must be forwarded to the check requestor to ensure that the corrective action plans are followed.

Responsible parties:

Supply Management Administrator -	Full compliance with the corrective action of this finding Responsible to report to the Chief Financial Officer as to the progress of this finding.
General Accounting Supervisor -	Full compliance with the corrective action of this finding.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-13

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

CFDA No.: All

Criteria:

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

Condition:

It should be noted that GMHA has made the effort to correct the capital assets register records for current year additions and disposals, and its prospective plan to conduct the physical count on May 2007. The reconciliation process for prior years' discrepancies between the general ledger and capital assets register has not completed as of September 30, 2006. However, GMHA has not conducted a physical count of its capital assets for the past five years. At September 30, 2006, the variance between the general ledger and the capital assets register is a carry forward from prior year unreconciled differences, as follows:

	<u>General Ledger</u>	<u>Per AS 400 Register</u>	<u>Book Over (Under)</u>
<u>Cost:</u>			
Hospital Buildings	\$ 56,525,432	\$ 55,677,058	\$ 848,374
Long-term care facility	10,660,987	10,660,987	-
Movable equipment and AS-400 system upgrade	<u>29,548,582</u>	<u>28,960,874</u>	<u>587,708</u>
Total	<u>\$ 96,735,001</u>	<u>\$ 95,298,919</u>	<u>\$ 1,436,082</u>
 <u>Accumulated Depreciation:</u>			
Hospital buildings	(\$ 29,241,389)	(29,163,115)	\$ 78,274
Long-term care facility	(2,389,561)	(2,406,867)	(17,306)
Movable equipment and AS-400 system upgrade	<u>(23,602,607)</u>	<u>(24,208,503)</u>	<u>(605,896)</u>
Total	<u>(\$ 55,233,557)</u>	<u>(\$ 55,778,485)</u>	<u>(\$ 544,928)</u>

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-13, continued

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

CFDA No.: All

Cause:

There was a lack of internal control and monitoring procedures in prior years and lack of staff to perform count and reconciliation. However, in July 2006, GMHA hired an Accountant II to perform the capital assets reconciliation and coordinate prospective physical inventory count of all capital assets with each GMHA Department Head commencing May 2007.

Effect:

GMHA is not in compliance with the applicable Federal Regulations. The capital assets, accumulated depreciation expense and related depreciation expense could be materially misstated. Misappropriation of assets may have or could occur and not be detected.

Prior Year Status:

The above condition was cited as a finding in the fiscal year audits 2002 through 2005 of the GMHA and caused qualification of the capital assets due uncorrected variances.

Recommendation:

The Chief Financial officer to establish a written control-related policies and procedure in maintaining property records acquired through Federal funds and local funds, and ensure compliance with such policies and requirements. This will further assist the newly hired accountant tasked with reconciling the Hospital's capital assets.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-13, continued

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

CFDA No.: All

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding. In FY06 the Hospital did hire an Accountant II to specifically address the reconciliation issue of the Hospital's fixed assets. As the Hospital was set to remove this finding from future audit reports, the Accountant II was intermittently assigned to process the Hospital's biweekly payroll due to staff shortage. The staff responsible for the physical inventory of the Hospital's fixed assets has been unavailable due to being deployed to serve in the United States military. Despite the unforeseen setback, the Accountant II was able to:

1. During the January 2007 regular Board of Trustees Board meeting, BOT resolution 07-34 was passed. The resolution increased the Hospital's realization of fixed assets at five thousand (\$5,000) and above. Note that this level coincides with the Government of Guam asset capitalization policy as defined in P.L. 28-150, Chapter V, Section II. Moving forward this will assist the Hospital in efficiently managing its fixed assets. For items procured that amount to less than five thousand (\$5,000) this listing will be maintained by the Materials Management Department.
2. Update the Hospital's Information System Fixed Assets module to reflect the fixed asset number. This simple modification will allow for ease in both the identification and accountability of the asset. This was effective in March 2007.
3. A schedule to inventory the fixed assets was developed. The strategy was to conduct the inventory by divisions (the Hospital has six (6) divisions, Administration, Administrative Support, Medical, Fiscal, Nursing, and Professional Support), with the easiest division to be catalogued first. This would indulge the inventory team to learn from faux pas. On March 2007, inventory on the Fiscal Division was completed. The Hospital is resolved to continue to abide with the appointed inventory schedule. To facilitate the inventory process, the department heads will be appointed to conduct the inventory within their respective areas. Completed inventory sheets will be forwarded to the Accountant II. A representative from Accounting will be assigned to assist the departments and act to ensure as to the completeness of the inventory process.
4. Continue working on reviewing the Hospital's unreconciled inventory database. Items that were surveyed to GSA still existed on the Hospital's accounting books. Prior to the removal from the Hospital's Information System, documentation had to be secured. The process of ascertaining documentation has been a slow process.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-13, continued

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

CFDA No.: All

Auditee Response and Corrective Action Plan, continued:

5. Coordination between the Accountant II and Materials Management exists to ensure that all items procured, received, and qualifying under BOT 07-34 are tagged and capitalized as a fixed asset by the Hospital.

The Hospital is committed to ensuring the accounting of its assets. All efforts are focused on assisting the Accountant II secure the necessary support and resources needed to comply with the annual inventory of the Hospital's fixed assets.

Responsible parties:

Accountant II -	Execution and monitoring of said policy and procedures. Also ensure that Hospital's Information System reflects the proper and correct fixed assets status. Continue to assist in the inventory process of Hospital fixed assets as appointed in the overall inventory schedule. Continue the reconciliation of the Hospital's fixed asset ledger to the subsidiary. Responsible to work with Hospital's Property Management Officer in developing Inventory policy and procedure for fixed assets. Responsible to report to the General Accounting Supervisor as to the progress of the finding
General Accounting Supervisor -	Provide the support needed to fulfill the finding. Report to the Chief Financial Officer the progress of the finding.
Hospital Property Management Officer -	Continue the physical inventory process of the Hospital's fixed assets. Responsible to work with Accountant II in developing Inventory policy and procedure for fixed assets.
Chief Financial Officer -	Report to the Hospital Administrator, BOT Planning & Finance Committee, and BOT Audit Committee as to the progress of this finding.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-14
Area: Accounting Department– Recording of Federally sponsored activities in the general ledger and periodic reconciliation to subsidiary records
CFDA No.: All

Criteria:

In accordance with OMB Circular A-110 Subpart C, grantees of Federal awards are required to maintain financial management systems that provide accurate, current and complete disclosure of financial results of each Federally-sponsored project in accordance to the reporting requirements applicable to the program.

Condition:

GMHA's general ledger system to account for Federally supported activities is not adequately designed to maintain and provide a separate trial balance by fund that would reflect the Federal activities for a given period and on a grant-by-grant basis.

The GMHA's Federal awards activities is compiled by Program Coordinator and planning department in an excel spreadsheet which also provide the current activities of the grant and is used as a basis for meeting and Federal reporting compliance requirements. This procedure in the Federal award department and planning department is a duplication of effort and could be eliminated if an appropriate accounting system for Federal awards is maintained.

Cause:

The current system is inadequately designed to properly reflect accurate financial data of Federally sponsored activities. The accounting department maintains a single commingled general ledger cost center for the recording all Federal grant expenditures. This practice makes virtually laborious not only for the planning/Federal award monitoring department in retrieving and compiling financial data for reporting compliance purposes, but also for the accounting supervisor upon reconciliation of balances at year end, and preparation of required schedule of Federal awards and expenditures.

Effect:

GMHA is not in compliance with OMB Circular A-133 and A-110 requirements. Additionally, certain accounts in the financial statements such as movable equipment, construction in-progress, non-operating revenues, and other accounts were misstated. In addition, depreciation could be misstated. A total of sixteen (16) auditor's adjustments consisting of bookkeeping entries and correcting entries with aggregate net effect of \$3,717,508 increase in net assets were proposed be posted by GMHA to correct the misstatements in the September 30, 2006 financial statements.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-14, continued
Area: Accounting Department– Recording of Federally sponsored activities in the general ledger and periodic reconciliation to subsidiary records
CFDA No.: All

Prior Year Status:

The above condition was cited as a finding in the fiscal year audits 2003 through 2005.

Recommendation:

The General Accounting Supervisor should modify the existing general ledger to account for Federal awards revenue and expenditures consistent with the financial reporting requirements of the various Federal grant programs of the hospital and in accordance with OMB Circular A-133 and A-110. The general ledger system should also be able to provide a separate sub-trial balance for each Federal grant activity.

Auditee Response and Corrective Action Plan:

We agree with the recommendation. As of April 2007, we re-used Company 2 general ledgers to account for federal awards revenues and expense. We are closing all Company 1 September 30, 2006 beginning balances and closed Company 1 FY2007 to-date transactions for federal grants and are booking them in Company 2.

We should be able to provide a separate sub-trial balance for each federal grant activity hereon. We do not expect a repeat of this finding in FY2007.

Responsible parties:

General Accounting Supervisor - Responsible to ensure that this finding is not repeated in FY2007. Responsible to ensure that monitoring and reconciliation of the accounts associated with federal awards. Report to the Chief Financial Officer as to the progress of this finding.

Chief Financial Officer - Responsible to report to the Hospital Administrator, BOT Planning and Finance Committee, and BOT Audit Committee.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-15

Area: Restricted Funds - Pharmaceutical Fund

CFDA No.: N/A

Criteria:

Restricted funds earmarked for pharmaceuticals expenditures should be properly accounted for in accordance with Public Law 28-68 §22. Pursuant to this public law, GMHA is required to receive 5.61% of all gross revenue taxes (GRT) collected by the Government of Guam.

Condition:

During the fiscal year 2006, the Government of Guam via the Treasurer of Guam, transferred a total \$8,421,521 from GRT collections for pharmaceutical purchases. During the year, GMHA did not strictly enforce the use of the fund for which it was restricted. Subsequent to September 30, 2006, the accounting of the disbursements of fund earmarked for pharmaceutical purchases disclosed that the fund was not only used for pharmaceutical purchases but also of purchases of medical supplies and equipment, blood, and laboratories. The Pharmaceutical Fund received during the year was disbursed as follows:

Pharmaceutical Fund received during the year	\$ 8,421,521
Less: Pharmaceutical purchases	<u>(3,759,577)</u>
Balance of the Pharmaceutical Fund disbursed for medical supplies and equipment, blood and laboratories, at September 30, 2006	<u>\$ 4,661,944</u>

Cause:

GMHA does not have established internal control policies and procedures to maintain a separate account and reporting mechanisms to account for money received and expended in the Pharmaceutical Fund in a timely manner. Additionally, monitoring procedures were not established to ensure GMHA's compliance with Public Law 28-68 §22.

Effect:

GMHA is not in compliance to the provisions of Public 28-68, §22. The potential exists for management to divert and use pharmaceutical fund for other hospital expenses and financial obligations.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No. 06-15, continued
Area: Restricted Funds - Pharmaceutical Fund
CFDA No. N/A

Recommendation:

Management should establish internal control monitoring and reporting requirements to ensure compliance with Public 28-68, §22. A separate account should be established or appropriate accounting and reporting be implemented to properly account for money received from the Pharmaceutical Fund. The Assistant Chief Financial Officer should strengthen internal control procedures over the accounting for restricted funds. Though restricted funds may not necessarily be deposited in separate bank accounts, some level of segregation, reporting and monitoring should be immediately established through a recording function in the accounting system.

Auditee Response and Corrective Action Plan:

We agree with the recommendation. As of April 2007, we re-used Company 2 general ledgers to account for federal awards revenues and expense. We are closing all Company 1 September 30, 2006 beginning balances and closed Company 1 FY2007 to-date transactions for federal grants and are booking them in Company 2.

We should be able to provide a separate sub-trial balance for each federal grant activity hereon. We do not expect a repeat of this finding in FY2007.

Responsible parties:

General Accounting Supervisor -	Responsible to ensure that this finding is not repeated in FY2007. Responsible to ensure that monitoring and reconciliation of the accounts associated with federal awards. Report to the Chief Financial Officer as to the progress of this finding.
Chief Financial Officer -	Responsible to report to the Hospital Administrator, BOT Planning and Finance Committee, and BOT Audit Committee.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-16
Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
CFDA No.: 15.875
Program Name: Compact Impact 2006, Grant 670086

Criteria:

In accordance with OMB Circular A-87, charges should conform to any limitation or exclusion set forth in the applicable Federal law requirements, program agreement, program regulations, or program statutes. Allowable costs charged to a particular Federal program should not be charged or included as costs of other Federally supported activities.

Condition:

The drawdown #1 for the Compact Impact grant year 2006 received on March 10, 2006 for eligible vendor payables for pharmaceutical and medical supplies as of February 9, 2006 totaling \$1,221,014 included certain invoices/cost already paid or reimbursed as eligible costs for the following:

1. Drawdown #3 for the 2004 National Bio-Terrorism Hospital Preparedness Program reimbursed by the grantor agency (Department of Administration of the Government of Guam) per check number 53561 received on October 26, 2005:

<u>Invoice Number</u>	<u>Vendor Number</u>	<u>Amount</u>	<u>Nature of direct cost</u>
5244	1044	\$ 1,392	Equipment peripherals
5245	1044	109,481	Medical equipments
5246	1044	3,595	Medical equipments
5246	1044	<u>55,169</u>	Medical equipment
		169,637	
	Charged twice for same item on invoice 5246, vendor #1044		
		<u>3,595</u>	
	Total	<u>\$ 173,232</u>	

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-16, continued
Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
CFDA No.: 15.875
Program Name: Compact Impact 2006, Grant 670086

Condition, Continued:

2. Drawdown number 9 of Compact Impact Grant year 2003 reimbursed per check number 0108044 received on February 21, 2006

<u>Invoice Number</u>	<u>Vendor Number</u>	<u>Amount</u>	<u>Nature of direct cost</u>
4466776	1049	\$ <u>3,506.75</u>	Medical equipment

3. Drawdown #10 for Compact Impact Grant year 2003 reimbursed per check number 0138197 received on July 14, 2006

<u>Invoice Number</u>	<u>Vendor Number</u>	<u>Amount</u>	<u>Nature of direct cost</u>
44852	3049	\$ <u>9,026.36</u>	Medical equipment

4. The following invoices did not qualify as vendor payables as of February 9, 2006 because payments were already made to vendor prior to February 9, 2006 and before grant award was approved on February 23, 2006 to pay eligible vendor payables as of February 9, 2006:

<u>Invoice Number</u>	<u>Vendor Number</u>	<u>Amount</u>	<u>Date Paid/check Number</u>
5135	1044	\$ 6,772.00	7/14/05/103103
5136	1044	<u>2,926.00</u>	7/14/05/103103
		<u>\$ 9,698.00</u>	

Questioned Costs:

A questioned cost of \$195,943.11 exists as a result of this condition.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-16, continued
Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
CFDA No.: 15.875
Program Name: Compact Impact 2006, Grant 670086

Cause:

The former Chief Financial Officer overrode internal controls over review of individual charges by the planning department prior to submission to the Bureau of Budget Management and Research for reimbursements.

Effect:

GMHA is not in compliance with OMB Circular A-87 and applicable allowable activities requirements of the grant. Therefore, a questioned cost exists of \$195,943.11 as a result of this condition.

Prior Year Status:

A similar condition was cited as finding in the prior year audit.

Recommendation:

GMHA should adhere to the requirements of OMB Circular A-87. Program personnel should review Federal program expenditures to determine allowability prior to payment to ensure compliance with Federal program requirements, rules and regulations.

Auditee Response and Corrective Action Plan:

The Hospital acknowledges the finding. The BT Budget Analyst was able to reconcile the invoices to reduce the questioned costs. Prior to his separation from the Hospital, the former CFO was reminded and tasked not only by the Hospital Administrator but also the external auditor to review the findings and perform the appropriate reconciliation to mitigate the questioned costs but failed to do so.

The list of invoices was hastily prepared by the former CFO and subsequently submitted to the Bureau of Budget and Management Research. The former CFO did not coordinate with personnel from either the Planning or Accounting departments as a part of the quality assurance process.

The Hospital has met to ensure that efforts are coordinate in a timely manner in the preparation and submission of invoices for future Compact Impact reimbursements. Planning and Accounting will both act as quality assurance points to avoid the submission of duplicate invoices.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-16, continued
Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
CFDA No.: 15.875
Program Name: Compact Impact 2006, Grant 670086

Auditee Response and Corrective Action Plan, continued:

Responsible parties:

Chief Planner -	Coordinate with Accounting to avoid duplicate submission of invoices. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Coordinate on the drawdown of funds BBMR and DOA for the reimbursement and Accounting to ensure that qualified vendors are paid as per the stipulations of the grant.
General Accounting Supervisor -	Timely packaging and submission of invoices for reimbursement to BBMR. Coordinate with the Planning office to avoid the duplicate submission of invoices. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Once funds are received that the qualified vendors are paid within three to seven (3 to 7) working days. Responsible to develop department policy and procedure on the proper use and timely distribution of funds in collaboration with the policy and procedure of the Department of Administration.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-17
Area: Cash Management
CFDA No.: 15.875
Program Name: Compact Impact 2006(GR670086), Compact Impact 2003 (G3700141)

Criteria:

In accordance with the OMB Circular A-133 cash management requirements, the time elapsed between the receipts of Federal funds to the actual disbursements by the recipient organization should be minimized.

Condition:

GMHA did not have written procedures for Federal funds payment methods to ensure that the time elapsed between the receipt and disbursement of Federal funds is minimized. My compliance test procedures disclosed the following:

Date Received	Reference	Date		
Funds from	of Pay-out	Disbursements		Number of
Grantor	(Check Number)	Cleared to	Amount	Days Elapsed
<u>Agency</u>		<u>the Bank</u>		
Compact Impact Grant -2003, Drawdown No.8, paid by DOA check #089248:				
12/15/2005	104834	04/20/06	\$ 37,516.50	126
12/15/2005	104625	03/16/06	75,793.43	91
12/15/2005	104573	03/10/06	41,737.80	85
12/15/2005	104263	01/06/06	<u>34,095.50</u>	22
	Total		<u>\$ 189,143.23</u>	
Compact Impact Grant -2003, Drawdown No.9, paid by DOA check #0108044:				
2/21/2006	105642	09/20/06	\$ 13,564.39	211
2/21/2006	104834	04/20/06	28,971.00	58
2/21/2006	104862	04/20/06	41,676.40	58
2/21/2006	104800	04/12/06	17,500.00	50
2/21/2006	104538	03/20/06	<u>10,520.25</u>	27
	Total		<u>\$ 112,232.04</u>	

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-17, continued
Area: Cash Management
CFDA No.: 15.875
Program Name: Compact Impact 2006(GR670086), Compact Impact 2003 (G3700141)

Condition, Continued:

<u>Date Received</u>	<u>Reference</u>	<u>Date Disbursements</u>	<u>Amount</u>	<u>Number of Days Elapsed</u>
<u>Funds from Grantor Agency</u>	<u>Of Pay-out (Check Number)</u>	<u>Cleared to the Bank</u>		
Compact Impact Grant -2003, Drawdown No.10, paid by DOA check #0138197:				
7/14/2006	105752	10/03/06	\$ 75,793.43	81
Compact Impact Grant -2003, one-time drawdown for Pharmaceuticals & Medical Supplies vendor payables as of February 26, 2006, DOA check 113319:				
3/10/2006	105204	07/14/06	\$ 5,200.00	126
3/10/2006	105012	05/10/06	11,591.31	61
3/10/2006	104797	05/01/06	3,624.13	52
3/10/2006	104794	04/27/06	2,919.00	48
3/10/2006	104804	04/20/06	15,690.10	41
3/10/2006	104802	04/13/06	121,600.09	34
3/10/2006	104760	04/13/06	1,040.00	34
3/10/2006	104800	04/12/06	26,067.32	33
3/10/2006	104601	04/05/06	17,400.42	26
3/10/2006	104598	04/04/06	2,332.72	25
3/10/2006	104727	03/31/06	223.86	21
3/10/2006	104613	03/31/06	135,242.37	21
3/10/2006	104595	03/30/06	24,482.07	20
3/10/2006	104599	03/30/06	754.05	20
3/10/2006	104611	03/30/06	22,744.22	20
3/10/2006	104618	03/27/06	11,869.54	17
3/10/2006	104602	03/24/06	621.28	14
3/10/2006	104596	03/21/06	22,295.15	11
3/10/2006	104600	03/20/06	953.60	10
3/10/2006	104537	03/20/06	5,680.00	10
	Sub-Total		\$ 432,331.23	

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-17, continued
Area: Cash Management
CFDA No.: 15.875
Program Name: Compact Impact 2006(GR670086), Compact Impact 2003 (G3700141)

Condition, Continued:

Date Received Funds from Grantor Agency	Reference of Pay-out (Check Number)	Date Disbursements Cleared to the Bank	Amount	Number of Days Elapsed
	Sub-Total		\$ 432,331.23	
3/10/2006	104624	03/20/06	63,528.35	10
3/10/2006	104538	03/20/06	52,206.55	10
3/10/2006	104608	03/17/06	7,210.95	7
3/10/2006	104610	03/17/06	118,152.85	7
3/10/2006	104605	03/16/06	36,231.37	6
3/10/2006	104606	03/16/06	40,684.06	6
3/10/2006	104607	03/16/06	133,359.28	6
3/10/2006	104594	03/15/06	18,404.40	5
	Total		<u>\$ 902,109.04</u>	

Compact Impact Grant -2003, one-time drawdown for Pharmaceuticals & Medical Supplies
vendor payables as of February 26, 2006, DOA check -0112724:

3/3/2006	105274	07/31/06	\$ 136.00	150
3/3/2006	105204	07/14/06	200.00	133
3/3/2006	104804	04/20/06	18,242.56	48
3/3/2006	104760	04/13/06	14,725.00	41
3/3/2006	104727	03/31/06	19,933.13	28
3/3/2006	104613	03/31/06	51,234.42	28
3/3/2006	104540	03/24/06	32,906.00	21
3/3/2006	104537	03/20/06	40,165.00	17
3/3/2006	104538	03/20/06	35,119.25	17
3/3/2006	104534	03/08/06	667.20	5
3/3/2006	104535	03/08/06	12,053.31	5
	Total		<u>\$ 225,381.87</u>	
Total value of Cash Management noncompliance			<u>\$ 1,504,659.61</u>	

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-17, continued
Area: Cash Management
CFDA No.: 15.875
Program Name: Compact Impact 2006(GR670086), Compact Impact 2003 (G3700141)

Cause:

There is a lack of internal control in the accounts payable department ensuring that Federal funds received are disbursed in accordance to the financial and program management requirement set forth in the OMB A-133.

Effect:

GMHA is in noncompliance with applicable cash management requirements and may affect GMHA's ability to receive future Federal funds.

Recommendation:

The Chief Financial Officer should establish written internal controls and procedures ensuring the time elapsing between the receipt of Federal funds from pass-through entities and the pay-out of funds/or check disbursement is minimized.

Auditee Response and Corrective Action Plan:

The Hospital agrees with the auditor's recommendation that procedures must be written to minimize the time elapsed from receiving federal funds and the distribution of payment to the vendor. To address the issue, the Hospital will develop a policy similar to that of the Department of Administration's policy on the distribution of received funds.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-17, continued
Area: Cash Management
CFDA No.: 15.875
Program Name: Compact Impact 2006(GR670086), Compact Impact 2003 (G3700141)

Auditee Response and Corrective Action Plan, continued:

Responsible parties:

General Accounting Supervisor - Timely packaging and submission of invoices for reimbursement to BBMR. Coordinate with the Planning office to avoid the duplicate submission of invoices. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Once funds are received that the qualified vendors are paid within three to seven (3 to 7) working days. Responsible to develop policy and procedures to address this finding. Ensure that the Hospital is in compliance with OMB A-133. Responsible to report to the Chief Financial Officer as to the progress of this finding. Responsible to develop department policy and procedure on the proper use and timely distribution of funds in collaboration with the policy and procedure of the Department of Administration.

Chief Planner - Coordinate with Accounting to avoid duplicate submission of invoices. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Coordinate on the drawdown of funds BBMR and DOA for the reimbursement and Accounting to ensure that qualified vendors are paid as per the stipulations of the grant.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-18
Area: Cash Management
CFDA No.: 93.003
Program Name: National Bio-Terrorism Hospital Preparedness Program,
 2004 Grant Year Award

Criteria:

In accordance with OMB Circular A-133 cash management requirements, the time elapsed between the receipts of Federal funds to the actual disbursements by the recipient's organization should be minimized.

Condition:

GMHA did not have written procedures for Federal funds payment methods to ensure that the time elapsed between the receipt and disbursement of Federal funds is minimized. My compliance test procedures disclosed the following:

<u>Date of Receipt of Funds from Dept. of Admin.</u>	<u>Check Disbursement's Bank Posting Date</u>	<u>Reference: Check Number</u>	<u>Amount</u>	<u>Number of Days Elapsed</u>
06/30/06	07/31/06	105215	\$ 9,855.00	31 days
01/24/06	03/20/06	104633	34,389.20	55 days
01/24/06	02/06/06	104373	<u>60,000.00</u>	13 days
Total cost of noncompliance			<u>\$104,244.20</u>	

Cause:

There is a lack of internal control in the accounts payable department ensuring that Federal funds received are disbursed in accordance to the financial and program management requirement set-forth in the OMB A-133.

Effect:

GMHA is in noncompliance with applicable cash management requirements and may affect GMHA's ability to receive future Federal funds.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-18, continued
Area: Cash Management
CFDA No.: 93.003
Program Name: National Bio-Terrorism Hospital Preparedness Program,
2004 Grant Year Award

Recommendation:

The Chief Financial Officer should establish written internal controls and procedures ensuring the time elapsing between the receipt of Federal funds from pass-through entities and the pay-out of funds/or check disbursement is minimized.

Auditee Response and Corrective Action Plan:

The Hospital agrees with the auditor's recommendation that procedures must be written to minimize the time elapsed from receiving federal funds and the distribution of payment to the vendor. To address the issue, the Hospital will develop a policy similar to that of the Department of Administration's policy on the distribution of received funds.

Responsible parties:

General Accounting Supervisor - Responsible to work with Planning Department in the facilitation of drawdown process. Responsible to develop policy and procedures to address this finding. Ensure that the Hospital is in compliance with OMB A-133. Responsible to report to the Chief Financial Officer as to the progress of this finding.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-19
Area: Personnel Department-Testing Designated Positions (TDP) for Random Drug Tests
CFDA No.: All

Criteria:

Pursuant to the requirements of the Federal Drug-Free Workplace Act, GMHA is required to conduct random drug testing for employees involved in direct care of patients.

Condition:

During the year 2006, GMHA did not perform a random drug testing on employees in Testing Designated Positions (TDP's) involved in the direct care of patients. Further inquiry, the Personnel department is planning to implement the Random Drug Testing (RDT) program by end of April 2007.

Cause:

The TDP listings are currently being reviewed by Executive Management Council. The procurement of drug test services is currently on process.

Effect:

GMHA is not in compliance with the requirements of the Federal Drug-Free Workplace Act.

Prior Year Status:

The above condition was cited as finding in the fiscal year audits 2002 through 2005.

Recommendation:

GMHA should comply with the requirement of the Federal Drug Free Workplace Act over GMHA's TDP.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-19, continued
Area: Personnel Department-Testing Designated Positions (TDP) for Random Drug Tests
CFDA No.: All

Auditee Response and Corrective Action Plan:

The Hospital agrees with the finding and does not expect this to be a repeat finding next fiscal year. The Hospital plans to move aggressively forward in to be in full compliance with the federally mandated Drug Free Work Place program: The following is the action plan to implement/restart the Random testing.

1. Letter informing all employees of the restart of the Random Drug Testing was issued on May 21, 2007.
2. A mandatory "Drug Awareness" seminar will be held in June 2007 for all employees. This is being coordinated through the Hospital's Health Education department.
3. A volunteer sign-on for employees that are non-TDP listed. This would strengthen the workforce to meet the 100% Drug Free Workplace program. This form is provided by the Personnel Services Administrator and will be attached to the letter from the Hospital Administrator/CEO.
4. The Random Drug Testing is scheduled for full implementation on July 2007. This will be coordinated with the MIS department, the Personnel Services Administrator, and the designated laboratory services.

In the FY07 budget, funding was appropriated for this program. The Personnel Services Administrator has secured the services. The designated laboratory services and the Medical Review Officer (MRO) are outsourced and will be handled by an independent provider.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Finding No.: 06-19, continued
Area: Personnel Department-Testing Designated Positions (TDP) for Random
Drug Tests
CFDA No.: All

Auditee Response and Corrective Action Plan, continued:

Responsible parties:

Personnel Services Administrator - Development and implementation of the Hospital's RDT program. Responsible to ensure that the employees of the Hospital are fully educated and knowledgeable of the RDT program and that such is acknowledged in the employee's personnel file. Will also act as the contract administrator upon the selection of a qualified external firm to manage the RDT program. As contract administrator, will ensure that all supporting documentation is maintain and confidential. Responsible to ensure there will not be a repeat of this finding in FY2007. Responsible to report to the Hospital Administrator and BOT Personnel Committee as to the progress of this finding.

GUAM MEMORIAL HOSPITAL AUTHORITY

**SUMMARY SCHEDULE OF UNRESOLVED
PRIOR YEAR AUDIT FINDINGS**

FOR THE YEAR ENDED SEPTEMBER 30, 2006

GUAM MEMORIAL HOSPITAL AUTHORITY
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Summary Schedule of Unresolved Prior Year Audit Findings
Arising from Prior Year Single Audits
Year Ended September 30, 2006

2005 Audit Findings

Finding No.05-11 Property Management and Accounting Department-Physical Inventory of Fixed Assets and Fixed Assets Register Reconciliation

Condition: GMHA has not conducted a physical inventory of its fixed assets during the year. All surveyed-out equipment for fixed asset disposals have not reflected and removed from the AS-400 system. Based on our inquiries and observations, documentation of disposed equipment was forwarded to the Accounting department; however, responsibility was not designated for updating the fixed asset register. Furthermore, at September 30, 2005, GMHA did not perform a reconciliation of its fixed assets balances between the general ledger and the AS-400 fixed assets register system.

This condition is a repeated finding of fiscal year audits 2003 and 2004, noted as finding numbers 04-20, 04-25, 2003-21 and 2003-22.

Corrective Action & Current Response:

GMHA's corrective action and current response is documented in Finding No. 06-13, pages 152 through 153.

Auditor's

Response: Unresolved. A reiterative condition was cited in the current year audit as Finding No. 06-13.

Finding No.05-17 FEMA Hazard Mitigation Grant Program – Reporting CFDA No. 97.039

Condition: The quarterly progress reports for the period 04/01/05 to 06/30/05 was submitted on July 29, 2005 or 14 days late for the following projects:

- Project 07, GMHA's Generator Roll-up Doors and Baffle Walls
- Project 20, GMHA's Main Lobby and Front Stairwell Enclosure
- Project 27, GMHA's 2nd Floor Wall Hardening and Window Replacement

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Summary Schedule of Unresolved Prior Year Audit Findings
Arising from Prior Year Single Audits
Year Ended September 30, 2006

2005 Audit Findings, continued

Finding No.05-17 FEMA Hazard Mitigation Grant Program – Reporting
CFDA No. 97.039, continued

Corrective Action & Current Response:

The Hospital did not and has not received any delinquent notice from the federal grantor because of the late submission of the quarterly progress report. The Hospital was proactive in advising the grantor of the untimely resignation of the former BT coordinator.

The recruitment of a BT Coordinator is currently ongoing. Upon the successful recruitment of the qualified candidate, this employee will be responsible for the preparation and submission of quarterly reports. In the meantime, the department is mindful of the quarterly requirements and will remain compliant. The Hospital does not expect a repeat of this finding in FY 2007.

Auditor's
Response: This finding is resolved.

Finding No.05-18- Compact Impact 2005, Grant 570079 - Activities Allowed or
Unallowed; Allowable Costs/Cost Principles
CFDA No. 15.875

Condition: Based on review of federal expenditures, we noted that certain allowable charges of other grant program/project were also charged to the Compact Impact 2005, Federal Grant Number 570079 received on August 17, 2005 totaling \$3,005,000 for payment of pharmaceutical vendors. The supporting expenditures and corresponding invoices in which cost/charges were also claimed on other grants totaled \$192,678.66.

A questioned cost of \$192,678.66 exists as a result of this condition.

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Summary Schedule of Unresolved Prior Year Audit Findings
Arising from Prior Year Single Audits
Year Ended September 30, 2006

2005 Audit Findings, continued

Finding No.05-18- Compact Impact 2005, Grant 570079 - Activities Allowed or Unallowed; Allowable Costs/Cost Principles, continued
CFDA No. 15.875

Corrective Action & Current Response:

GMHA's corrective action and current response is documented in Finding No. 06-16, pages 160 through 161.

Auditor's

Response: This finding is unresolved. Additionally, a reiterative condition was cited in the current year audit as Finding No. 06-16.

Finding No. 05-19- Activities Allowed or Unallowed; Allowable Costs/Cost Principles
CFDA No. 15.875: Compact Impact 2005, Grant 570079

Condition: The supporting invoices for drawdown #1, project number COFA-2005-1, GR 570079 for check #57215 for \$1,500,000 received on June 16, 2005 from the Department of Administration (DOA) did not provide the actual breakdown of pharmaceutical vendors for which the funds received were actually paid for the designated invoices. GMHA was not able to substantiate \$1.5 million for amounts paid to under this project. The supporting invoices provided for review were excessive, and did not properly reflect the details of check payments made to vendors.

A questioned cost of \$1,500,000 exists as a result of the finding.

Corrective Action & Current Response:

GMHA's corrective action and current response is documented in Finding No. 06-16, pages 160 through 161.

Auditor's

Response: During the audit of fiscal year 2006, the Auditor was provided of the listing of the invoices and was accordingly examined. As a result, the previous questioned cost was reduced to \$879,499.56. Therefore, this finding considered unresolved. Additionally, a reiterative condition was cited in the current year audit as Finding No. 06-16.

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Summary Schedule of Unresolved Prior Year Audit Findings
Arising from Prior Year Single Audits
Year Ended September 30, 2006

2005 Audit Findings, continued

Finding No. 05-20 Accounting – Federal Grants Financial Management
CFDA No. : All

Condition: GMHA maintains a single commingled general ledger cost center for recording all federal grant expenditures. This practice makes it extremely difficult to determine federal funds expended for each grant program. At the end of each fiscal year, the Accounting Department scrutinizes and determines the cost center that the federal reimbursement was actually expended for.

Corrective Action & Current Response:

GMHA's corrective action and current response is documented in Finding No. 06-14, page 155.

Auditor's
Response: This finding is unresolved. Current year Finding No. 06-14 cited a repeated condition above.

Finding No. 05-21 - Personnel Department- Random Drug Testing
CFDA No.: All

Condition: GMHA has not performed a random drug testing on employees in Testing Designated Positions (TDP) involved in the direct care of patients required under the Federal Drug-Free Workplace Act.

Corrective Action & Current Response:

GMHA's corrective action and current response is documented in Finding No. 06-19, pages 170 through 171.

Auditor's
Response: The corrective action on this finding is currently taking place. The Random Drug Testing is scheduled for full implementation on July 2007.

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Summary Schedule of Unresolved Prior Year Audit Findings
Arising from Prior Year Single Audits
Year Ended September 30, 2006

2005 Audit Findings, continued

Finding No. 05-22- Cash Management

CFDA No. 15.875: Compact Impact 2005, Grant Numbers 570079 and 470089

Condition: Based on review of the above grant, certain drawdown disclosed pay-out or check disbursements dates with time elapsed between receipt of the federal funds to disbursement date/and or clearance to bank ranging from 6 -138 days.

Corrective Action & Current Response:

GMHA's corrective action and current response is documented in Finding Nos. 06-17 and 06-18, pages 165 through 166 and 168.

Auditor's

Response: This finding is considered unresolved. Additionally, the current year audit Finding Nos. 06-17 and 06-18 identified a repeated condition above.

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Summary Schedule of Unresolved Prior Year Audit Findings
Arising from Prior Year Single Audits
Year Ended September 30, 2006

2004 Audit Findings

Finding No.04-34—Procurement: Paid Invoices in Excess of Purchase Order

Condition: For three (3) or 6% of the fifty (50) purchase orders tested, payments made to vendors in excess authorized Purchase Orders for PO. NO. 24000016, 24000326 and 24000426, resulting in a question cost in the amount of \$102,407.07.

Corrective Action & Current Response:

The Board of Trustee passed a BOT 07-60 in March 2007 that mandates the Management of the Hospital to ensure findings involving financial statements question costs be resolved by May 2007. Following the passage of BOT 07-06 a coordination between Materials Management and the Accounting department developed in ensuring that payment of receipted purchase orders items are paid in accordance to the amount indicated on the purchase order and the invoice. In the event of a discrepancy, the issuing department is informed to process the appropriate budget modification. No payment is issued until the discrepancy has been resolved.

Auditor's
Response: The questioned costs related to this finding have not been resolved.

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Summary Schedule of Unresolved Prior Year Audit Findings
Arising from Prior Year Single Audits
Year Ended September 30, 2006

2004 Audit Findings, continued

Finding No.04-35—Procurement: Period of Availability

Condition: For two (2) or 4% of the fifty (50) purchase orders tested, vendor invoices were paid subsequent to the purchase order's expiration date on September 30, 2004, for PO.NO. 24001494 and 24001367 with a question cost of total amount of invoices paid \$104,052.81 and \$14,865.00, respectively.

Corrective Action & Current Response:

The Board of Trustee passed a BOT 07-60 in March 2007 that mandates the Management of the Hospital to ensure findings involving financial statements question costs be resolved by May 2007.

Following the passage of BOT 07-06, the Supply Management Administrator and the General Accounting Supervisor has coordinated their efforts to ensure that payments are rendered in accordance to the Hospital's procurement rules and regulations. In the event that payment is requested for an invoice whose purchase order has since expired, the outstanding amount shall remain on the Hospital's Accounts Payable. The affecting department will be duly informed so as to identify funds in the new fiscal year's budget. Upon the identification of funds and processing of the budget modification, payment will be rendered.

Auditor's
Response: The questioned costs related to this finding have not been resolved.

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SUMMARY OF UNRESOLVED QUESTIONED COSTS
SEPTEMBER 30, 2006

	<u>Questioned Costs</u>	<u>Costs Allowed</u>	<u>Costs Disallowed</u>	<u>Unresolved Questioned Costs</u>
Total unresolved questioned costs for fiscal year 2002	\$ 1,189,417	\$ -	\$ -	\$ 1,189,417
Total unresolved questioned costs for fiscal year 2003	867,038	-	-	867,038
Total unresolved questioned costs for fiscal year 2004	671,975	-	-	671,975
Total unresolved questioned costs for fiscal year 2005	1,692,678	620,500	-	1,072,178
Questioned costs for fiscal year ending 2006	<u>607,789</u>	<u>-</u>	<u>-</u>	<u>607,789</u>
Total unresolved questioned costs At September 30, 2006	<u>\$ 5,028,897</u>	<u>\$ 620,500</u>	<u>\$ -</u>	<u>\$ 4,408,397</u>