

GUAM MEMORIAL HOSPITAL AUTHORITY

**Financial Statements And Independent Auditor's Report
And Additional Information**

For The Years Ended September 30, 2005 and 2004

GUAM MEMORIAL HOSPITAL AUTHORITY
(a Public Corporation)

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September 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Guam Memorial Hospital Authority:

I have audited the accompanying statements of net assets of Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the GMHA's management. My responsibility is to express an opinion on these financial statements based on my audits.

Except as discussed in the following paragraphs, I conducted my audits 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 of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

The accounts receivable balances in the general ledger were not reconciled to the subsidiary ledgers as of September 30, 2005 and 2004, in which the variance was \$15,557,199 and \$15,557,893, respectively. I was also unable to determine the reasonableness and adequacy of allowance for bad debts and contractual adjustments in the amount of \$76,211,654 and \$66,764,749 at September 30, 2005 and 2004, respectively, due to the aforementioned variances and GMHA's inability to substantiate and provide a rational basis for such estimates. Additionally, the accounts receivable confirmations obtained from third-party payors showed significant differences from amounts recorded by GMHA, and reconciliations had not been performed to identify and reconcile such differences. Because of the inadequacy in the accounting records, I was unable to apply audit procedures to satisfy myself as to the adequacy of the accounts receivable, the allowance for bad debts and the contractual adjustments to determine that such account balances were fairly stated as of September 30, 2005 and 2004. Furthermore, in my judgment, the balances of accounts receivable and the related allowance for bad debts and contractual adjustments materially affect operating revenues and expenditures for the years ended September 30, 2005 and 2004.

The capital assets detailed control register of GMHA was not reconciled to the general ledger balances at September 30, 2005 and 2004. The movable equipment's fixed assets register control account as of September 30, 2005 and 2004, was overstated by \$1,718,953 and \$2,234,347, respectively, as compared to the general ledger, and the buildings' fixed assets register control account was understated by \$1,726,133 and \$5,451,679, respectively, as compared to the general ledger. Additionally, GMHA did not conduct a physical count of its fixed assets for the last four years. Because of the inadequacies of the accounting records, I was unable to form an opinion regarding the amounts at which capital assets, net of accumulated depreciation are recorded in the accompanying statements of net assets at September 30, 2005 and 2004 (stated at \$40,619,500 and \$42,192,771, respectively), or the amount of depreciation expense for the years ended (stated at \$3,494,095 and \$3,683,158, respectively).

I was not able to perform inventory observation until October 20, 2005. Therefore, I was not able to observe and substantiate the procedures in place to obtain a reasonable assurance that inventory was properly accounted for on all inventory locations of the GMHA. Additionally, the Pharmacy Department's physical count at September 30, 2005 was not properly valued and entered in the inventory accounting system of GMHA. The physical count of inventory located in the Pharmacy Department at September 30, 2005, should be valued and determined in conformity with accounting principles generally accepted in the United States of America. The effects on the accompanying financial statements of this departure are not reasonably determinable.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary; had the propriety of accounts receivable and the related allowance for bad debts and contractual adjustments been determinable; had I been able to observe the actual count during the cut-off period, and satisfy myself regarding proper valuation of inventory in the pharmacy department; and had propriety of capital assets net of accumulated depreciation and related depreciation expense been determinable, such financial statements present fairly, in all material respects, the financial position of GMHA as of September 30, 2005 and 2004, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 4 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of GMHA's management. I have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information (Schedule of Expenses) on pages 46 and 47 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 52 is presented for purposes of additional analysis, as required by the U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which is not a required part of the basic financial statements. These schedules are the responsibility of the management of Guam Memorial Hospital Authority. Such information has been subjected to the auditing procedures applied in my audits of the basic financial statements and, in my opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 23, 2006 on my consideration of GMHA's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audits.

The accompanying financial statements have been prepared assuming that the GMHA will continue as a going concern. As discussed in Note 13 to the financial statements, GMHA has incurred recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's recovery plans in regard to these matters are also described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

J. Scott Magliaro & Company

Hagåtña, Guam

September 23, 2006



GUAM MEMORIAL HOSPITAL AUTHORITY
Management's Discussion and Analysis
Year Ended September 30, 2005



Our discussion and analysis of Guam Memorial Hospital Authority's (GMHA) financial statements provide an overview of the hospital's financial activities for the fiscal year ended September 30, 2005. Please read management's discussion and analysis in conjunction with GMHA's financial statements beginning on pages 11 through 14.

Basis of Accounting

GMHA is an autonomous component unit of the Government of Guam. It is a special-purpose government engaged only in business-type activities which uses the accrual basis of accounting for financial statement presentation. The accrual basis of accounting reports income when earned and expenses when incurred. Under the accrual basis of accounting, GMHA is required to make prudent estimates against revenues that are recorded but may not be received, recorded as bad debt expense and contractual adjustments.

Annual Report Presentation

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34.

BASIC FINANCIAL STATEMENTS

Independent Auditor's Report

The Independent Auditor's Report of Financial Statements as presented provides GMHA with a qualified opinion. The qualified opinion was due to the following:

- Material differences in accounts receivable and the lack of reconciliations of accounts receivable subsidiary ledgers to the accounts receivable control account.
- Lack of inventory controls in the Pharmacy and Facilities departments.
- Lack of reconciliation of the capital assets detail control register to the general ledger.

GMHA received the qualified opinion on internal control due to the lack of compliance with Office of Management and Budget (OMB) Circular A-133 procurement requirements.

Our discussion and analysis of Guam Memorial Hospital Authority provides a financial overview of the Hospital's financial activities for the fiscal years ended September 30, 2005, 2004 and 2003.

GMHA's financial statement consists of three statements: Statements of Net Assets (Balance Sheet), Statements of Revenues, Expenses and Changes in Net Assets (Income Statement) and Statements of Cash Flows.



GUAM MEMORIAL HOSPITAL AUTHORITY
Management's Discussion and Analysis
Year Ended September 30, 2005



BASIC FINANCIAL STATEMENTS, CONTINUED

The Statements of Net Assets (Balance Sheet) and Statement of Revenues, Expenses and Changes in Net Assets (Income Statement) report information about GMHA's resources and its activities taken as a whole. These statements include all restricted and unrestricted assets and all liabilities using the accrual method of accounting. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report GMHA's net assets and changes in these assets. A net asset is the difference between assets and liabilities and is a measure of the entity's financial position. Over time, increases and decreases in GMHA's net assets is an indicator of whether the facility's financial position is improving or deteriorating. Readers of this report should also consider nonfinancial factors, such as changes in patient base and measures of the quality of services provided to the community and local economic factors.

The Statement of Cash Flows, the final statement, reports cash received, cash payments and net changes in cash resulting from operating, investing and financing activities. Information contained in the Statement of Cash Flows comprises sources of cash, uses of cash, and the change in the cash balance during the reporting period.

Statements of Net Assets (Balance Sheet)

GMHA's net assets decreased 2.54 percent in fiscal year 2004 and there was an increase in net assets in fiscal year 2005 of less than one percent.

GUAM MEMORIAL HOSPITAL AUTHORITY
Statements of Net Assets
September 30, 2005, 2004 and 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>			
Current assets	\$ 33,480,430	\$ 31,248,725	\$ 34,804,013
Capital assets, net	<u>40,619,500</u>	<u>42,192,771</u>	<u>43,640,783</u>
Total assets	<u>\$ 74,099,930</u>	<u>\$ 73,441,496</u>	<u>\$ 78,444,796</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities	\$ 27,598,181	\$ 27,289,345	\$ 30,287,404
Long-term liabilities	4,895,801	4,646,236	5,568,909
Net assets	<u>41,605,948</u>	<u>41,505,915</u>	<u>42,588,483</u>
Total liabilities and net assets	<u>\$ 74,099,930</u>	<u>\$ 73,441,496</u>	<u>\$ 78,444,796</u>



GUAM MEMORIAL HOSPITAL AUTHORITY
Management's Discussion and Analysis
Year Ended September 30, 2005



BASIC FINANCIAL STATEMENTS, CONTINUED

Statements of Net Assets (Balance Sheet), Continued

GMHA's total net assets increased by \$100,033 for the 2005 fiscal year as compared to a decrease of \$1,082,568 in net assets for the previous fiscal year. The increase in net assets for fiscal year 2005 is due to net increases in Total Assets (Cash, Patient Accounts Receivable, Inventories and Prepaid Expenses) of \$658,434 less net increases in Current and Non-current Liabilities (Retirement Fund Payable, Accrued Payroll Benefits and Compensated Absences) of \$558,401. Patient accounts receivable, net of allowance bad debts and contractual adjustments of \$27,223,963 increased by \$994,028 in fiscal year 2005 compared to the previous year. The increase in net patient accounts receivable is the result of an increase in receivable Self-Pay Patients. Many of the GMHA's Self-Pay patients do not have the ability to pay for the care received at the hospital. GMHA exhaust all avenues available, including all legal means, to secure reimbursement from all Self-Pay Patients.

Statements of Revenues, Expenses and Changes in Net Assets (Income Statement)

GUAM MEMORIAL HOSPITAL AUTHORITY
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005, 2004 and 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 57,688,765	\$56,926,390	\$ 56,051,075
Operating expenses	<u>75,764,442</u>	<u>67,896,478</u>	<u>67,408,403</u>
Operating loss	(18,075,677)	(10,970,088)	(11,357,328)
Non-operating revenues (expenses), net	<u>10,099,505</u>	<u>5,293,543</u>	<u>1,473,297</u>
Excess of expenses over revenues	(7,976,172)	(5,676,545)	(9,884,031)
Federal Awards capital grants and contributions	<u>8,076,205</u>	<u>4,593,977</u>	<u>1,113,669</u>
Decrease in assets	100,033	(1,082,568)	(8,770,362)
Net assets beginning of the year	<u>41,505,915</u>	<u>42,588,483</u>	<u>51,358,845</u>
Net assets end of the year	<u>\$ 41,605,948</u>	<u>\$41,505,915</u>	<u>\$ 42,588,483</u>



GUAM MEMORIAL HOSPITAL AUTHORITY
Management's Discussion and Analysis
Year Ended September 30, 2005



BASIC FINANCIAL STATEMENTS, CONTINUED

**Statements of Revenues, Expenses and Changes in Net Assets (Income Statement),
Continued**

Total Operating Revenues increased in fiscal year 2005 when compared to the previous fiscal year. Net Patient Services Revenues increased \$827,647 due to a marginal increase in the number of patient seen at the hospital. For fiscal years 2005 and 2004 Bad Debt expense is a component of net patient revenues. In previous years Bad Debt was included as a separate line item under operating expenses. For hospital accounting under Generally Accepted Accounting Principles (GAAP) the American Institute of Certified Public Accountants prescribes using Bad Debt Expense in the calculation of Net Patient receivables for financial statement presentation.

Total Operating Expenses increased \$7,867,964 in fiscal year 2005 as compared to the previous fiscal. Operating expenses increased in the areas of Nursing, Ancillary, and Administration for the 2005 fiscal year. These increases were the result of staff shortages in the nursing and ancillary divisions, resulting to the need for overtime work and engaging a staffing agency to sustain quality patient care, legal expenses, and back pay for employees inappropriately furloughed in the 2003 fiscal year. The Administrative Division increased the number of contracts for security and housekeeping staff in fiscal year 2005.

Total Non-Operating Revenues, net of non-operating expenses in fiscal year 2005 increased by \$4,805,962 due to increase in transfers from the Government of Guam compared to the previous fiscal year. In fiscal year 2005 the Guam Legislature had an emergency session to address the hospital's cash short fall which resulted in the hospital receiving \$8,005,000 (Guam Telephone Authority sale of \$5,000,000 and Compact-Impact of \$3,005,000) additional funds to cover operating expenses.

Statements of Cash Flows

The statements of cash flows report cash receipts, cash disbursements and net changes from operations, non-capital financing activities, capital financing activities and the reconciliation of operating loss to net cash provided by operating activities. Changes in cash flows are consistent with operating losses and non-operating revenues and expenses referenced above in the discussions of Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets.



GUAM MEMORIAL HOSPITAL AUTHORITY
Management's Discussion and Analysis
Year Ended September 30, 2005



BASIC FINANCIAL STATEMENTS, CONTINUED

Statements of Cash Flows, Continued

	2005	2004	2003
Cash flows used in operating activities	(\$16,170,945)	(\$ 7,468,503)	(\$ 930,437)
Cash flows from non-capital financing activities:	9,556,661	4,756,150	516,853
Cash flows from capital and related financing activities	<u>7,390,381</u>	<u>1,672,353</u>	<u>(872,172)</u>
Net increase (decrease) in cash	776,097	(1,040,000)	(1,285,756)
Cash at beginning of year	<u>631,237</u>	<u>1,671,237</u>	<u>2,956,993</u>
Cash at end of year	<u>\$ 1,407,334</u>	<u>\$ 631,237</u>	<u>\$ 1,671,237</u>
Reconciliation of operating loss to net cash provided by operating activities			
Operating loss	(\$18,075,677)	(\$10,970,088)	(\$11,357,328)
Adjustments to reconcile operating loss net cash provided by operating activities:			
Depreciation	3,494,095	3,683,158	3,707,209
Bad debts	12,621,157	12,495,905	8,947,165
Loss from disposal of equipment	-	-	4,249
(Increase) decrease in assets:	(14,233,740)	(8,560,220)	(5,280,331)
(Increase) decrease in liabilities:	<u>23,220</u>	<u>(4,117,258)</u>	<u>3,048,599</u>
Net cash used in operating activities	<u>(\$16,170,945)</u>	<u>(\$ 7,468,503)</u>	<u>\$ 1,671,237</u>



GUAM MEMORIAL HOSPITAL AUTHORITY
Management's Discussion and Analysis
Year Ended September 30, 2005



Currently Known Facts

The management of the Hospital has undergone various changes in management, which included the hiring of a CEO/Administrator and Associate Administrator of Operations, which occurred in April 2005.

In March 2006, GMHA began working with the USDA Office of Insular Affairs and the USDA Graduate School (Consultant) to develop a Financial Management Improvement Plan (FMIP). GMHA's Financial Management Improvement Plan will soon be completed and will be posted on the GMHA's website. The Financial Management Improvement Plan involves the assignment of a full-time Project Manager to ensure that all staff persons complete assigned tasks identified by the plan. A Core Group consisting of current GMHA staff members worked with the Board of Trustees, Executive Management Council (EMC) and all other pertinent Staff Member to formulate the Financial Management Improvement Plan. The Financial Management Improvement Plan involves the process of:

- Reviewing previous plans, reports and financial analysis
- A strategic planning session to identify major goals
- Develop detail action plans for all goals identified
- Communicate Financial Management Improvement Plan with all stakeholders
- Implement the Plan

The role of the USDA Consultants is to aid the GMHA staff in the development and organization of the Financial Management Improvement Plan. Therefore, all input for the Financial Management Improvement Plan is “**owned**” by the management and staff of GMHA.

The Financial Management Improvement Plan process began with a letter from Governor Camacho to the USDA Office of Insular Affairs requesting Office of Insular Affairs assistance for the GMHA. The Office of the Public Auditor worked in concert with Governor Camacho's office to initiate the Financial Management Improvement Plan Process.

GMHA included the cost of the Financial Management Improvement Plan in the Fiscal Year 2006 Budget. Under normal circumstances, Financial Management Improvement Plans are federally funded. GMHA's Board of Trustees and Executive Management Council felt the need to go forward with the process and the decision was made to use hospital funds to fund the Financial Management Improvement Plan. In June 2006, GMHA received notice of federal funds to reimburse the hospital \$250,000 for the Financial Management Improvement Plan.

The USDA Office of Insular Affairs and the USDA Graduate School (Consultant) has previously provided assistance to Guam's Departments of Revenue and Tax, Administration and Public School System.



GUAM MEMORIAL HOSPITAL AUTHORITY
Management’s Discussion and Analysis
Year Ended September 30, 2005



Currently Known Facts, Continued

GMHA’s Board of Trustees issued a Request for Proposal to outsource the management of the Hospital to a private hospital management company or partner GMHA with a hospital as required by Public Law 28-68. The “Request for Proposal” was issued March 3, 2006 and closed on April 4, 2006. A request was received from one of the potential offerors for an extension to submit their proposal. The GMHA Board of Trustees approved an extension to May 4, 2006.

Three responses were received by May 4, 2006 and the Board of Trustees selected a Evaluation Committee composed of community leaders from the business, education, government and medical communities. The Evaluation Committee reported to the GMHA Board of Trustees that none of the respondents met criteria contained in the Request for Proposal. The proposal was considered closed and respondents to the proposal have 14 days, from date of notice of non-selection, to protest the results of the evaluation committee.

Prior Year’s Audit Findings

Previous year’s Audit findings fall in to the categories of complete, on-going and not complete. The *on-going* category involves perpetual policies and or procedures that are a part of the fiscal staff’s daily routine. Examples of items in this category are daily reconciliation of cash, monthly balance sheet account reconciliation and routine physical inventory counts.

Complete	24
On-going	17
Not Complete	<u>4</u>
Total	<u><u>45</u></u>

Contacting GMHA’s Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of GMHA’s finances and demonstrate GMHA’s accountability for the money it collects. If you have questions about this report or need additional information, please contact GMHA CEO/Hospital Administrator Office at 647-2418 or the GMHA Chief Financial Officer’s Office at 647-2934 or 647-2190.

GUAM MEMORIAL HOSPITAL AUTHORITY

Statements of Net Assets
September 30, 2005 and 2004

	<u>ASSETS</u>	
	<u>2005</u>	<u>2004</u>
Current assets:		
Cash	\$ 1,407,334	\$ 631,237
Patient accounts receivable, net	27,223,963	26,229,935
Other receivables	2,357,409	2,636,230
Inventories	1,798,862	1,502,119
Prepaid expenses	<u>692,862</u>	<u>249,204</u>
Total current assets	32,073,096	31,248,725
Capital assets, net	<u>40,619,500</u>	<u>42,192,771</u>
Total assets	<u>\$ 72,692,596</u>	<u>\$ 73,441,496</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities:		
Current portion of long-term debt	\$ 7,310,546	\$ 7,590,661
Accounts payable - trade	3,577,648	5,764,919
Accounts payable - Retirement Fund	10,811,563	10,003,860
Accrued payroll and benefits	1,667,227	1,357,378
Current portion of accrued annual leave	1,511,805	1,323,362
Due to United Government Service	1,264,909	408,446
Deferred revenue	1,078,025	-
Other accrued liabilities	<u>376,458</u>	<u>840,719</u>
Total current liabilities	27,598,181	27,289,345
Deferred retirement fund contributions	2,634,704	2,634,704
Long-term portion of accrued annual leave	1,092,750	1,127,309
Accrued sick leave	<u>1,168,347</u>	<u>884,223</u>
Total long-term liabilities	4,895,801	4,646,236
Total liabilities	<u>32,493,982</u>	<u>31,935,581</u>
Net assets:		
Invested in capital assets net of related debt	40,619,500	42,192,771
Unrestricted	<u>986,448</u>	<u>(686,856)</u>
Total net assets	<u>41,605,948</u>	<u>41,505,915</u>
Total liabilities and net assets	<u>\$ 74,099,930</u>	<u>\$ 73,441,496</u>

Commitments and contingencies

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Net patient service revenue	57,134,243	56,306,596
Other operating revenues:		
Food sales, cafeteria	436,228	471,209
Other	<u>118,294</u>	<u>148,585</u>
Total operating revenues	<u>57,688,765</u>	<u>56,926,390</u>
Operating expenses:		
Nursing	31,576,082	27,748,518
Ancillary	18,635,002	15,589,859
General services	8,464,551	8,510,673
Administrative support	7,221,168	7,134,608
Administration	4,239,572	2,676,420
Depreciation	3,494,095	3,683,158
Medical staff	<u>2,133,972</u>	<u>2,553,242</u>
Total operating expenses	<u>75,764,442</u>	<u>67,896,478</u>
Operating loss	<u>(18,075,677)</u>	<u>(10,970,088)</u>
Non-operating revenues (expenses):		
Transfers from the Government of Guam	10,391,666	5,109,622
Contributions	71,762	140,683
Insurance claim	-	733,920
FEMA contributions	-	790,898
Interest and penalties	<u>(363,923)</u>	<u>(1,481,580)</u>
Total non-operating revenues	<u>10,099,505</u>	<u>5,293,543</u>
Excess of expenses over revenues before capital grants and contributions	<u>(7,976,172)</u>	<u>(5,676,545)</u>
Federal capital grants and contributions	<u>8,076,205</u>	<u>4,593,977</u>
Increase (decrease) in net assets	100,033	(1,082,568)
Net assets beginning of the year	<u>41,505,915</u>	<u>42,588,483</u>
Net assets end of the year	<u>\$ 41,605,948</u>	<u>\$ 41,505,915</u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 56,140,214	\$ 60,663,948
Payments to suppliers and contractors	(29,074,588)	(23,024,442)
Payments to employees	(44,647,557)	(41,932,482)
Third party payor settlements (Medicare Program)	856,464	(3,795,321)
Other receipts and payments, net	<u>554,522</u>	<u>619,794</u>
Net cash used in operating activities	<u>(16,170,945)</u>	<u>(7,468,503)</u>
Cash flows from non-capital financing activities:		
Transfers from the Government of Guam	10,391,666	5,109,622
Repayment of notes payable, net of proceeds	(600,032)	(796,574)
Interest paid	(306,735)	(488,479)
Contributions from FEMA and non-profit organizations	<u>71,762</u>	<u>931,581</u>
Net cash provided by non-capital financing activities	<u>9,556,661</u>	<u>4,756,150</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,920,823)	(2,235,146)
Decrease (increase) in amounts due from grantor agency and other receivables	504,155	(689,554)
Capital grants and contributions	8,076,205	4,593,977
Proceeds from insurance claim	<u>730,844</u>	<u>3,076</u>
Net cash used in capital and related financing activities	<u>7,390,381</u>	<u>1,672,353</u>
Net increase (decrease) in cash	776,097	(1,040,000)
Cash at beginning of year	<u>631,237</u>	<u>1,671,237</u>
Cash at end of year	<u>\$ 1,407,334</u>	<u>\$ 631,237</u>
Cash at end of year:		
Unrestricted	<u>\$ 1,407,334</u>	<u>\$ 631,327</u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 2005 and 2004

	2005	2004
Reconciliation of operating loss to net cash provided		
by operating activities:		
Operating loss	\$ (18,075,677)	\$ (10,970,088)
Adjustments to reconcile operating loss to net cash provided		
by operating activities:		
Depreciation	3,494,095	3,683,158
Bad debts	12,621,157	12,495,905
(Increase) decrease in assets:		
Patient accounts receivable	(13,615,186)	(8,138,554)
Other receivables	121,848	(311,611)
Inventories	(296,744)	(148,439)
Prepaid expenses	(443,658)	38,384
Increase (decrease) in liabilities:		
Accounts payable	(1,116,841)	(584,665)
Accrued payroll and employees benefits	309,849	295,668
Accrued annual leave and sick leave	438,009	(327,511)
Estimated third party payor settlements (Medicare)	856,464	(3,795,321)
Other accrued liabilities	(464,261)	294,571
Net cash used in operating activities	\$ (16,170,945)	\$ (7,468,503)

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies

Reporting Entity

The Guam Memorial Hospital Authority (GMHA) was created on July 26, 1977 under Public Law 14-29 as an autonomous agency of the Government of Guam. The law provides for control of GMHA to be vested with the Board of Trustees of the Hospital consisting of nine (9) members, all of whom are appointed by the Governor of Guam with the advice and consent of the Guam Legislature. A Trustee shall serve a term of five years. GMHA may not arrange loan without the consent and approval of the Governor of Guam. For this reason, the GMHA is considered to be a component unit of the Government of Guam and is included as a discretely presented component unit in the basic financial statements of the Government of Guam.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus, Basis of Presentation and Basis of Accounting

GMHA uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*," as amended, GMHA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

During 2002, GMHA implemented GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*," GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government*," GASB Statement No. 36, "*Recipient Reporting for Certain Shared Nonexchange Revenues*," GASB Statement No. 37, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*," GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*," and GASB Interpretation No. 6 "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*."

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies

Measurement Focus, Basis of Presentation and Basis of Accounting, Continued

GASB Statement Nos. 33 and 36 establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or modified accrual basis of accounting is required. For revenue recognition to occur on the modified accrual basis, however, the criteria established for accrual basis revenue recognition must be met and the revenue must be available.

New Accounting Standards

GMHA implemented GASB Statement No.40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No.3) and GASB Statement No.42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*" for the year ended September 30, 2005. Implementation of GASB 40 required significant changes in disclosures for investments that have fair values that may be sensitive to changes in interest rates. Management of GMHA does not believe that the implementation of this Statement will have a material effect on its financial statements.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The provisions for this Statement are effective for reporting periods beginning after December 15, 2004. GMHA does not believe that the implementation of this Statement will have a material effect on its financial statements.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting for other postemployment benefit plans by State and Local governments. The provisions of GASB Statement No. 43 are effective for reporting periods beginning after December 15, 2007. Management of GMHA does not believe that the implementation of this Statement will have a material effect on its financial statements.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment to NCGA Statement 1. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and further adds information from the new financial reporting model for State and Local governments required by GASB Statement No. 34. The provisions of this Statement are effective for reporting periods beginning after June 15, 2005. Management of GMHA does not believe that the implementation of this Statement will have a material effect on its financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies

Measurement Focus, Basis of Presentation and Basis of Accounting, Continued

New Accounting Standards, continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of State and Local governmental employers. The provisions of this Statement are effective for reporting periods beginning after December 15, 2008. Management of GMHA does not believe that the implementation of this Statement will have a material effect on its financial statements.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes guidance for State and Local governmental employer on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for reporting periods beginning after June 15, 2005. Management of GMHA does not believe that the implementation of this Statement will have a material effect on its financial statements.

Accounting Standards Not Yet Adopted

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, which will be effective for the GMHA beginning with its fiscal year ending September 30, 2007. The provisions of this Statement clarifies that a legally enforceable enabling legislation is on that a party external to a government, such as citizens, public interest groups or the judiciary, can compel a government to honor. GMHA's management has not yet determined the effect this Statement will have on the Hospital's financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

Cash

For purposes of the statements of net assets and the statements of cash flows, GMHA considers cash to be cash on hand and cash on deposits in banks.

Patient Accounts Receivable

Patient accounts receivable are primarily due from individuals and businesses located within the Territory of Guam, the Federated States of Micronesia and from Medicare.

The allowance for uncollectible accounts receivable is determined based on management estimates. While management believes the amount is adequate, the ultimate uncollectible balance may differ from the amounts provided. At September 30, 2005 and 2004, GMHA's general ledger balances of patient's accounts receivable were not reconciled to patient's subsidiary ledgers in which the variance was \$15.6 million in each year. GMHA is in the process of reviewing and reconciling the differences. Therefore, significant adjustments are expected to occur in the near future upon completion of the analysis.

Other Receivables

Other receivables are primarily due from the Government of Guam and its component units. Amounts due from the Government of Guam are recorded when reimbursable expenditures from federal grant awards are incurred or when supplemental appropriations are measurable and are scheduled to be collected in the subsequent year. Other operating services provided to the Government Guam's component units are also recorded in Other receivable.

Inventories

Inventories are recorded at the lower of cost or market value, with cost being derived through an average historical cost.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

Capital Assets

Building and land improvements acquired prior to June 30, 1978, are recorded at their appraised values as of that date. Subsequent additions are primarily valued at cost. GMHA generally capitalize all expenditures of property and equipment that equal or exceed \$500 with a minimum useful life of at least three years. Major renewals and betterments are charged to the property accounts, while maintenance and repairs which do not improve or extend the life of an asset are charged to expense. Donated capital assets are recorded at fair market value at the date of donation. Depreciation is provided over the estimated useful lives of the respective assets through use of the straight-line method. Useful lives for capital assets are based on the American Hospital Association Guide "Estimated Useful Lives of Depreciable Hospital Assets" as follows:

Building and land improvements	10-40 years
Equipment	3-20 years

Net Assets

Net assets of GMHA are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Net assets* are reported as *restricted* when constraints are imposed by third parties or enabling legislation. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

Operating Revenues and Expenses

GMHA's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is GMHA's principal activity. Nonexchange revenues, supplemental subsidies from the Government of Guam, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. At September 30, 2005 and 2004, GMHA federal award reimbursements received (pass-through from the Government of Guam) comprise both capital awards and financial resources for specific purposes and such were reported after the nonoperating revenues. Operating expenses are expenses incurred to provide health care services other than financing costs.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Federal Grant Award Revenues and Contributions

From time-to-time, GMHA receives federal grant awards and contributions from the Federal Emergency Management Administration (FEMA) and Compact of Free Associations through the Government of Guam as well as contributions from individuals, non-profit, and private organizations. Revenues from federal awards and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Federal awards and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital replacement and expansions are reported after non-operating revenues and expenses.

Compensated Absences

For fiscal years 2005 and 2004, employees were credited vacation leave at rates of 104 and 160 hours depending upon their lengths of service with GMHA. During the year ended September 30, 2003, Public Law 27-05 was implemented, reducing the maximum accumulation amount of annual leave to 320 hours except for registered nurses which the accumulation of annual leave remains unchanged. Any annual leave earned by eligible employees in excess of 320 hours but not to exceed 100 hours as of February 28, 2003 shall be credited to the employee's sick leave. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess 320 hours as of February 28, 2003 may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. GMHA recognizes all vested vacation leave benefits accrued by its employees as a long-term liability in the statements of net assets. Amounts to be paid during the next fiscal year based on management's estimate are reported as current. When employees use vacation leave benefits, the liability account is reduced accordingly. At September 30, 2005 and 2004, vacation leave taken was \$1,496,635 and \$1,572,494, respectively.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

Compensated Absences, Continued

Except for the provision under Public Law 26-86, as disclosed in the following paragraph, GMHA records cost of sick leave in accordance to the policy of the Government of Guam, that is, when leave is actually taken and a liability is actually incurred. Sick leave is paid only when an employee is compelled to be absent from duty on account of illness or injury, medical treatment or related-family death.

Pursuant to Public Law 26-86, upon the retirement of the employees under the Defined Contribution Retirement System (DCRS) plan, such employees will be paid by its employer, a lump sum payment of their unused sick leave hours up to one-half of their accumulated sick leave. At September 30, 2005 and 2004, unused sick leave for members under the DCRS plan totaled \$2,336,694 and \$1,768,446, respectively, of which one-half or \$1,168,347 and \$884,223, respectively, was accrued as long-term liability in the accompanying statements of net assets.

Deferred Revenue

GMHA reports deferred revenues on the Statement of Net Assets. Deferred revenues arise when monies received or revenues accrued which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting. In the subsequent period, when it has legal claim to the resources, the liability for deferred revenue is removed from the Statement of Net Assets, and the revenue is recognized.

Risk Management

GMHA is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. GMHA is self-insured for medical malpractice claims and judgments, as discussed in note 10.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(2) Cash and Investments

GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB No. 3)* addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB No. 40 also requires disclosure of formal policies related to deposit and investment risks.

Deposits:

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the GMHA or its agent in the GMHA's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the GMHA's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in GMHA's name and noncollateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GMHA's deposits may not be recovered. Such deposits are not covered by depository insurance and are either uncollateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GMHA does not have a deposit policy for custodial credit risk.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(2) Cash and Investments, Continued

At September 30, 2005 and 2004, GMHA had bank balances as follows:

	<u>2005</u>	<u>2004</u>
Insured Federal Deposit Insurance Corporation (FDIC)	\$ 113,480	\$ 113,442
Uninsured, uncollateralized or collateralized by securities held by the pledging institution or by its trust department or agent in other than the GMHA'S name	<u>2,066,786</u>	<u>916,046</u>
Total	<u>\$ 2,180,266</u>	<u>\$ 1,029,488</u>
Carrying amount	<u>\$ 1,400,134</u>	<u>\$ 624,037</u>

Investments:

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Authority's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in Authority's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

At September 30, 2005 and 2004, the GMHA did not have any investments subject to GASB Statement No. 40.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(3) Capital Assets

A summary of capital asset additions, retirements, and transfer balances for the years ended September 30, 2005 and 2004 is as follows:

<u>For Fiscal Year 2005:</u>	<u>Beginning Balance October 1, 2004</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2005</u>
<u>Capital assets, being depreciated:</u>				
Building and land improvements	\$ 54,885,257	\$ 1,640,175	\$ -	\$ 56,525,432
Long-term care facility	10,660,987	-	-	10,660,987
Movable equipments	<u>24,054,428</u>	<u>934,744</u>	<u>-</u>	<u>24,989,172</u>
Total capital assets	89,600,672	2,574,919	-	92,175,591
Less: Accumulated depreciation and amortization	<u>48,837,096</u>	<u>3,494,095</u>	<u>-</u>	<u>52,331,191</u>
Total net capital assets being depreciated	<u>40,763,576</u>	<u>919,176</u>	<u>-</u>	<u>39,844,400</u>
<u>Capital assets, not being depreciated:</u>				
Construction in progress	<u>1,429,195</u>	<u>896,454</u>	<u>(1,550,549)</u>	<u>775,100</u>
Total capital assets, net	<u>\$ 42,192,771</u>	<u>(\$ 22,722)</u>	<u>(\$ 1,550,549)</u>	<u>\$ 40,619,500</u>

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(3) Capital Assets, Continued

<u>For Fiscal Year 2004:</u>	<u>Beginning Balance October 1, 2003</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2004</u>
<u>Capital assets, being depreciated:</u>				
Building and land improvements	\$ 53,932,735	\$ 952,522	\$ -	\$ 54,885,257
Long-term care facility	10,660,987	-	-	10,660,987
Movable equipments	<u>23,094,494</u>	<u>959,934</u>	<u>-</u>	<u>24,054,428</u>
Total capital assets	87,688,216	1,912,456	-	89,600,672
Less: Accumulated depreciation and amortization	<u>45,153,938</u>	<u>3,683,158</u>	<u>-</u>	<u>48,837,096</u>
Total net capital assets being depreciated	<u>42,534,278</u>	<u>(1,770,702)</u>	<u>-</u>	<u>40,763,576</u>
<u>Capital assets, not being depreciated:</u>				
Construction in progress	<u>1,106,505</u>	<u>1,275,212</u>	<u>(952,522)</u>	<u>1,429,195</u>
Total capital assets, net	<u>\$ 43,640,783</u>	<u>(\$ 495,490)</u>	<u>(\$ 952,522)</u>	<u>\$ 42,192,771</u>

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(4) Accounts Receivable and Payable

GMHA's patient accounts receivable and accounts payable reported as current assets and liabilities at September 30, 2005 and 2004 consisted of the following:

Patient Accounts Receivable

	2005	2004
Current Receivable-Subsidiary Ledger:		
Self-pay patients	\$ 32,879,070	\$ 22,521,210
Medically Indigent Program	14,914,245	10,905,914
Medicaid Assistance Program	11,265,920	9,626,599
Local insurance carriers	8,348,429	6,666,383
Medicare	5,434,519	6,613,431
Other third-party payor	3,538,948	3,548,962
	76,381,131	59,882,499
Bad Debt Receivable (Account Referrals):		
Collection agencies and other	11,426,472	36,127,447
Department of Revenue and Taxation	21,702,247	22,202,241
	33,128,719	58,329,688
Total per Subsidiary Ledger	109,509,850	118,212,187
Unaccounted variance to the general ledger	(15,557,199)	(15,557,892)
Patient receivables recorded in the General Ledger (Referral to Dept. of Revenue and Taxation)	247,852	405,091
Accounts Receivable-Suspense, net	(211,791)	(617,798)
Total per general ledger	93,988,712	102,441,588
Less: Allowance for bad debts	(50,228,115)	(55,869,062)
Allowance for contractual adjustments	(16,536,634)	(20,342,591)
Total allowance for bad debts and contractual adjustments	(66,764,749)	(76,211,653)
Patient accounts receivable, net	\$ 27,223,963	\$ 26,229,935

At September 30, 2005 and 2004, the variance between the general ledger and subsidiary ledger of \$15,557,199 and \$15,557,892, respectively, was not reconciled.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(4) Accounts Receivable and Payable, Continued

Patient Accounts Receivable, Continued

At September 30, 2005 and subsequently as of November 2005, GMHA recovered a total of \$2,119,744 and \$810,695, respectively, of its bad debts accounts that had been referred to collection agencies. The amount recovered was relevant to the Government of Guam \$4 million appropriation under the Public Law (PL) 27-106 (2005 Budget Act) to the Department of Public Health and Social Services (DPHSS) for GMHA medicals services billed through Medicaid and Medically Indigent Program. Pursuant to PL 27-106, GMHA is required to submit its vendor invoices to DPHSS for medical services rendered to uninsured residents of Guam, whose accounts have been referred to collection agencies, or officially deemed bad debts in the books of GMHA. Accordingly, the amount collected pursuant to this appropriation was applied to the bad debts receivable of GMHA.

Accounts Payable- trade

	<u>2005</u>	<u>2004</u>
Payable to vendors and house patient doctors	\$ 2,938,402	\$ 5,091,087
Government of Guam Agencies:		
Guam Water Works	38,035	88,197
Guam Power Authority	594,439	584,620
Other	<u>6,772</u>	<u>1,015</u>
	<u>\$ 3,577,648</u>	<u>\$ 5,764,919</u>

Accounts payable-Retirement Fund

At September 30, 2005, GMHA had an aggregate payable to the Government of Guam Retirement Fund (GGRF) in accounts payable and notes payable totaling \$17,340,077. The amount due consist of employer and member contributions under the Defined Benefit Plan (DB), interest and penalties, and supplemental annuity benefits for retirees of GMHA listed as of September 30, 2001. The unpaid employer and members contributions reported in the accounts payable comprises payroll periods from fiscal years ended September 1988 through September 30, 2005. GMHA is continually assessed interest and penalties on these unpaid contributions in accordance with Section 8137(c) of 4 Guam Code Annotated Chapter 8, Retirement of Public Employees.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(4) Accounts Receivable and Payable, Continued

Accounts payable-Retirement Fund, Continued

At September 30, 2005 and 2004, the accounts payable-Retirement Fund in the current liabilities is as follows:

	2005	2004
Unpaid employer and member contributions of prior years (DB Plan)	\$ 7,479,892	\$ 7,823,304
Employer and member contribution of current fiscal year (DB and DCRS Plan)	152,770	282,028
Supplemental/COLA Annuities for Retirees	1,507,004	-
Other	36,095	-
Interest and penalties	1,635,802	1,898,528
Total	\$10,811,563	\$10,003,860

During the year ended September 30, 2005, GMHA recorded a liability due to GGRF in the amount of \$1,507,004. The recognition of this obligation was pursuant to Fiscal Year 2002 Budget Act (PL 26-35) and as amended by Public Law 26-49. GMHA was among various autonomous agencies required to remit certain supplemental benefits to its employees who retired prior to October 1, 1995 and COLA benefits for those employees who retired prior to October 1, 2001.

In June 2005, the Government of Guam Legislature passed Public Law 28-38, which authorized the Treasurer of Guam to pay “interest only” payments in monthly installment of \$190,501 on behalf of the Guam Memorial Hospital Authority for its deficiency of \$16,860,142 due to the Government of Guam Retirement Fund. The “interest only” payments shall continue until GMHA’s deficiency is fully satisfied. If the GMHA deficiency is not satisfied within five (5) years following the enactment of PL 28-38, payments for GMHA principal shall resume as provided in 4 GCA §8137 for Retirement of Public Employees. As of September 30, 2005, GMHA was current on its 2005 employer and members’ retirement fund contribution.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(5) Third-Party Rate Adjustments, Revenues, and Concentrations of Credit Risk

Third Party Rate Adjustments

GMHA has various third-party payor agreements that provide for payments to be made to the hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at current interim rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. GMHA is reimbursed for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by GMHA and any audits performed by the Medicare fiscal intermediary. At September 30, 2005 and 2004, the outstanding amount due to the Medicare program was \$1,264,909 and \$408,446, respectively, for the retroactive lump sum adjustments in excess of amounts previously estimated under the Medicare program. These amounts due to Medicare program are being recovered by the United Government Service (Medicare) through withholdings from the applicable current year settlements.

Medicaid Program and Medically Indigent Program (MIP)

GMHA is reimbursed for the cost of inpatient and outpatient services rendered under the programs administered by the Government of Guam Department of Public Health and Social Services. During each fiscal year, GMHA is reimbursed on the basis of interim rates with the final settlement determined after submission of annual cost reports prepared in accordance with the agency requirement.

Laws and regulations governing Medicare and Medicaid Programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Local Insurance Carriers and Other Third Party Payor

GMHA also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to GMHA under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(5) Third-Party Rate Adjustments, Revenues, and Concentrations of Credit Risk

Net Patient Service Revenue

A summary of Patient Service Revenue at September 30, 2005 and 2004 is as follows:

	<u>Fiscal Year 2005</u>		<u>Fiscal Year 2004</u>	
	<u>Gross</u> <u>Patient</u> <u>Service</u> <u>Revenues</u>	<u>% to Total</u> <u>Inpatient/</u> <u>Outpatient</u> <u>Services</u>	<u>Gross</u> <u>Patient</u> <u>Service</u> <u>Revenues</u>	<u>% to Total</u> <u>Inpatient/</u> <u>Outpatient</u> <u>Services</u>
<u>Inpatient and outpatient acute care services:</u>				
Medicare	\$ 23,494,888	24%	\$ 21,825,393	22%
Medicaid	11,357,389	12%	10,325,347	11%
Medically Indigent Program	9,487,268	10%	8,513,650	9%
Other Local Insurances	11,959,981	12%	14,667,293	15%
Self-Pay	23,377,076	24%	24,845,577	26%
Other Providers	<u>17,410,962</u>	<u>18%</u>	<u>16,896,305</u>	<u>17%</u>
Total	<u>\$ 97,087,564</u>	<u>100%</u>	<u>\$ 97,073,565</u>	<u>100%</u>
		<u>% to Total</u>		<u>% to Total</u>
<u>Inpatient and outpatient support services:</u>				
Medicare	\$ 2,081,323	34%	\$ 2,545,674	47%
Medicaid	290,813	5%	214,028	4%
Medically Indigent Program	1,560,834	26%	794,924	15%
Other Local Insurance	533,939	9%	420,112	8%
Self-Pay	729,969	12%	712,797	13%
Other Providers	<u>877,304</u>	<u>14%</u>	<u>721,900</u>	<u>13%</u>
	<u>\$ 6,074,182</u>	<u>100%</u>	<u>\$ 5,409,435</u>	<u>100%</u>
Total Gross Patient Revenues	<u>\$103,161,746</u>		<u>\$102,483,000</u>	

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Notes to Financial Statements
September 30, 2005 and 2004

(5) Third-Party Rate Adjustments, Revenues, and Concentrations of Credit Risk, Continued

Net Patient Service Revenue, Continued

	<u>2005</u>	% to Total Inpatient/ Outpatient Services by Third-Party Payor	<u>2004</u>	% to Total Inpatient/ Outpatient Services by Third-Party Payor
Total Gross Patient Revenues	<u>\$103,161,746</u>		<u>\$102,483,000</u>	
Less Management's estimates for:				
<u>Contractual allowances:</u>				
Medicare	\$ 9,618,938	41%	\$ 8,948,170	41%
Medicaid	4,655,302	41%	4,233,150	41%
Other local insurances	955,914	8%	1,173,314	8%
 <u>Adjustments, denials and bad debts</u>				
Uncollectible estimates for Self-pay patients revenue	18,173,625	78%	17,468,413	70%
Third party payors' denials and adjustments	<u>12,623,724</u>	17%	<u>14,353,357</u>	20%
 Total Management's estimates of contractual adjustments and bad debts	<u>46,027,503</u>	45%	<u>46,176,404</u>	45%
 Net Patient Service Revenue	<u>\$ 57,134,243</u>		<u>\$ 56,306,596</u>	

For the years ended September 30, 2005 and 2004 management has written-off approximately \$25 million and \$35 million, respectively, of patient accounts receivable deemed uncollectible.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(5) Third-Party Rate Adjustments, Revenues, and Concentrations of Credit Risk, Continued

Concentrations of Credit Risk

GMHA grants credit without collateral to its patients, most of whom are residents of the Territory of Guam and are insured under third-party payor agreements. The mix of receivables from patients and third party payors in the patient current receivable at September 30, 2005 and 2004, was as follows:

	<u>2005</u>	<u>2004</u>
Self-pay patients	43%	38%
Medically Indigent Program	20%	18%
Medicaid Assistance Program	15%	16%
Local insurance carriers	11%	11%
Medicare	7%	11%
Other Third Party Payor	<u>4%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

(6) Employees' Retirement Plan

Plan Description

Defined Benefit Plan (DB)

The Defined Benefit Plan provides for retirement, disability, and survivors benefits to members of the plan prior to October 1, 1995 (all government employees are required to participate in the Defined Contribution Retirement System Plan after October 1, 1995). Under this plan, retirement benefits are based on age and/or years of credited service and an average of the three (3) highest annual salaries received by a member during the years of credited service, or six thousand dollars (\$6,000), whichever is greater.

Defined Contribution Retirement System Plan (DCRS)

The Defined Contribution Retirement System (DCRS) was created by Public Law 23-42:3 to provide an individual account retirement system for any person who is employed in the Government of Guam whose employment commenced on or after October 1, 1995. Existing members of the DB Plan with less than twenty (20) years of service credit may, upon written election, voluntarily elect membership in the DCRS. This option was available for sixty-five (65) months after enactment of the legislation, and between March 1 and May 31, of every year, beginning in the year 2002. After making the election to transfer, the employee may not change the election or again become a member of the DB plan.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(6) Employees' Retirement Plan, Continued

Contributions

Contributions under both the DB and DCRS Plans are set by law and are administered by the Government of Guam Retirement Fund. For the years ended September 30, 2005 and 2004, the statutory contribution rates for employers and employees under the DB Plan were 20.81% and 9.5% respectively. During the year ended September 30, 2003, the Guam Legislature mandated an employer and employee contribution rate of 26% and 9.5% respectively, of covered payroll from October 1, 2002 to February 28, 2003. The employer contribution rate was dropped to 18% by legislative mandate effective March 1, 2003.

As a result of the most recent actuarial valuation performed as of September 30, 2003 issued in March 15, 2005, the annual actuarially required contribution rates for the years ended September 30, 2005 and 2004 as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Normal Cost (as % of expected Defined Benefit Plan payroll)	18.30%	17.66%	16.42%
Unfunded liability costs, as % of total payroll (DB and DC)	<u>19.93%</u>	<u>16.23%</u>	<u>22.94%</u>
	38.23%	33.89%	39.36%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Government contribution as % of DB Plan payroll	<u>28.73%</u>	<u>24.39%</u>	<u>29.86%</u>
Government required contribution, as % of total payroll (DB and DC)	<u>24.89%</u>	<u>20.81%</u>	<u>N/A</u>

The Defined Benefit Plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 7%, an assumed payroll increase of 3.5%, and an assumed salary scale increase of 4.0% - 8.5% per annum. The most recent actuarial valuation performed as of September 30, 2003 did not provide a breakdown of the actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GMHA as a separate sponsor, the accrual unfunded liability at September 30, 2005 and 2004 may be materially different than that recorded in the accompanying financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(6) Employees' Retirement Plan, Continued

Contributions, continued

Contributions in the DCRS by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions into the DCRS for the years ended September 30, 2005 and 2004, are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited in the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Retirement expense for the years ended September 30, 2005, 2004 and 2003 was \$5,881,597, \$5,518,946 and \$5,876,499, respectively.

For additional information on the Government of Guam Retirement Fund, inquiries may be addressed to the Director of the Government Retirement Fund, 424 A Route 8, Maite, Guam, 96910.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(7) Long-Term Debt

At September 30, 2005 and 2004, long-term debt consists of the following:

	2005	2004
<p>Promissory note payable to the Government of Guam Retirement Fund in equal quarterly installments of \$366,064 started March 1998, and later was revised to \$401,330 started March 2002 including interest at the Bank of Hawaii's prime rate plus 1% (8% at September 30, 2005 and 9% at September 30, 2004). During 2005 and 2004, the note is in arrears. Payments of principal made to the notes were \$285,016 and \$469,558, respectively. The note was due in March 2003 and is uncollateralized. (See also note 4).</p>	\$ 6,528,514	\$ 6,496,549
<p>Promissory note to the Guam Power Authority (GPA) for balance due on electrical service with electric utility, payable in total monthly installments of \$45,965, beginning October 13, 2001, including interest at 4.47% per annum. As of September 30, 2005, the note payable is due and is uncollateralized. GMHA defaulted on payment totaling \$782,032</p>	782,032	1,094,112
Total notes payable	7,310,546	7,590,661
Less current portion	7,310,546	7,590,661
Long-term debt	\$ -	\$ -

On November 21, 2002, the Superior Court of Guam ordered GMHA to pay its outstanding liabilities to the Government of Guam Retirement Fund, which at September 30, 2002 approximates \$16 million of notes payable and not remitted employer and member's contributions from various payroll periods from fiscal years ended September 30, 1998 through 2002. In March 2003, GMHA defaulted on this note for failure to make a final balloon payment with the Government of Fund Retirement Fund due on March 2003.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(7) Long-Term Debt, Continued

September 30, 2005 and 2004, the notes payable to the Government of Guam Retirement Fund included an estimated accrual of interest and penalties of \$1,025,396 and \$708,416 , respectively.

As discussed in note 6, the Government of Guam Legislature passed Public Law 28-38 that addressed special retirement provisions for GMHA and GPSS, and for the purpose of permitting employees eligible to retire however, could not retire due to the above deficiencies payable to the Retirement Fund. The Public Law 28-38, require Government of Guam General Fund to remit an interest payments of \$190,501 monthly to GGRF and will continue until the outstanding balances for are fully paid from a general obligation bond or alternate means.

Changes in the long term liabilities:

At September 30, 2005 and 2004, the changes in the long-term liabilities are as follows:

<u>2005</u>	<u>Outstanding Balance 09/30/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding Balance 09/30/05</u>	<u>Current</u>	<u>Noncurrent</u>
Government of Guam Retirement Fund note payable	\$ 6,496,549	\$ 316,980	(\$ 285,015)	\$ 6,528,514	\$ 6,528,514	\$ -
Guam Power Authority note payable	1,094,112	-	(312,080)	782,032	782,032	-
Deferred retirement fund contributions	2,634,704	-	-	2,634,704	-	2,634,704
Accrued annual leave	2,450,671	1,650,519	(1,496,635)	2,604,555	1,511,805	1,092,750
50% Accrued sick leave of employees under DCRS Retirement Plan	<u>884,223</u>	<u>284,124</u>	<u>-</u>	<u>1,168,347</u>	<u>-</u>	<u>1,168,347</u>
	<u>\$13,560,259</u>	<u>\$2,251,623</u>	<u>(\$2,093,730)</u>	<u>\$13,718,152</u>	<u>\$ 8,822,351</u>	<u>\$ 4,895,801</u>

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(7) Long-Term Debt, Continued

Changes in the long term liabilities, Continued

<u>2004</u>	<u>Outstanding Balance 09/30/03</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding Balance 09/30/04</u>	<u>Current</u>	<u>Noncurrent</u>
Government of Guam Retirement Fund, note payable	\$ 6,654,705	\$ -	(\$ 158,156)	\$ 6,496,549	\$ 6,496,549	\$ -
Guam Power Authority note payable	1,421,129	-	(327,017)	1,094,112	1,094,112	-
Deferred retirement fund contributions	2,634,704	-	-	2,634,704	-	2,634,704
Accrued annual leave	2,858,098	1,165,067	(1,572,494)	2,450,671	1,323,362	1,127,309
50% Accrued sick leave of employees under DC Retirement Plan	<u>804,307</u>	<u>79,916</u>	<u>-</u>	<u>884,223</u>	<u>-</u>	<u>884,223</u>
	<u>\$14,372,943</u>	<u>\$1,244,983</u>	<u>(\$2,057,667)</u>	<u>\$13,560,259</u>	<u>\$ 8,914,023</u>	<u>\$ 4,646,236</u>

(8) Related Party Transactions

At September 30, 2005 and 2004, a summary of related party transactions with the Government Agencies are as follows:

	<u>2005</u>	<u>2004</u>
Payables to Government Agencies:		
Retirement Fund:		
Members and employers contribution, supplemental/COLA annuities for retirees as of September 30, 2001, and accrued interest and penalties (note 6)	\$ 10,811,563	\$ 10,003,860
Principal and interest on promissory note	<u>6,528,514</u>	<u>6,496,549</u>
	17,340,077	16,500,409
Guam Power Authority in promissory note and current electric service	1,376,471	1,678,732
Department of Revenue and taxation	167,001	-
Guam Waterworks Authority	<u>38,035</u>	<u>88,197</u>
Total	<u>\$ 18,921,584</u>	<u>\$ 18,267,338</u>

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(8) Related Party Transactions, Continued

	<u>2005</u>	<u>2004</u>
Operations Receivable from Government Agencies: Department of Public Health and Social Services(DPHSS) for the following programs:		
Medicaid, net of estimated allowance for contractual adjustments of \$5,874,606 and \$6,511,905 for 2005 and 2004, respectively.	\$ 5,391,314	\$ 3,114,694
MIP, net of estimated allowance for contractual adjustments of \$6,198,515 and \$6,870,953 for 2005 and 2004, respectively.	<u>8,715,730</u>	<u>4,034,961</u>
Total	<u>\$ 14,107,044</u>	<u>\$ 7,149,655</u>
	<u>2005</u>	<u>2004</u>
Other Receivables:		
Department of Administration (supplemental appropriations and reimbursable expenditures under federal grant)	\$ 1,743,183	\$ 1,172,193
Department of Mental Health and Substance Abuse (catering services and supplies issues)	261,178	208,432
Fire Department (supplies and incinerations services)	244,364	214,507
DPHSS	<u>7,510</u>	<u>9,823</u>
	<u>\$ 2,256,235</u>	<u>\$ 1,604,955</u>

Due to significant discrepancies between the GMHA patients' receivable subsidiary control account and the general ledger for fiscal years 2005 and 2004 of approximate \$15.6 million in each year, the related party receivables disclosed above may differ by a significant amount as compared to the records of related government agencies.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(8) Related Party Transactions, Continued

Related Party Expenses

For the years ended September 30, 2005 and 2004, utilities incurred in electrical services paid and accrued to Guam Power Authority was \$1,212,010 and \$1,085,796, respectively.

For the years ended September 30, 2005 and 2004, water services paid and accrued to Guam Waterworks Authority was \$268,655 and \$257,041, respectively.

For the years ended September 30, 2005 and 2004, interests and penalties paid and accrued to GGRF and GPA reported in the nonoperating expenses of the Statement of Activities was \$318,284 and \$1,374,049 for GGRF, respectively, and \$13,126 and \$36,622, for GPA respectively.

For the years ended September 30, 2005 and 2004, retirement contributions paid and accrued for GGRF was \$5,881,597 and \$5,418,946, respectively.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(9) Transfers from the Government of Guam, and Deferred Revenue

During the years ended 2005 and 2004, the Government of Guam passed supplemental appropriations in public laws from its general fund and special revenue fund for certain specific programs and financial assistance for the operations of GMHA as follows:

<u>Specific Purpose Program</u>	<u>2005 Appropriation</u>	<u>Transfers from the GovGuam (Amount received in FY 2005)</u>	<u>Deferred Revenue</u>
Public Law 27-106 (2005 Budget Law), from Healthy Futures Fund, used for the treatments that are necessary as a result of tobacco, alcohol, substance abuse and supplies and equipment for patient education.	\$ 3,800,000	\$ 3,791,666	\$ -
<u>Financial Assistance</u>			
Public Law 28-64 used for payments of medicines, medical supplies, medical equipment and maintenance contracts. Funds appropriated from:			
GTA Privatization Proceeds Fund	5,000,000	5,000,000	-
Healthy Futures Fund	1,591,000	1,000,000	-
Public Law 27-106 (2005 Budget Act), from General Fund, used for payment of GMHA's outstanding retirement fund payable for employees who applied for retirement as of September 30, 2004.	<u>1,200,000</u>	<u>600,000</u>	<u>-</u>
Total	<u>\$ 11,591,000</u>	<u>\$ 10,391,666</u>	<u>\$ -</u>

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(9) Transfers from the Government of Guam, and Deferred Revenue, Continued

<u>Specific Purpose Program</u>	<u>Appropriation</u>	<u>Transfers from the GovGuam (Amount received in FY 2004)</u>	<u>Deferred Revenue</u>
<u>2004 Appropriation</u>			
Public Law 27-29, appropriated from the Healthy Futures Fund. Used to offset the proposed 5% across-the board hospital fee increases and for the treatments that are necessary as a result of tobacco, alcohol and substance abuse.	\$ 3,800,000	\$ 3,800,000	\$ -
<u>2002 Appropriation</u>			
Public Law 26-80 and 27-98 (amendment of Public Law 26-80), from Health Security Trust Fund, used for payments for pharmaceutical vendors and capital expenditures. Total funds appropriated were fully expended from 2002 through 2004.	<u>2,500,000</u>	<u>1,309,622</u>	<u>-</u>
Total	<u>\$ 6,300,000</u>	<u>\$ 5,109,622</u>	<u>\$ -</u>

GMHA management represents that funds received from the aforementioned appropriations were exhausted and expended in compliance with the intent of the law.

In September 2005, the Government of Guam appropriated \$1,460,000 from the General Fund to pay directly to the Retirement Fund for outstanding retirement contributions of GMHA for fiscal year ended 2005, and for the outstanding retirement contribution of employees who applied for retirement during the fiscal year 2005. At September 30, 2005, no amount relevant to this appropriation was remitted to the Retirement Fund.

During the fiscal years ended September 30, 2005 and 2004, appropriations and transfers were made from special revenue funds of the Government of Guam for the reimbursements of eligible expenditures under various federal program grant activities. At September 30, 2005 and 2004, the revenue under the federal grant activities was \$8,076,205 and \$4,593,977, respectively, comprising of capital expenditures and specific program assistance.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(9) Transfers from the Government of Guam, and Deferred Revenue, Continued

At September 30, 2005 and 2004, amounts due from the Government of Guam in the Statements of Net Assets consist of eligible invoices under federal grant reimbursements of \$665,157 and \$1,172,193, respectively, and deferred revenue of \$1,078,025 and \$0, respectively.

(10) Commitments and Contingencies

Litigation

GMHA is the defendant in several malpractice claims and has received several claims that are pending review or are expected to go to litigation. While GMHA intends to pursue an aggressive defense of these cases and claims, the possibility exists that some may result in material monetary damages being awarded to claimants or plaintiffs. As of September 30, 2005, GMHA's known maximum exposure under these claims is approximately \$2.9 million of asserted and unasserted claims. However, GMHA is unable to estimate the actual monetary damages from these self-insured malpractice claims, therefore, no provision for any liability that may result from these claims has been made in the financial statements.

Encumbrances

As of September 30, 2005 and 2004, GMHA had material purchase commitments under outstanding encumbrances totaling \$1,656,234 and \$6,728,853, respectively.

Self-Insurance

GMHA is self-insured for malpractice. GMHA's exposure under malpractice claims is limited to \$300,000 per claim by the Government Claims Act.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(10) Commitments and Contingencies, Continued

Medicare

The Government of Guam and its component units, including GMHA, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998 for employees hired after March 31, 1986. Prior to October 1998, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the Government is found to be liable for such amounts, an indeterminate liability could result. It is the opinion of GMHA and all other component units of the Government of Guam that this health insurance component is optional prior to October 1998. Therefore, no liability for any amount, which may ultimately arise from this matter, has been recorded in the accompanying financial statements.

Federal Award Programs

GMHA has received federal award grants pass-through the Government of Guam for specific purposes that are subject to review and audit by grantor agencies. Although the GMHA has been audited in accordance with the provisions of OMB Circular A-133, these programs are still subject to financial and compliance audits by grantor or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. At September 30, 2005 and 2004, related federal awards questioned costs were \$1,692,678 and \$-0-, respectively.

(11) Economic Dependency

Statement of Financial Accounting Standard (SFAS) No 14 requires disclosure in the financial statements of a situation where one entity provides more than 10% of the audit entity's revenues. At September 30, 2005 and 2004, the Department of Public Health and Social Services, a component unit of the Government of Guam, administers the Medicaid and Medically Indigent Program (MIP) which provides approximately \$23 million, or 22%, and \$20 million, or 19%, of its gross patient revenues for fiscal years 2005 and 2004, respectively, and further disclosed in Note 5. Additionally, GMHA received approximately \$10.4 million and \$5.1 million in supplemental appropriations at September 30, 2005 and 2004, respectively, (as disclosed in Note 9) for specific purposes relevant to the patient care operations of the hospital. At September 30, 2005 and 2004, the aggregate supplemental appropriations received represents 18% and 9% GMHA's total operating revenues, respectively.

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Notes to Financial Statements
September 30, 2005 and 2004

(12) Typhoon Expenses and Related Insurance Claims

The main facility of the GMHA was severely damaged as a result of a major typhoon and a super typhoon that struck the island of Guam on July 5, 2002 and December 8, 2002, respectively. At September 30, 2004, the actual incurred damages from the super typhoon were \$2.8 million. GMHA received \$1 million partial settlement claim for damages from its insurance carrier during the fiscal year ended 2003, and approximately \$730,000 in accrual at September 30, 2004 was received in 2005. Of the 2.8 million typhoon damages approximately \$1 million was recovered in federal assistance from FEMA programs.

(13) Going Concern

GMHA has incurred continuing operating losses of \$18,075,677 and \$10,970,088 for the years ended September 30, 2005 and 2004, respectively. GMHA is the only full-care medical facility that accepts all individuals seeking medical assistance which includes individuals who do not have the financial resources for medical services. The accumulated overdue receivables totaling \$38,903,539 and eventual write-off of bad debts receivables approximating \$25 million, resulted to significant decline in cash flows and, consequently accumulated approximately \$18,707,842 payable to the Retirement Fund and vendors. Hence, GMHA has found itself in a financial crisis and is need of supplemental funding from the Government of Guam. During the fiscal years ended September 30, 2005 and 2004, the Government of Guam addressed these going concern issues through supplemental appropriations from its general fund, Guam Telephone Authority privatization proceeds, and from other special revenue funds that it administers.

GMHA has not officially formalized a recovery plan, however, Management of GMHA is seeking continuing supplemental funding in the form of increased appropriations from the Government of Guam in order for GMHA to continue as a going concern. Public Law 28-68 (Budget Law for Fiscal Year 2006), appropriated to the hospital, from various funds approximates \$26 million to fund pharmaceuticals, medical equipment, repairs, renovations, and capital purchases. The Hospital's subsidy request for fiscal year 2007 is \$28 million.

(14) Subsequent Event

In October 2005, GMHA renegotiated its note agreement with the Guam Power Authority to include current past due bill with the Guam Power Authority (GPA) approximate \$411,778 to bring into the sum of approximate \$1.2 million as October 1, 2005. The new promissory note is payable in 29 monthly installments of \$43,483, beginning October 2005, including interest at 4.47%, and uncollateralized.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(15) Reclassifications

Certain balances in the 2005 financial statements have been reclassified to correspond to the 2004 presentation.

GUAM MEMORIAL HOSPITAL AUTHORITY

Supplementary Information
Schedule of Expenses
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Nursing:		
Salaries - regular	\$ 17,272,473	\$ 15,917,584
Salaries - overtime and incentive pay	4,936,213	3,878,436
Fringe benefits	<u>4,450,302</u>	<u>4,102,725</u>
Total personnel costs	26,658,988	23,898,745
Supplies and materials	3,675,721	3,101,760
Contractual services	657,637	291,408
Miscellaneous	<u>583,736</u>	<u>456,605</u>
	<u>\$ 31,576,082</u>	<u>\$ 27,748,518</u>
Ancillary:		
Salaries - regular	\$ 5,285,252	\$ 4,971,559
Salaries - overtime and incentive pay	1,863,473	1,475,598
Fringe benefits	<u>1,536,679</u>	<u>1,465,501</u>
Total personnel costs	8,685,404	7,912,658
Supplies and materials	7,757,220	6,188,862
Contractual services	2,040,388	1,390,211
Miscellaneous	<u>151,990</u>	<u>98,128</u>
	<u>\$ 18,635,002</u>	<u>\$ 15,589,859</u>
General services:		
Salaries - regular	2,210,298	\$ 2,646,702
Salaries - overtime and incentive pay	373,280	681,479
Fringe benefits	<u>734,907</u>	<u>790,136</u>
Total personnel costs	3,318,485	4,118,317
Utilities	1,510,274	1,531,763
Supplies and materials	688,472	718,204
Contractual services	2,733,967	1,095,435
Typhoon expenses	2,548	993,088
Miscellaneous	<u>210,805</u>	<u>53,866</u>
	<u>\$ 8,464,551</u>	<u>\$ 8,510,673</u>

GUAM MEMORIAL HOSPITAL AUTHORITY

Supplementary Information
 Schedule of Expenses, Continued
 Years Ended September 30, 2005 and 2004

	2005	2004
Administrative support:		
Salaries - regular	\$ 2,850,608	\$ 3,047,418
Salaries - overtime and incentive pay	341,067	248,220
Fringe benefits	889,162	846,937
Annual leave lump sum pay	567,263	195,332
Total personnel costs	4,648,100	4,337,907
Contractual services	1,616,646	1,714,155
Supplies and materials	797,422	866,731
Miscellaneous	159,000	215,815
	\$ 7,221,168	\$ 7,134,608
Administration:		
Salaries - regular	\$ 745,857	\$ 650,232
Salaries - overtime and incentive pay	33,080	20,480
Fringe benefits	226,169	186,850
Total personnel costs	1,005,106	857,562
Miscellaneous	213,076	189,518
FY 2002 Supplemental and COLA Benefit for GMHA Retirees	1,507,004	-
Insurance - property	1,213,334	1,175,318
Contractual Services	301,052	454,022
	\$ 4,239,572	\$ 2,676,420
Medical staff:		
Salaries - regular	\$ 434,860	\$ 526,507
Salaries - overtime and incentive pay	21,172	17,422
Fringe benefits	159,039	231,519
Total personnel costs	615,071	775,448
Contractual Services	1,501,567	1,753,912
Miscellaneous	17,334	23,882
	\$ 2,133,972	\$ 2,553,242
Employees at end of year	844	796

**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, 2005, and have issued my report thereon dated September 23, 2006, which report was qualified due to my inability to determine the propriety of accounts receivable and the related allowance for bad debts and contractual adjustments, capital assets net of accumulated depreciation, and the related depreciation expense, and valuation of pharmaceutical inventory. 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 05-01 through 05-22.

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 05-01, 05-02, 05-04 through 05-09, 05-011 and 05-12 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to management of the Guam Memorial Hospital Authority in a separate letter dated September 23, 2006.

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 55 through 120) as items number 05-02, 05-11, 05-14 and 05-16.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Guam Memorial Hospital Authority in a separate letter dated September 23, 2006.

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
September 23, 2006

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, 2005

**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, 2005. GMHA's major federal programs are identified in the Summary of Auditor's Results section on page 53-54 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 Non-Profit 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 05-11, 05-17 through 05-22 in the accompanying Schedule of Findings and Questioned Costs, GMHA did not comply with the requirements regarding cash 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 54). 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, 2005.

Internal Control Over Compliance

The management of GMHA is responsible for establishing and maintaining effective internal control over compliance with the 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 program in order to determine my auditing procedures for the purpose of expressing an opinion on compliance and to test and report on the 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 the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned costs as items 05-11, 05-17 through 05-22.

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 of risk that noncompliance with the 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 which 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 05-11, 05-18, 05-19, and 05-22 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, 2005, and have issued my report thereon dated September 23, 2006, which report was qualified due to my inability to determine the propriety of accounts receivable 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 52 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.


Hagåtña, Guam
September 23, 2006

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

Grantor/Pass-through Grantor/Program Title	CFDA Number	Program or Award Amount	Receivable from Grantor/ (Due to Grantor) 09/30/04	Cash Receipts FY 2005	Expenditures FY 2005	Receivable from Grantor/ (Due to Grantor) 09/30/05
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 & medical equipment	15.875	\$ 1,095,600	\$ 79,414	\$ 512,926	\$ 433,512	\$ -
Compact Impact FY 2003-For facility repairs & equipments	15.875	1,355,000	252,541	716,500	463,959	-
Compact Impact FY 2004-For capital improvement & medical equipment	15.875	1,500,000	10,462	1,004,741	994,279	-
Compact Impact FY 2004-For pharmaceuticals & medical supplies	15.875	3,584,010	675,556	675,556	-	-
Compact Impact FY 2005-For pharmaceuticals, diagnostic supplies and equipment	15.875	2,211,600	-	1,641,338	2,211,600	570,262
Compact Impact FY 2005- For pharmaceuticals supplies & equipment vendor payables	15.875	<u>3,005,000</u>	-	<u>3,005,000</u>	<u>3,005,000</u>	<u>-</u>
U.S. Department of Interior Total		<u>12,751,210</u>	<u>1,017,973</u>	<u>7,556,061</u>	<u>7,108,350</u>	<u>570,262</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	668,312	-	377,349	377,349	-
Hazard Mitigation Programs- Enclosure of general walkway	97.039/83.548	193,013	55,981	167,962	111,981	-
Hazard Mitigation Programs- Generator roll-up doors & baffle walls (PW No. 07)	97.039/83.548	86,750	-	-	-	-
Hazard Mitigation Programs-Main lobby & front stairwell enclosure (PW 20)	97.039/83.548	1,359,553	-	-	-	-
Hazard Mitigation Programs-2nd floor wall hardening & window replacement (PW 27)	97.039/83.548	420,699	-	-	-	-
Public Assistance-Earthquake (DR 1397)	97.036/83.544	49,590	52,776	-	-	52,776
Public Assistance-Typhoon Pongsona (PW-5)	97.036/83.544	<u>1,040,399</u>	<u>48,310</u>	<u>48,310</u>	<u>-</u>	<u>-</u>
FEMA Total		<u>3,818,316</u>	<u>157,067</u>	<u>593,621</u>	<u>489,330</u>	<u>52,776</u>
U.S. Department of Health and Human Services						
Passed Through the Government of Guam:						
National Bioterrorism Hospital Preparedness Program						
Grant No. URM00058-02-03 (FY 2002-2003)	93.003	888,414	42,002	307,543	342,230	76,689
Grant No. URH0C3852-01-03 (FY 2004)	93.003	738,414	-	109,707	109,707	-
Grant No. URHS05599-01-00 (FY 2005)	93.003	<u>485,709</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
U.S. Dept. of Health & Human Services Total		<u>2,112,537</u>	<u>42,002</u>	<u>417,250</u>	<u>451,937</u>	<u>76,689</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	117,500	-	24,724	26,588	1,864
Total Federal Awards Expended		<u>\$ 18,799,563</u>	<u>\$ 1,217,042</u>	<u>\$ 8,591,656</u>	<u>\$ 8,076,205</u>	<u>\$ 701,591</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.

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GUAM MEMORIAL HOSPITAL AUTHORITY

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

FOR THE YEAR ENDED SEPTEMBER 30, 2005

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

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
97.039/83.548	Hazard Mitigation Grants
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 05-01 through 05-22.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
05-01	Patient Affairs Department-Accounts Receivable Suspense Account (Unmatched Cash Receipts)	\$ -
05-02	Patient Affairs Department-Medicare Billings with Pending Unique Physician Identification Number (UPIN)	-
05-03	Patient Affairs Department-Accounts Receivable-Revenue and Tax (Non-Payer)	-
05-04	Accounting and Patient Affairs Department – Patient' Accounts Receivable	-
05-05	Accounting and Patient Affairs Department-Allowance for Doubtful Accounts and Contractual Adjustments	-
05-06	Patient Affairs Department – Supporting Documents on Accounts Written-Off	-

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

PART II - FINANCIAL STATEMENT FINDINGS, Continued

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
05-07	Patient Affairs Department – GMHA’s Current Receivable and Bad Debt Receivable on Self Pay Accounts	\$ -
05-08	Patient Affairs Department – GMHA’s Current Receivable on MIP & MAP Accounts	-
05-09	Patient Affairs Department- Current Receivable with Other Third Party Payor	-
05-10	Patient Affairs Department – Internal Control Forms	-
05-11	Property Management and Accounting Department- Physical Inventory of Fixed Assets	-
05-12	Inventory in Pharmacy Department	-
05-13	Accounting Department –Timely Reconciliation of Accounts	-
05-14	Procurement : Requisition and Purchase Order	-
05-15	Procurement : Requisition Order	-
05-16	Procurement : Contracts	-
05-20	Accounting Department – Federal Grants Financial Management	-
	Total Questioned Cost	<u>\$ -</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 05-01 through 05-22.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
05-11	Property Management and Accounting Department- Physical Inventory of Fixed Assets	-
05-17	Reporting	\$ -
05-18	Activities Allowed or Unallowed; Allowable Costs/Cost Principles	192,678
05-19	Activities Allowed or Unallowed; Allowable Costs/Cost Principles	1,500,000
05-20	Accounting Department – Federal Grants Financial Management	-
05-21	Personnel Department –Random Drug Testing	-
05-22	Cash Management	-
	Total Questioned Costs	<u>\$ 1,692,678</u>

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-01

**Area: Patient Affairs Department – Accounts Receivable-Suspense Account
(Unmatched Cash Receipts)**

CFDA No. N/A

Criteria:

All cash receipts should be properly controlled and accounted for, processed, and posted in a timely manner.

Condition:

During testing of test of internal controls over unapplied cash receipt, we made an observation of the record keeping procedures performed by cashiers for documenting unmatched cash receipts.

We noted that cashiers do not maintain a separate file for unmatched cash receipts that would facilitate easy retrieval upon follow-up and verification. There were no specific personnel assigned to verify unmatched cash receipts in a timely manner. At September 30, 2005, Accounts Receivable-Suspense Accounts with credit and debit balances totaled \$666,314 and \$454,522, respectively. These balances generally constitute prior year unreconciled cash receipts placed in the account receivable suspense account. Consequently, Patient subsidiary ledgers appear to be incorrect as of September 30, 2005.

Cause:

There is a lack of established internal control policies and procedures to ensure that accounts receivable suspense accounts (unmatched cash receipts) are identified and resolved in a timely manner.

Effect:

Individual patient's ledgers are misstated due to unposted payment that sits in the Accounts receivable-suspense accounts. The potential for fraud greatly increases when known account balance differences are not reconciled.

Prior Year Status:

This condition was cited as finding in the prior year audits 2002 through 2004.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-01, continued

**Area: Patient Affairs Department – Accounts Receivable-Suspense Account
(Unmatched Cash Receipts)**

CFDA No. N/A

Recommendation:

The Assistant Chief Financial Officer should establish written internal control policies and procedures for accounting for and processing unmatched cash receipts collections posted in the accounts receivable-suspense account and monitor the effectiveness of those control procedures. Cashiers should make copies of all unidentified checks as well as any other details of the transaction and that would assist in the timely follow-up and clarification with third party payors. Additionally, Cashiers should maintain a separate file for all unmatched cash receipts documentation.

Auditee Response and Corrective Action Plan:

The Hospital acknowledges and agrees with this finding. The Hospital has maintained an open recruitment for Accountant I, II, and III since FY'06. Although interviews have been conducted, the Hospital has faced challenges in finding accountant applicants with the level of experience needed to address the issues identified in the audit. Because of the lack of accounting staff on hand, the Hospital has been unable to perform the required accounting functions as needed. The Hospital will continue its recruitment efforts.

A policy has been drafted which will clearly delineate responsibilities for each party directly involved in the proper processing, receipt, and accounting of indeterminate payments.

Upon the approval and implementation of the draft policy, all parties involved in the proper handling of such indeterminate payments shall be provided the appropriate education and training.

To insure that indeterminate payments will not be left to stalemate, such payments found to be aged ninety days will be compiled and brought before the Hospital's Board of Trustees Planning & Finance Committee for further guidance and disposition.

Once an official policy is properly implemented, the Hospital expects that the indeterminate payments will be resolved within a timely basis and thus the exclusion of this finding in FY 2007.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-01, continued

**Area: Patient Affairs Department – Accounts Receivable-Suspense Account
(Unmatched Cash Receipts)**

CFDA No. N/A

Auditee Response and Corrective Action Plan, continued:

Responsible Parties:

Assistant Chief Financial Officer - Development internal policy.

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.

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.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-02
Area: Patient Affairs Department - Medicare Billings with Pending Unique Physician Identification Number (UPIN)
CFDA No. N/A

Criteria:

Management should adopt a policy that would ensure healthcare claims under the Medicare Program associated with requirements of UPIN or about to be implemented National Provider Identification (NPI) by Health Insurance Portability and Accountability Act (HIPPA) be facilitated in a timely manner. This PIN is used to identify the billing entity and/or the provider of service. A PIN must be used on all Medicare claims. The UPIN is used to identify who ordered or referred a patient for an item or service. The ordering/referring requirement became effective January 1, 1992, and is required by §1883(q) of the Social Security Act. All claims for Medicare covered services and items that are the result of a physician's order or referral must include the ordering/referring name and UPIN. If the ordering/referring physician has not been not assigned a UPIN, a surrogate UPIN should be used depending upon the circumstances and should be used only until the physician has obtained a UPIN.

Condition:

We reviewed adjustments to Medicare receivables relevant to deficiency to supply UPIN required under Medicare billings. For period from October 1, 2004 through February 28, 2006, approximately \$590,000 of dropped billings could not be submitted to Medicare Program due to UPIN deficiency associated with the following physicians:

<u>Employee (E)/Physician Vendor Number</u>	<u>Amount of Charges</u>	<u>Number of Claims</u>	<u>Physician's Status</u>
E-948770	\$ 100,976.00	192	Active
#8620	73,088.13	484	In-active
#9006	70,417.26	489	In-active
#382	71,224.35	414	In-active
House Patient Doctors	62,278.00	107	In-active
#5414	30,105.00	51	In-active
Various Professional Fees (Radiology/Diagnostic/Lab), requiring scrutiny	112,272.09	789	Active & In-active
14 other Physicians	<u>70,821.20</u>	376	Active & In-active
	<u>\$591,182.03</u>		

At September 30, 2005, of the incurred loss on failure to code patient charges of \$280,033.05, 71% or \$199,794.86 were Medicare claims related which also included professional fees.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-02, continued

Area: Patient Affairs Department - Medicare Billings with Pending Unique Physician Identification Number (UPIN)

CFDA No. N/A

Cause:

Internal control policies and procedures were not adhered to obtain unique physician identification numbers in a timely manner prior to physicians rendering services to GMHA.

Effect:

The above, professionals fees under Medicare program could have been reimbursed by Medicare had required UPIN's been obtained within reasonable time. The potential exists for Medicare provider physician to independently bill Medicare for services rendered while performing the same at GMHA.

Recommendation:

We are cognizant of the Hospital's need to obtain qualified medical staff. However, an internal control policy must be established and implemented to require physicians to provide UPIN's prior to working for GHMA. The implementation of this policy will mitigate the potential losses incurred for failure to provide and document such information on Medicare claims. Incorrect billing of PIN's and UPINs is one of the top claim submission errors. This procedure will facilitate the avoidance of claim submission errors by knowing how to bill PIN's and UPIN's on Medicare claims.

Auditee Response and Corrective Action Plan:

The Hospital acknowledges and agrees with this finding. Effective September 27, 2006, the Hospital initiated a coordinated process between the Patient Affairs, Medical Staff Office, and delinquent physicians to process the Medicare applications necessary to obtain such legacy identifiers. In order to expedite the process, applications for the legacy identifiers are prepared by the Patient Affairs staff and forwarded to the Medical Staff Office to secure the appropriate signatures and return to Patient Affairs to submit the applications for processing by Medicare.

Moving forward, we have begun to coordinate internal policies and procedures between affecting departments – Medical Staff, Patient Affairs and Hospital credentialed physicians – to ensure that all Medicare legacy identifiers (UPIN, PIN, or NPI – National Provider Identifier) be incorporated into the credentialing requirements of incoming physicians. This is to ensure that physicians will not be able to practice at the Hospital until such time that they have properly met required Medicare requirements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-02, continued

Area: Patient Affairs Department - Medicare Billings with Pending Unique Physician Identification Number (UPIN)

CFDA No. N/A

Auditee Response and Corrective Action Plan, continued:

The Hospital is aware of the HIPAA mandate that will replace all Medicare legacy identifiers with that of the NPI. The Hospital has been proactive by informing physicians of the need to obtain an NPI before the May 23, 2007 deadline by placing such information on the official GMHA website, having flyers of such requirement with the Medical Staff office, and by having the NPI application on hand at both the Medical Staff Office and at the Patient Affairs office. Staff knowledgeable about the NPI process has been identified and readily available to provide assistance. The Hospital does not expect a repeat of this finding in FY 2007.

Responsible Parties:

Assistant Chief Financial Officer - Development an apt internal policy

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.

Patient Affairs - proper Maintain an appropriate physician listing who are lacking the 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

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.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-03
Area: Patient Affairs Department - Accounts Receivable -
Revenue and Tax (Non-Payer)"
CFDA No. N/A

Criteria:

Transaction entries should be properly supported by sufficient/pertinent supporting documentation and be kept on file for independent third-party verification.

Condition:

A general ledger account "*Accounts Receivable-Revenue and Tax (Non-payer)*" is used by cashiers to move patient accounts receivable maintained from the subsidiary ledger to this general ledger account using garnishment notice from Revenue and Taxation. Some supporting documents were either missing or cannot be located. The cash receipts could not be properly matched to the unidentified entries in this general ledger account. During the year 2005, unaccounted additions to this account totaled \$109,936. At September 30, 2005, the net unaccounted balance in AR-Revenue and Tax Non-payer was \$240,595.78.

Cause:

Accounting procedures have not been established. The cause is unknown as to why Cashier has to move the patient accounts receivable from subsidiary ledger without actual payment, or sufficient documentation.

Effect:

The potential exist that unaccounted entries (debit entries) in the AR-Revenue and Tax (Non-Payer) will eventually be written-off, hence, contributing additional losses to the GMHA. Potential error and fraud could exist and not be detected.

Prior Year Status:

The above condition was cited as a finding in the prior year audits 2002 through 2004.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-03, continued
Area: Patient Affairs Department - Accounts Receivable -
Revenue and Tax (Non-Payer)”
CFDA No. N/A

Recommendation:

The Assistant Chief Financial Officer should establish clear, written record retention policy and ensure that entries are properly supported by evidential matter. These procedures should include obtaining documentation (a detailed listing) to support and substantiate all entries to the general ledger for accounts receivables classified as amounts due from the Guam Department of Revenue and Taxation (DRT) for which certain amounts were either levied or garnished. This information should be used to match and reconcile amounts received from the Department of Administration (DOA) on behalf of the Guam Department of Revenue and Taxation to those reclassified in the respective general ledger account. Additionally, an itemized listing comprising the payment should be obtained from DOA to facilitate the proper crediting of patient accounts receivable.

Auditee Response and Corrective Action Plan:

The Hospital agrees with this finding and notes that it is a repeat finding for fiscal years 2002, 2003, and 2004. The Hospital has maintained an open recruitment for Accountant I, II, and III since FY'06. Although interviews have been conducted, the Hospital has faced challenges in finding accountant applicants with the level of experience needed to address the issues identified in the audit. Because of the lack of accounting staff on hand, the Hospital has been unable to perform the required accounting functions as needed. The Hospital will continue its recruitment efforts.

In order to mitigate potential losses, \$25M in delinquent patient accounts was referred to the DRT for possible garnishment from patients expecting a tax return. DRT provides notices of such garnishments against taxpayer accounts that match the hospital listing of delinquent patient accounts. The staff of Patient Affairs posted to the patient accounts the amount garnished upon receipt of the notice. However, the hospital may not have received the actual payment from DOA. The accompanying payments as processed by DOA were found to have been received subsequent to the receipt of the remittance advice. This practice resulted in the patient's account being cleared with no actual cash received. Payments received from DOA on behalf of DRT were posted to the suspense account. As no reconciliation was being regularly performed, such DOA/DRT payments remained in the suspense account. The Hospital has and will continue to request for duplicate copies of remittance advice from DOA in order to reconcile the entries into the suspense account.

Moving forward, the staff of Patient Affairs has been informed by the Business Office Manager that no payments shall be posted to any patient accounts without receiving the actual payment on hand. A departmental policy has been formulated and will be presented to the P&FC for recommendation of approval by the BOT by November 2006.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-03, continued
Area: Patient Affairs Department - Accounts Receivable -
Revenue and Tax (Non-Payer)”
CFDA No. N/A

Auditee Response and Corrective Action Plan, continued:

The Accountant II will also be responsible to perform a daily reconciliation of the cash received on cash posted to both the Hospital’s bank account and the Hospital’s general ledger. Discrepancies will be immediately forwarded to the Business Office Manager for resolution. The Hospital does not expect a repeat of this finding in FY 2007.

Responsible Parties:

- | | |
|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Assistant Chief Financial Officer - | Development an internal policy. |
| Patient Affairs Cashier - | Ensure that official Hospital cash receipts are accompanied with actual payment. Ensure accounts properly reflect the correct status the Hospital’s Information system. |
| Business Office Manager - | Staff education, policy 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. Ensure that a daily review of the cashier’s daily cash report is performed to verify that official cash receipts are accompanied with an actual payment. Ensure accounts properly reflect the correct status the Hospital’s Information system. |
| Business Office Manager &
General Accounting Supervisor - | Work to resolve unidentified DOA/DRT payments |
| Accountant II - | Perform a daily reconciliation between that of the Hospital general ledger, affecting subsidiary ledger, and the Hospital’s bank account to ensure that actual payments are being reflected. Any and all discrepancies must be communicated to both the General Accounting Supervisor and Business Office Manager for immediate resolution. Follow up with both the General Accounting Supervisor and the Business Office Manager to ensure that all discrepancies have been fully resolved. |

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-04

Area: Accounting and Patient Affairs Department –Patients’ Accounts Receivable

CFDA No. N/A

Criteria:

Accounting principles generally accepted in the United States of America require the reconciliation of the general ledger accounts to the subsidiary ledgers on a periodic and timely basis. This practice serves as a check on the accuracy of the record-keeping process and maintains the accounts receivable on a more timely and accurate basis. Any differences should be investigated and resolved in a timely manner.

Condition:

The accounts receivable general ledger control account was not reconciled to the Patients’ accounts receivable subsidiary ledgers resulting to a difference of \$15,557,199 at September 30, 2005 as follows:

	<u>Per General Ledger</u>	<u>Per AS-400 System</u>	<u>Difference</u>
Current Receivable:			
Main Facility operations	\$ 47,491,650	\$ 70,685,801	(\$23,194,151)
Skilled Nursing Facility-Barrigada	<u>5,413,422</u>	<u>5,695,330</u>	<u>(281,908)</u>
Total	<u>52,905,072</u>	<u>76,381,131</u>	<u>(23,476,059)</u>
Collection Agencies Receivable:			
Main Facility operations	39,756,252	32,112,894	7,643,358
Skilled Nursing Facility-Barrigada	<u>1,291,327</u>	<u>1,015,825</u>	<u>275,502</u>
Total	<u>41,047,579</u>	<u>33,128,719</u>	<u>7,918,860</u>
 Total	 <u>\$ 93,952,651</u>	 <u>\$109,509,850</u>	 <u>(\$15,557,199)</u>

Based on our continued examination of the above differences, they may, in part, be attributable to accounting errors relating to the reclassification of delinquent and uncollectible accounts, bad debt write-offs and subsequent collection of those amounts, if any. There were no accounting procedures in place for the Business Office to follow nor monitoring procedures performed by accounting personnel to ensure that these transactions are properly accounted for in the in the general ledger and the Patient Information (PI) system which is the detailed subsidiary ledger.

Cause:

The Accounting Department has not been able to complete a detailed reconciliation of the general ledger control account to the subsidiary ledger. The detailed reconciliation was not adequately performed in prior years and unreconciled differences accumulated over the past five years.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-04, continued

Area: Accounting and Patient Affairs Department –Patients’ Accounts Receivable

CFDA No. N/A

Effect:

The accounts receivable and related revenue accounts are materially misstated. In addition, individual patient accounts may also be misstated. The GMHA Administration may be making managerial and financial decisions on unreliable data. The potential for fraud greatly increases when known account balance differences remain reconciled in a timely manner.

Prior Year Status:

The GMHA financial statements for prior years 2002 through 2004 were qualified as a result of the above condition.

Recommendation:

We are cognizant of the current efforts made to reconcile the above accounts and commend management its accomplishments; however, the assistant Chief Financial Officer should establish written internal control policies and procedures to ensure that the accounts receivable general ledger control account and subsidiary ledger are reconciled monthly and in a timely manner. Significant discrepancies noted during this process should be immediately investigated for resolution and reported to the Chief Financial Officer. These procedures will assist the hospital in establishing and maintaining a reliable internal control environment for the billing and collection of accounts receivable and to mitigate potential fraud.

Additional qualified and well-trained accountants (with emphasis in hospital accounting) should be hired to fill positions in the Accounting Department and the Business Office.

Auditee Response and Corrective Action Plan:

We agree with this finding and acknowledge that is a repeat finding from fiscal year audits 2002, through 2004. The former CFO had a series of meetings with both the Accounting staff and the external auditors to determine the cause. It was determined that a certain TRAN CODE did not function as expected. This TRANCODE moves patient accounts from the Current A/R bucket to the Bad Debt A/R bucket. The same TRANCODE was used to return the patient accounts from the B/D bucket to Current bucket because they were deemed collectible. Reversing the entries created the imbalance between the G/L Control and Patient Ledgers. Such conclusion was confirmed by the Accounting Technician Supervisor, Credit Section of Patient Affairs.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-04, continued

Area: Accounting and Patient Affairs Department –Patients’ Accounts Receivable

CFDA No. N/A

Auditee Response and Corrective Action Plan, continued:

The Accountant II was then tasked by the General Accounting Supervisor to perform an in-depth reconciliation of the general ledger control account and the subsidiary ledger. As direct result of her phenomenal efforts the \$23M discrepancy was drastically reduced to \$4M. The correcting entries were reviewed and approved by Hospital management. Thus for FY 2006, the G/L Control and Patient Ledgers have been reconciled as of September 2006. The same Accountant II has been tasked to monitor the daily transactions and prepare a monthly reconciliation statement.

Use of the TRANCODE for this purpose has been immediately stopped. The staff of Patient Affairs is now fully aware and knowledgeable of the consequences of their past action. It has been clearly communicated that once a patient’s account is moved from the Current A/R to the Bad Debt bucket, it shall remain there until it is paid-off or written-off. In the event that the account is written off and payment is subsequently received, such will be identified and posted as miscellaneous revenue.

Note that the Accountant II has been duly noted by Hospital Management for her exceptional efforts towards the removal of the qualification of opinion on the audit of the Hospital’s accounts receivable. The management of the Hospital does not expect a repeat of this finding in FY 2007.

Responsible Parties:

- | | |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| General Accounting Supervisor - | Development of an appropriate internal department policy. Responsible to ensure staff has been properly educated, in 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. Ensure that the general ledger has been properly reconciled to the affected subsidiary before the close of each month. |
| Business Office Manager - | Work with both the General Accounting Supervisor and the Accountant II in any and all discrepancies with the goal of working towards immediate resolution. |
| Accountant II - | Perform a daily reconciliation of the general ledger and the affected subsidiary account(s). Inform both the General Accounting Supervisor and the Business Officer Manager of any and all discrepancies. Follow up to ensure that such discrepancies have been fully resolved. |

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-05
Area: Patient Affairs Department 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 generally accepted accounting principles (GAAP). Management is also responsible for adopting sound accounting policies and for establishing and maintaining internal control 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:

GMHA does not have a formal written policy for determining its accounting estimates for provisions for bad debts, contractual allowances and adjustments. At September 2005 and 2004, the Patient Affairs Department wrote-off approximately \$25 million and \$35 million of uncollectible patient accounts receivable, respectively. GMHA was not able to substantiate its methodology for determining its accounting estimates for provisions for bad debts, contractual allowances and adjustments.

At September 30, 2005, the following unsubstantiated estimates on the valuation of realization of revenues and the collectibility of receivables for the last five years:

<u>Last Five 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 2005	\$ 12,623,724	\$ 33,403,779	\$46,027,503	\$ 103,161,746	45%
Fiscal Year 2004	12,495,905	33,680,499	46,176,404	102,483,000	45%
Fiscal Year 2003	8,497,165	33,078,624	42,025,789	97,402,769	43%
Fiscal Year 2002	3,967,182	31,767,385	35,734,567	98,839,776	36%
Fiscal Year 2001	9,854,190	34,526,685	44,380,875	106,654,687	42%

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-05, continued
Area: Patient Affairs Department and Accounting Department
– Allowance for Doubtful Accounts and Contractual Adjustments
CFDA No. N/A

Cause:

There are no 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. Neither are there any monitoring procedures in effect of such activities.

Effect:

Patient accounts receivable may be misstated by a material amount. Additionally, 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 prior years 2002 to 2004 were qualified due to the above condition.

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.

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.

A policy should be established to ensure that Patient Receivables identified as uncollectible are submitted to the Board of Trustees for approval prior to actual write-off. A minimum monetary threshold should be established to ensure that the Board of Trustees approves the write-off of all significant individual patient accounts receivable.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-05, continued
Area: Patient Affairs Department and Accounting Department
– Allowance for Doubtful Accounts and Contractual Adjustments
CFDA No. N/A

Auditee Response and Corrective Action Plan:

The Hospital acknowledges and agrees with this audit finding. The former CFO was made aware of the importance of obtaining accurate patient receivable data. Such data was and is based on estimates of both the contractual adjustments and uncollectible of patient receivables generated by the General Accounting Supervisor (GAS). Due to the journal entry being based on estimates, the validity of the amount being recognized becomes questionable. The former CFO was tasked to develop a process to capture such data from the Hospital's Information System. From there the GAS would use such a process to validate the journal entry. The former CFO was aware of such deficiency during his 2 ½ year tenure at the Hospital.

Moving forward, for FY 2007 the Collection Supervisor in Patient Affairs has been tasked to provide the necessary billing and collection data on a monthly basis required to properly compute the appropriate percentages for contractual allowance. The GAS will be responsible to present percentages and the amount representative of the percentages to both Hospital Management and the Board of Trustee Planning and Finance committee (P&FC) for both discussion and approval. With formal acknowledgment from the P&FC will a journal entry will be prepared and reflected in the general ledger by the GAS.

Policies and procedures will be developed that reflect the proper process to mitigate this finding and does not expect a repeat of this finding in FY 2007.

Responsible Parties:

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.
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.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-06

Area: Patient Affairs Department – Supporting Documents on Account Written-Off

CFDA No. N/A

Criteria:

Accounts written-off should be substantiated by sufficient evidential records in support to management’s judgment that efforts of collections have been exhausted and such warrants write-off.

Condition:

At September 2005 and 2004, under the supervision of the Assistant Chief Financial Officer and the Department wrote-off approximately \$25 million and \$35 million respectively, of uncollectible patient accounts receivable. For forty (40) bad debt transactions selected for testing, the evidential documentation to substantiate the basis of write-off of the patient receivables, and the corresponding approval by the designated officer was not provided for all selected:

<u>Date of Write-off</u>	<u>Collection Agency</u>	<u>Approximate Number of Accounts</u>	<u>Total</u>
10/16/04	Collection Agency of Guam (ACAG)	1,597	\$ 2,471,330.52
10/16/04	Collection Agency of Guam, referral 2, 3, 4	2,530	1,370,731.70
10/24/04	ACAG referrals	3,185	1,140,667.33
10/30/04	ACAG	953	4,343,071.32
10/30/04	ACAG referral 2, 3 & 4	830	828,187.28
10/30/04	Marianas Management Agency (GMM), referral 1,2 & 6	517	818,063.90
10/30/04	Savanth, referral 1 & 6	199	534,767.71
10/30/04	United Pacific Collection (1)	111	139,581.73
11/11/04	ACAG	1,668	1,839,555.27
01/13/05	ACAG	2,618	768,733.03
01/7/05,1/11, 1/13, 1/28/05	Collection of Guam referral 2,3, 6 & 7	858	1,155,016.87
02/01/05	Marianas Management Agency, referral 3,4 & 6	463	467,003.03
02/02/05	GMM6	125	224,216.26
02/2 & 2/3/05	Savanth, referral 1,2 & 3	1,011	1,365,361.82
02/04/05	ACAG	330	284,577.72
02/04/05	Savanth, referral 5	181	207,964.99
02/07/05	GMM1 & GMM3	144	619,802.25
04/28, 4/29/05	Collection Agency of Guam, ref. 4 & 5	654	732,948.18
05/06/05	GMM4	118	255,103.42
05/19/05	Savanth referral 4	131	<u>147,188.24</u>
Total			<u>\$19,713,872.57</u>

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-06, continued

Area: Patient Affairs Department – Supporting Documents on Account Written-Off

CFDA No. N/A

Cause:

There are no formal established written internal control policies and procedures for determining and approving accounts for write off, nor are there any monitoring procedures in effect. Management believed that because a member of the Board of Trustees (BOT) serves as the chairperson for the hospital's Planning and Finance Committee, the approval of the receivable write-off was already obtained.

Effect:

The potential exists for inappropriate or fraudulent write-offs to occur and not be detected in a timely manner.

Prior Year Status:

The GMHA financial statements for prior years 2002 to 2004 were qualified due to the above condition.

Recommendation:

Although a member of the Board of Trustees serves as the chairperson for the hospital's Finance Planning & Committee and reviews the patient receivables proposed for write-off, this does not constitute Board approval. A policy should be established to ensure that Patient Receivables identified as uncollectible are submitted by the Planning & Finance Committee to the Board of Trustees during its regular held meeting requesting Board resolution and approval prior to actual write-off. A detailed listing should be provided for the Board's review and to further document amounts written off for independent verification.

Auditee Response and Corrective Action Plan:

The Hospital acknowledges and agrees with this finding. There is an existing policy on writing off patient accounts. The former CFO did not follow the policy.

The ACFO will make sure that future write-offs are in accordance with the policy. The Business Office Manager will present accounts for review for write-off to the Executive Management Council and the monthly scheduled BOT Planning & Finance Committee meeting for approval. The P&F Chairperson will report this at the regular scheduled monthly meeting and introduce a BOT Resolution for approval. The Hospital does not expect a repeat of this finding in FY 2007.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-06, continued

Area: Patient Affairs Department – Supporting Documents on Account Written-Off

CFDA No. N/A

Auditee Response and Corrective Action Plan, continued:

Responsible Parties:

- | | |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Business Office Manager - | Responsible to ensuring implementation, compliance, and monitoring with approve Board approved write off policy internal policy. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Responsible also to compile a complete and accurate write off listing for presentation before the BOT P&FC on a monthly basis. Upon BOT approval ensure accounts properly reflect as being written-off in the Hospital's Information system. |
| Credit and Collection Staff - | Accountable to be in full and complete execution of the approved write off policy. Staff are responsible to patient accounts have been properly reviewed and flagged with the correct write off code. |
| EMC - | Provide guidance, approval, and acceptance of patient accounts presented for write-off as deemed by the Hospital write- off policy. |
| BOT P&FC - | Provide guidance, approval, and acceptance of patient accounts presented for write-off as deemed by the Hospital write-off policy. |

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-06, continued

Area: Patient Affairs Department – Supporting Documents on Account Written-Off

CFDA No. N/A

Auditee Response and Corrective Action Plan, continued:

Responsible Parties:

- | | |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Business Office Manager - | Responsible to ensuring implementation, compliance, and monitoring with approve Board approved write off policy internal policy. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Responsible also to compile a complete and accurate write off listing for presentation before the BOT P&FC on a monthly basis. Upon BOT approval ensure accounts properly reflect as being written-off in the Hospital's Information system. |
| Credit and Collection Staff - | Accountable to be in full and complete execution of the approved write off policy. Staff are responsible to patient accounts have been properly reviewed and flagged with the correct write off code. |
| EMC - | Provide guidance, approval, and acceptance of patient accounts presented for write-off as deemed by the Hospital write- off policy. |
| BOT P&FC - | Provide guidance, approval, and acceptance of patient accounts presented for write-off as deemed by the Hospital write-off policy. |

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-07
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 that revenues and receivables are properly valued and presented in accordance with GAAP.

Condition:

We noted that at September 30, 2005, GMHA’s Current Accounts Receivable compared to prior year increased 28% or \$16.5 million, and Bad Debt Receivables (accounts referred to collection agencies and others for collection) decreased 43% or \$25.2 million. Based on our identification of these changes, the decrease in Bad Debt Receivables did not result from increased collections, but rather a failure to properly evaluate and take appropriate action on the delinquent self pay accounts from the Current Accounts Receivable to Bad debt receivable (Collection Agency). During FY 2005, GMHA only referred approximately \$4.4 million to collection agencies.

At September 30, 2005, GMHA’s the current Self-Pay receivables (43% of the total current receivables), disclosed significant potential uncollectible accounts in the near term as follows:

Self-Pay:	
Flagged for referral to Collection Agencies	\$ 4,761,133
Flagged for referral to Revenue & Taxation	3,821,732
Flagged for GMHA legal Counsel, represented by lawyers & pending litigation accounts	5,496,051
Financial Arrangements (at arranged payor’s paying capability)	3,022,742
Self Pay accounts aging 121 days old and over	<u>9,759,853</u>
Total Potential uncollectible in the near term	26,861,511
Self Pay accounts aging 30-120 days old	<u>6,017,559</u>
Total	<u>\$32,879,070</u>

Cause:

The condition above is indicative of significant deficiencies in the design and operation of the internal control environment for the collection of services rendered to uninsured self-pay patients. GMHA is the only full-care medical facility in Guam that accepts all individuals seeking medical assistance despite the patient’s lack of medical insurance or inability to pay for such services.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-07, continued

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

CFDA No. N/A

Effect:

The bad debt losses, and the deficiencies in the design or operation of internal controls on self pay accounts adversely impacted the operation of the hospital and Management’s objectives. 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 prior years 2002 through 2004 were qualified due to the above condition.

Recommendation:

GMHA should adopt sound internal control policies and procedures over credit and collection, and develop necessary controls to mitigate aging of accounts receivable, and eventual write-off of receivables caused by failure to perform task that are part of internal controls, in a timely manner.

Auditee Response and Corrective Action Plan:

The Hospital agrees with this finding and acknowledges that it is a repeat finding for fiscal years 2002 through 2004. It should also be noted that because of its existing mandate, GMHA cannot refuse service to anyone that comes through its doors. GMHA is the only civilian hospital on Guam. GMHA is a Government of Guam entity and must follow all applicable laws. As a direct result, GMHA will continue to operate at a loss.

The growing cost of medical insurance coverage has also played a big factor on the patient mix of the Hospital. Unable to assume the cost of medical insurance, many are forced to be without medical insurance. As a patient of the Hospital they are categorized as Self Pay. The Hospital does provide the service to assist patient qualify for MIP and or MAP. The Hospital works in unison with the Department of Public Health and Social Services in processing applications. But that does not address the entire problem of uninsured patients – or true self pay.

It should also be noted that GMHA does not get reimbursed dollar for dollar from insurance providers. Although the Hospital charges based on a fee for service charge listing, Medicare reimburses at the rate of 59% and Medicaid and MIP programs by DPH&SS mirror the Medicare reimbursement rate. The difference is recorded as contractual allowance – a reduction in revenues. Reimbursements from insurance companies are counterbalanced by contractual allowances that are recognized in agreed contracts.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-07, 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:

The Legislature has recognized this fact and has appropriated funds to subsidize GMHA operations through the avenues such as the establishment of a GMHA Pharmaceutical Fund which received 5.91% of the Gross Receipts Tax collected monthly during FY 2006. For FY 2007, this percentage was increased to 6.19% of the GRT. Additionally, \$3M has also been separately appropriated for its operational needs in FY 2007. For the last three years, the Governor has provided additional funding from the federal Compact Impact Funds enabling the Hospital to purchase medical equipment and pharmaceutical supplies.

The Hospital is in the process of developing a comprehensive credit and collection policy, one that will reflect the need for a thorough evaluation process of self pay accounts. This process will develop a framework for the aging of accounts that will enable the Hospital to focus its resources on aggressive efforts in order to maximize collections. Once the policy has been formally approved, affected staff will be properly educated on the new process. The users of the Hospital will also be duly informed of the credit and collection policy via instructions from the staff and that of posted information throughout the Hospital.

Currently the Hospital is addressing its Accounts Receivable via two measures, the first being contracting with external Collection agencies to supplement the Hospital’s collection efforts. The Hospital does not have the available ready resources to properly and effectively collect from every delinquent account. The Hospital bills on an average \$8M dollars worth of patient billings on a monthly basis. Once a collection agency has been formally awarded the contract, patient accounts identified as being delinquent will be forwarded.

The Hospital has also identified an additional \$24M for referral to the Department of Revenue and Taxation (DRT) for tax garnishment. This increases the number of patient accounts referred to DRT totaling approximately \$49M. As per the prearranged referral process, identified accounts must be given at least sixty (60) days notice of the pending referral. Such notices have proven to be successful as those individuals financially able to resolve their accounts with the Hospital have done so before the given timeline. The Hospital does not expect a repeat of this finding in FY2007.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-07, 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:

Responsible Parties:

- | | |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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. 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 |
| EMC - | Provide guidance, approval, and acceptance of patient accounts presented for write-off as deemed by the Hospital write- off policy. |
| BOT P&FC - | Provide guidance, approval and acceptance of patient accounts presented for write-off as deemed by the Hospital write-off policy. |

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-08
Area: Patient Affairs Department – GMHA’s Current Receivables on MIP and MAP Accounts
CFDA No. N/A

Criteria:

Management should establish written internal control policies and procedures ensuring that revenues and receivables are properly valued and presented in accordance with GAAP.

Condition:

At September 30, 2005, current accounts receivable of GMHA flagged referrals for Medicaid (MAP) and Medically Indigent Program (MIP) constituting 35% of its current receivable which represent potential write-offs in the near term as follows:

	<u>MIP</u>	<u>MAP</u>	<u>Total</u>	Percent to <u>Total</u>
Aged over 2 years	\$ 2,231,495	\$ 1,925,989	\$ 4,157,484	16%
Aged 366-730 days	1,302,935	796,832	2,099,767	8%
Aged 181-365	<u>2,807,680</u>	<u>1,354,187</u>	<u>4,161,867</u>	<u>16%</u>
Estimated potential for Write-off in the near term	6,342,110	4,077,008	10,419,118	40%
Aged 121-180 days	2,029,699	1,573,980	3,603,679	14%
Aged Current and less 120 days	<u>6,542,436</u>	<u>5,614,932</u>	<u>12,157,368</u>	<u>46%</u>
Total MIP & MIP Current Receivable at 9/30/05	<u>\$14,914,245</u>	<u>\$ 11,265,920</u>	<u>\$ 26,180,165</u>	<u>100%</u>

Cause:

There is a lack of management oversight over monitoring and evaluation of aging of accounts receivables in a timely manner.

Effect:

The current patient accounts receivable may be overstated.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-08, continued

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

CFDA No. N/A

Recommendation:

GMHA should adopt sound 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 payment in a timely manner.

Auditee Response and Corrective Action Plan:

The Hospital acknowledges and agrees with this finding. The Hospital will incorporate its action plan for this finding with that of audit finding #05-07 with a section dedicated to the proper handling of both MIP and MAP accounts. GMHA will be mindful of repeating the billing cycle and resubmit billings for such MIP and MAP accounts before the expiration of billing period. Those accounts found to be beyond that of the billing period will be flagged and processed for write-off in accordance with the Hospital’s write-off policy. In addition, the Hospital has identified a staff (Medicaid Specialist) responsible to work directly with DPHSS in reconciling unpaid MIP and MAP accounts. Accounts that have been identified as being beyond the statutory limit for billing will be presented to the BOT for write-off.

As per Executive Order #2005-07, efforts have been made towards establishing connectivity between DPHSS and GMHA. Such connection will allow for GMHA 1) To directly input claims to DPHSS electronically 2). Receive payments electronically 3) Reconcile unpaid accounts. Although we are in the testing phase with the transmission of claims between the two entities, GMHA awaits the identification of a clearinghouse by DPHSS. HIPAA requires that all data transaction sets be processed via a clearinghouse. The Hospital does not expect a repeat of this finding in FY 2007.

Responsible Parties:

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.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-08, 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, continued:

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

EMC - Provide guidance, approval, and acceptance of patient accounts presented for write-off as deemed by the Hospital write-off policy.

BOT P&FC - Approval and acceptance of accounts provided for write-off as deemed by the Hospital write-off policy.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-09
Area: Patient Affairs Department –Current Receivable with Other Third Party Payors
CFDA No. N/A

Criteria:

Written internal control policies and procedures should be maintained for Payment Agreements to ensure balances are collected in a timely manner. Furthermore, Management is responsible for the proper valuation and presentation of accounts receivable in accordance with GAAP.

Condition:

At September 30, 2005, \$2,034,057 or 58% of the Other Third Party Payor in the current accounts receivable are payroll deduction arrangements due from employees of various agencies and departments of the Government of Guam (including GMHA) and are not collectible within one year. Approximately 50% of these payroll deductions have repayment terms ranging 5 to 20 years and beyond, but yet classified as current receivables, as follows:

<u>Aging of Receivables with Payroll Deductions arrangements with GovGuam of Agencies:</u>	<u>Amount</u>
Aged over 731 days & beyond	\$ 1,461,915
Aged 366-730 days	<u>160,995</u>
Total with payments terms over 1 year	1,622,910
Aged Current to 365 days	<u>411,147</u>
Total	<u>\$ 2,034,057</u>

Cause:

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

Effect:

The current patient accounts receivable may be overstated and improperly classified as current.

Recommendation:

GMHA should consider the discontinuance of providing excessive long-term repayment arrangements that obviously exceed the patient's reasonable live 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.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-09, continued

**Area: Patient Affairs Department –Current Receivable with Other Third Party
Payors**

CFDA No. N/A

Auditee Response and Corrective Action Plan:

The Hospital acknowledges and agrees with this finding. The Hospital will work with its legal counsel to review the language of the current payroll deduction and payment agreement contract to determine if the Hospital has standing to void said financial arrangements and effectuating one that will reflect a three (3) year repayment plan.

Prospectively, all payroll and payment agreements have a maximum term of three (3) years for repayment. Those wishing to make such financial arrangements will also be required to make a cash down-payment as dictated by the amount total of accounts outstanding.

In the event that it is legally determined that previously agreed upon payroll and payment agreements are truly binding, such accounts will be transferred from current A/R to Bad Debts. Future payment agreements will also be transferred from the Current A/R to the Bad Debt A/R.

The Hospital has since drafted a policy on payment agreements (to include payroll deductions) that will be promulgated via the Hospital's internal policy process. Pending the response from the Hospital's legal counsel the Hospital does not expect a repeat of this finding in FY 2007.

Responsible Parties:

- | | |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Business Office Manager- | Responsible for the education and compliance with the approved policy. Communicate to the staff as to the specifics of this finding and work towards the exclusion of the finding |
| Staff of Business Office- | Responsible for the proper execution of the approved policy and as it pertains to the finding. |
| Credit and Collection Supervisor- | Responsible to develop a listing of such affected accounts, monitor for progress, perform the necessary steps to bring said accounts to date, refer accounts for further collection to a Hospital recognized collection agency or for tax garnishment. |

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-10

Area: Patient Affairs Department-Internal Control Forms for Bad Debt Write-Offs, Recommendation for Referral to Collection Agency, Billing Adjustments and Transfer, Recommendation for Contractual Adjustment

CFDA No. N/A

Criteria:

In accordance with existing GMHA credit and collections policies and procedures, accounts identified and recommended for write-off; billing adjustments & transfer; amounts recommended for contractual adjustments; and accounts referred to Collection Agencies must be accompanied with the required standard form for approval and signature by the appropriate level of authority.

Condition:

Based on our observations, we noted that the required internal control forms necessary to approve and process accounts identified and recommended for write-off; billing adjustments & transfer; amounts recommended for contractual adjustments, and accounts referred to Collection Agencies are not being used to document the appropriate level of management review and approval by designated officers.

Cause:

The Business Office is using credit and collection policies and procedures which have not been formerly adopted and approved by the GMHA Board of Trustees. These existing internal control policies and procedures dated June 3, 1994 are already outdated and have not been revised to ensure that all amounts identified as delinquent; recommended for write-off; billing and contractual adjustment and referred to Collection Agencies are properly approved.

Effect:

There is no effect in the financial statements; however, the condition could result to unauthorized referrals and/or inappropriate write-off of patient accounts receivable. Fraud and errors could exist and not be detected in a timely manner.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-10, continued

Area: Patient Affairs Department-Internal Control Forms for Bad Debt Write-Offs, Recommendation for Referral to Collection Agency, Billing Adjustments and Transfer, Recommendation for Contractual Adjustment

CFDA No. N/A

Prior Year Status:

The above condition was cited as finding in the prior year audit of GMHA.

Recommendation:

Management should review and evaluate policies and procedures underlying Credit and Collections and make revisions as deemed appropriate. Afterwards, such should be presented the Board of Trustees for review and approval for formal adoption.

Auditee Response and Corrective Action Plan:

The Hospital acknowledges and agrees with this finding. The Business Office Manager has been directed to review and evaluate the policies and procedures for Credit and Collections and make necessary revisions. Input from stakeholders will be obtained. Once developed and approved staff will be trained on implementation of the policies. Target for completion and implementation is December 2006. The Business Office Manager is committed in the removal of this finding in FY 2007.

Responsible Parties:

Business Office Manager-	Responsible for the education and compliance to the approved policy. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Also will work to ensure that the Hospital's Information System reflects and transact what is prescribed in the Credit and Collection Policy.
Staff of Business Office-	Responsible for implementation of the approved policy.
Credit and Collection Supervisor-	Monitor for progress, perform the necessary steps to work with the staff in understanding and complying with the approved policies.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-11
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:

GMHA has not conducted a physical inventory of its fixed assets for the past four (4) years. Similarly, 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.

GHMA did not perform a reconciliation of its fixed assets balances between the general ledger and the AS-400 fixed assets register system. This has been a reiterative condition for the past four (4) fiscal years. At September 30, 2005, the differences noted are as follows:

	<u>Per General Ledger</u>	<u>Per AS-400 Register</u>	Variance Over <u>(Under)</u>
<u>Cost:</u>			
Hospital Buildings	\$ 56,525,432	\$ 54,799,299	\$ 1,726,133
Long-term care facility	10,660,987	10,675,491	(14,504)
Movable equipment and AS-400 system upgrade	<u>24,989,172</u>	<u>26,708,125</u>	<u>(1,718,953)</u>
Total	<u>\$ 92,175,591</u>	<u>\$ 92,182,915</u>	<u>\$ (7,324)</u>
<u>Accumulated Depreciation:</u>			
Hospital buildings	(27,371,595)	(27,289,033)	\$ (82,562)
Long-term care facility	(2,120,960)	(2,153,952)	32,992
Movable equipment and AS-400 system upgrade	<u>(22,838,636)</u>	<u>(23,433,136)</u>	<u>594,500</u>
Total	<u>(\$ 52,331,191)</u>	<u>(\$ 52,876,121)</u>	<u>\$ 544,930</u>

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-11, continued

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

CFDA No. All

Cause:

GHMA lacks internal controls and procedures to ensure compliance with the equipment management requirements. The Accounting Department did not have sufficient or experienced staff personnel to maintain and update the fixed assets register system.

Effect:

GMHA is not in compliance with the applicable Federal Regulations. The fixed assets, depreciation expense and accumulated depreciation could be materially misstated. Misappropriation of assets may exist and not be detected in a timely manner.

Prior Year Status:

The above condition was cited as a finding in the prior year audits 2002 through 2004 of the GMHA.

Recommendation:

The CFO, in conjunction with the Materials Management Department, should establish internal control policies and procedures to ensure the proper safeguarding of fixed assets. Physical inventory of fixed assets should be coordinated by the Accounting Department and conducted by the Materials Management Department. Significant discrepancies resulting from the physical inventory should be investigated and resolved. This procedure will provide the hospital with an accurate inventory of fixed assets. The resulting fixed assets listing will also provide a strong source of detail and control to establish a future system of safeguards for fixed assets and an accurate schedule from which to record future acquisitions and disposals. At a minimum, property records should include the following data:

1. Description and tag number assigned
2. Serial number of equipment
3. Location of property unit
4. Cost, purchase order number, and vendor name
5. Condition: new or used
6. Date placed in service
7. Useful life
8. Depreciation method and monthly provision for depreciation expense
9. Date retired or traded-in and/or survey report number

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-11, continued

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

CFDA No. All

Auditee Response and Corrective Action Plan:

The Hospital acknowledges and agrees with this finding. As of 07/31/2006, an Accountant II was hired. Since then the Accountant has undergone training on the use of the Hospital's fixed asset module. Great progress has been made in that new assets have been added, old assets have been disposed that are no longer in possession by the Hospital, and a monthly depreciation schedule has been generated on a monthly basis. Such progress is a direct result of a collaborative effort between the Accountant II, the Administrator for Materials Management, Manager for Facilities Maintenance and Information Services (MIS). Such progress is properly documents with folders containing supporting information on said asset. The goal is to create and maintain a master listing of all fixed assets of the Hospital.

In addition, The Accountant II is working with MIS/Data Processing to do a physical inventory of all computer hardware. The Accountant has provided MIS a copy of the fixed asset type 51 listing. Data has indicated on the list the status of the equipment – in use, surveyed, etc. From this list, the Accountant will reconcile assets.

The current disposal of assets in fixed asset module will not be completed in FY 2006 until the completion of the FY'07 physical inventory. However, for the FY 2006 audit, the Accountant will be able to produce the FY 2006 activities – additions and disposals.

It should be noted that per Government of Guam disposal regulations, disposed government property are to be conveyed to the General Service Agency (GSA) for proper disposal. For the past two fiscal years, the GSA had been unable to receive such disposed items from the Hospital as they are full capacity. The Hospital has had to “hold” on to such items.

The General Accounting Supervisor and the Administrator for Materials Management have developed a schedule for a physical inventory to begin January 2007 in coordination with the Hospital Property Control Officer. In preparation key Department heads have been given inquiry access to the fixed asset module. The schedule is to conduct a department-specific inventory until all hospital areas are completed. The only exception to this will be for assets acquired with federal funds which shall be on an annual basis. Subsequently, a hospital-wide schedule will be developed by the General Accounting Supervisor in conjunction with the Administrator of Materials Management to conduct hospital-wide inventory on a regularly defined basis.

As a result of the recruitment of an Accountant dedicated to addressing the fixed assets issues of the Hospital, it is not expected that this finding will be repeated in FY 2007.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-11, continued

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

CFDA No. All

Auditee Response and Corrective Action Plan, continued:

Responsible Parties:

General Accounting Supervisor-	Development of appropriate internal policies and procedures. Also work to educate those involved with the process of properly accounting for and inventorying of the Hospital's fixed assets. Ensure there is full compliance to the approved policy. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding.
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.
Facilities Manager, Data Processing Manager, and Material Management Manager -	Provide current and updated fixed asset listing. Work directly with the Accountant II in complying with said policy and procedures.
Department Head -	Maintain the safeguarding the Hospital property and fixed assets as assigned to respective departments.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-12
Area: Inventory in Pharmacy Department
CFDA No. N/A

Criteria:

GMHA should develop and establish written policies and procedures over control of inventory in the Pharmacy Department.

Condition:

We noted that GMHA had a continual problem with its system of internal control over handling inventory in the Pharmacy Department. Though a physical inventory count was conducted for the Pharmacy Department for fiscal year 2005, the physical count was not properly valued and posted in the inventory system and general ledger.

We also observed that there is a significant deficiency in design of the inventory system of internal control over receipt and issuance of the pharmaceuticals from Pharmacy Department to various functional floors. All issuances of pharmaceutical inventory from Materials Management Warehouse to the Pharmacy Department were incorrectly recorded in the general ledger as expenses rather than transfers. Once the transfer has occurred, there are no controls over accountability and dispensing of pharmaceuticals from the Pharmacy Department. At September 30, 2005, the comparison of current year pharmaceutical expense over prior year disclosed significant variances that appear not relevant to change in revenue:

	<u>2005</u>	<u>2004</u>	<u>Dollar Change over Prior Year</u>	<u>Percent of Change over Prior Year</u>
Gross Patients Revenue	<u>\$103,161,746</u>	<u>\$ 102,483,000</u>	<u>\$ 678,746</u>	<u>0.7%</u>
Pharmaceuticals (Dept. 8390)	<u>\$ 4,064,913</u>	<u>\$ 2,448,585</u>	<u>\$ 1,616,328</u>	<u>66%</u>
% of Pharmaceuticals to Gross Patients Revenue	<u>4%</u>	<u>2%</u>		

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-12, continued
Area: Inventory in Pharmacy Department
CFDA No. N/A

Condition, continued:

We further observed a lack of segregation of duties, as the employee in the Materials Management –Pharmacy Warehouse/Stock person responsible for the issuance of inventory to Pharmacy Department, is also responsible for determining and preparing requisitions, delivers and receives the items requisitioned for Pharmacy Department, and is required to stock the same items in the Pharmacy Department.

Cause:

There is a lack of established internal controls over ensuring that inventory in the Pharmacy Department are properly controlled and accounted for with the proper level of segregation of duties. Internal control policies and procedures have not been established to ensure proper determination when pharmaceutical inventory should be properly expensed.

Effect:

The GMHA inventory could be materially understated and pharmaceutical expense is overstated. The potential greatly exists for waste, fraud and other defalcation and not be detected at all.

Recommendation:

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.

Auditee Response and Corrective Action Plan:

The Hospital acknowledges and agrees with this finding. The former CFO was aware of the finding and had resigned from the Hospital late September 2006 without any formal plan of action to address this finding. Effective November 1, 2006, the Pharmacy staff will no longer be assigned to issue/deliver supplies from the Warehouse. Administrator for Materials Management will assign one of his staff supply clerk to deliver supplies from the warehouse to the pharmacy.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-12, continued
Area: Inventory in Pharmacy Department
CFDA No. N/A

Auditee Response and Corrective Action Plan, continued:

The Hospital must bring to light the conditions that have predicated the finding. The first being the lack of understanding of inventory being as asset until it is dispensed to the patient. Items being delivered from Materials Management to either Pharmacy or the medical units are being viewed as being expensed. Theoretically, such items are not expensed but are still an inventory until it is dispensed and is then recorded as a charge to the patient. Accounting will set up general ledger accounts to reflect the transfer from Pharmacy to the respective medical units as inventory.

The difficulty experienced by the Hospital in recruiting and retaining qualified Pharmacist has aggravated the implementation of a regular inventory of pharmaceuticals. Meeting the pharmaceutical needs of the patients took precedence over the performance of a regular inventory. Please note that this staffing shortage does not negate the importance of this finding. The Hospital does not expect a repeat of this finding in FY 2007.

Responsible Parties:

Pharmacy Director-	Development, implementation and monitoring of appropriate internal policies. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Ensures that the staff is properly educated with said approved policy. Will also be responsible to that final, approved inventory results are inputted and reflected in the Hospital's Pharmacy module.
Pharmacy staff-	Compliance with approved internal policy as it pertains to this finding.
Administrative Assistant-	Generation of current inventory listing as a basis for regular inventory counts.
General Accounting Supervisor-	Responsible to monitor and reconcile said affected general ledger accounts. Work with both the Pharmacy Director and Materials Management in resolving any discrepancies promptly. Ensure that the Hospital's general ledger reflects the final, approved inventory results.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-13

Area: Accounting Department -Timely Reconciliation of Accounts

CFDA No. N/A

Criteria:

The general ledger control accounts should be reconciled to subsidiary ledgers and related underlying supporting schedules and documentation on a periodic basis throughout the fiscal year.

Condition:

The Accounting Department did not reconcile general ledger accounts throughout the fiscal year in a timely manner. Though we were furnished GMHA's trial balance on January 24, 2006, numerous general ledger accounts required fifty-five (55) additional accounting entries and four (4) post-closing entries which had a cumulative net effect on the fund balance totaling \$3,663,861. These post book journal entries were back posted to September 30, 2005 on various dates from January 24 through May 27, 2006. As a result, we received three different trial balances for the year ended September 30, 2005 for audit purposes.

Cause:

The Accounting Department does not have sufficient staff to carry out the day-to-day accounting functions and perform the related account reconciliations in a timely manner. There is a lack of internal control over ensuring that general ledger accounts are reconciled to subsidiary ledgers and supporting account analyses on a periodic basis.

Effect:

The above-mentioned year-end book entries were made to correct various general ledger accounts; however, fixed asset, patients accounts receivable accounts, and inventory-pharmaceuticals remained uncorrected at September 30, 2005. GMHA administration may be making managerial and financial decisions on unreliable data. Furthermore, the above condition contributed to the untimely completion of the audit as additional time was expended revising trial balances, expanding auditing procedures testing management assertions and searching for unrecorded transactions to mitigate material misstatement in the financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-13, continued

Area: Accounting Department -Timely Reconciliation of Accounts

CFDA No. N/A

Prior Year Status:

The above condition is reiterative of condition cited in the prior year audits of GMHA.

Recommendation:

The Chief Financial Officer (CFO) should implement systematic method of ensuring that timely and complete monthly reconciliation and closing procedures take place. The Assistant Controller should monitor month-end closing procedures and ensure accounts are reconciled periodically throughout the year. Procedures should also be well established to ensure that at fiscal year end, all significant account balances are reconciled to the general, reviewed and approved by the Assistant Controller and or the CFO. To facilitate this process, a checklist of all significant accounts should be established assigning staff responsibility, frequency of periodic reconciliation, date of completion and independent review.

Auditee Response and Corrective Action Plan:

The Hospital agrees with this finding and notes that is reiterative of prior year audits. Prior year audits issued by the current auditors of J. Scott & Magliari have also recognized the lack of personnel in Accounting. For FY 2005, no recruitment of additional Accountants occurred. The recruitment of an Accountant II in FY06 was an in-house promotion. FY 2007 has resulted in the hiring of an Accountant I, a graduate from the University of Guam. It should be noted that the former CFO stated that there were no qualified accountants with Hospital experience available on Guam. The Hospital will continue its recruitment efforts of accountants.

In recognition for the need to regularly reconcile accounts, after preparation of monthly interim financial statements, copies of the trial balance is made available to the Accounting staff. Monthly meetings are held to review the trial balance and make note of abnormal balances. Accounts with abnormal balances are analyzed and adjusting entries are prepared.

Separate binders, spreadsheets and diskettes are available for review. Under the leadership of the General Accounting Supervisor, great strides are being made to ensure that this finding will not be repeated for the FY 2007.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-13, continued

Area: Accounting Department -Timely Reconciliation of Accounts

CFDA No. N/A

Auditee Response and Corrective Action Plan, continued:

Responsible Parties:

General Accounting Supervisor-	Development, implementation, and monitoring of appropriate internal policy. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Will also be responsible to review and approve reconciliation papers. Will also ensure that all discrepancies are resolved and adjusting entries made in a timely basis.
Accounting Staff-	Responsible to perform account reconciliation on a regular and consistent basis. Discrepancies will be reported to the General Accounting Supervisor for disposition.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-14

Area: Procurement: Requisitions and Purchase Order

CFDA No. N/A

Criteria:

GMHA's procurement regulations require that requisition for services specified in its Procurement Regulation Section 2-111 (among others were Physicians and other Professionals), and subject to the provisions of Guam Procurement Act, be procured using competitive selection procedures.

Condition:

Requisitions for professional services were paid without a valid purchase order and documentation for the basis of selection in accordance to its referenced procurement regulations for the following requisitions:

<u>Requisition Number</u>	<u>Vendor Number</u>	<u>Amount per Rendered Services</u>	<u>Amount Requisition</u>	<u>Total Payment Paid</u>	<u>Service Dates</u>
R5-7630-1193*	9006	Radiology Physician	\$ 27,625.55	\$ 27,375.55	06/2005
R5-7630-1373*	9006	Radiology Physician	47,576.00	48,125.00	8/01-31/05
R5-7630-1210*	393	Radiology Physician	6,000.00	5,000.00	5/18-27/05
R5-7630-1328*	393	Radiology Physician	19,400.00	15,000.00	7/05-31/05
R5-7630-1396	393	Radiology Physician	21,800.00	21,800.00	08/2005
R5-7630-1251*	268	Radiology Physician	38,200.00	11,200.00	5/31-6/30/05
		Total	<u>\$160,601.55</u>	<u>\$128,500.55</u>	

*The contract agreements provided for review were found incomplete of approving signatories required under applicable Guam Procurement Act on procurement of Physician services.

The following purchase orders were used for emergency procurements; however, as evidence above, the vendor/physician had been performing the services since May, 2005 without open competition. Considering the time elapsed from the date of need (May 2005 to October 2005), GMHA could have sought competitive selection method for the following:

<u>Purchase Order (PO) Number</u>	<u>Vendor Number</u>	<u>Amount per Rendered Services</u>	<u>Amount per Purchase Order</u>	<u>Total Amount Paid</u>	<u>Service Dates</u>
25004675**	393	Radiology Physician	\$ 62,800.00	\$ 60,800.00	09/2005
25004674	9006	Radiology Physician	47,576.00	48,902.51	07/2005
25004676	380	Radiology Physician	28,200.00	18,400.00	5/27-7/6/05
		Total	<u>\$138,576.00</u>	<u>\$ 128,102.51</u>	

**The contract agreement provided for review was incomplete for two Government of Guam's approving signatories.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-14, continued

Area: Procurement: Requisitions and Purchase Order

CFDA No. N/A

Cause:

Management circumvented the procurement requirements for open competition due to the lack of potential offerors.

Effect:

GMHA is not in compliance with its procurement rules and regulations.

Prior Year Status:

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

Recommendation:

GMHA Management should adhere to established procurement regulations for emergency procurements.

Auditee Response and Corrective Action Plan:

The Hospital agrees with this finding. The Hospital has reviewed the 2005 Requisition Logbook and found that all six requisitions listed were never logged, therefore not received in Material Management Office. The logbook is available for inspection.

For PO 25004674, the total amount for the corresponding Requisition (R5-7630-1307) that was processed appropriately included costs for per diem and round trip airfare for the Locum Tenens Radiologist. The amount of the aforementioned PO for Radiologist services only matched the professional services. The per diem and travel costs were handled separately.

For PO 25004675, the contract document included a signatory line for the Civil Service Commission (CSC). For past similar transactions processed by Materials Management the CSC had not been included as a signatory. Professional Services contracts do not require CSC approval. Employment contract processed through our Human Resources department do require CSC approval.

For PO 25004676, there was a delay in the processing of the appropriate procurement documents.

For the requisitions mentioned in the finding, these were for Locum Tenens hiring which the Hospital had previously done under the previous administrations. The Attorney General's Office (AG) had advised the Hospital that these Locum Tenens are not appropriate for use and that the

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-14, continued

Area: Procurement: Requisitions and Purchase Order

CFDA No. N/A

Auditee Response and Corrective Action Plan, continued:

Hospital should use Emergency Procurements in the future if a need arises. Since receiving that advice from the AG's, the Hospital no longer uses the procurement practice of Locum Tenems. The Hospital agrees with the recommendation from the AGs and will make sure that the Hospital will adhere to the established procurement regulations for emergency procurements. Anecdotally, the Hospital has hired its own Hospital Radiologists and thus the Hospital does not expect a repeat of this finding in FY 2007.

Responsible Parties:

Supply Administrator-	Adherence to established procurement regulation for emergency procurement. Work with violators in remedying the violation. Responsible to document any violation of said procurement regulations.
Staff of Materials Management -	Responsible to be cognizant of their work to avoid any future procurement violations.
Hospital Certifying Officer -	Responsible to be informed of such violations and not certify funds available.
Hospital Budget Officer-	Responsible to monitor for such violations and take the appropriate actions to remedy the violations.
Accounts Payable -	Responsible to ensure that all procurement documents are in order prior to the processing of payments and render payment on a timely basis.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-15
Area: Procurement: Requisition Order
CFDA No. N/A

Criteria:

Pursuant to GMHA's procurement procedures, requisitions should be authorized by the Budget Office approving the total amount of funds requested. Thereafter, the purchase order is prepared and then signed by the Hospital Administrator in which the details noted within should agree to the requisition order.

Condition:

PO #25004673 in the amount of \$67,300 awarded to vendor #393 for radiology services rendered during October 2005 did not agree to the requisition order amount of \$60,000. There was no documentation on file to substantiate the \$7,300 variance. Additionally, the vendor was not the lowest bidder and has been performing radiology services being the contract period without open competition as noted in Finding No. 05-14.

Cause:

There is a lack of internal controls to ensure that the appropriate procurement procedures are in effect to compare requisition amounts to purchase order amounts and to monitor, properly document and approve all change orders or modifications.

Effect:

GMHA is not in compliance with its procurement procedures.

Prior Year Status:

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

Recommendation:

The Supply Management Administrator should develop and use a checklist to ensure that the proper information and authorized signatures are present in preparing the purchase orders. Change orders or purchase order modifications should well-documented with appropriate authorized justification.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-15, continued
Area: Procurement: Requisition Order
CFDA No. N/A

Auditee Response and Correction Action Plan:

The Hospital acknowledges the finding. As noted in audit finding #05-14, the urgency to procure the services of a Radiologist was at stake. At the time the Hospital was on a month to month contract for Radiology services. This instance, the awarded party (lowest bidder) was unable to provide the proper documents to secure the bid. The purchase order was then immediately issued to the next lowest bidder. The assigned buyer failed to re-certify fund available on the requisition re-certified for the additional amount causing this finding.

The staff of Materials Management is fully aware of the cause and consequences of their actions. A new awareness and attentiveness to the procurement process is being made by the staff to avoid future finding of this nature. The Hospital does not expect a repeat of this finding in FY 2007.

Responsible Parties:

Supply Administrator-	Adherence to established procurement regulation for emergency procurement. Work with violators in remedying the violation. Responsible to document any violation of said procurement regulations.
Staff of Materials Management -	Responsible to be cognizant of their work to avoid any future procurement violations.
Hospital Certifying Officer -	Responsible to be informed of such violations and not certify funds available.
Hospital Budget Officer-	Responsible to monitor for such violations and take the appropriate actions to remedy the violations.
Accounts Payable -	Responsible to ensure that all procurement documents are in order prior to the processing of payments and render payment on a timely basis.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-16
Area: Procurement: Contracts
CFDA No. N/A

Criteria:

GMHA’s procurement regulations Sections 2-111 (Approval of Contracts of Certain Services) and 3-207 (Competitive Selection for Services in Section 2-112), mandates procurement of services under this authority to secure contract approval on services among others; physicians and other professionals subject to certain provisions of the Guam Procurement Act.

Condition:

For three (3), or 5% of sixty (60) purchase order tested, services were rendered by vendor without valid contract executed in accordance to GMHA procurement regulation for the following:

<u>Purchase Order No.</u>	<u>Vendor No.</u>	<u>Amount of Open Purchase Order</u>	<u>Finding Remarks</u>
25004331	4275	\$ 127,096.77	The radiology consultant services for March 2003 to September 2003 were not supported with valid contract during performances of services. The supporting contract was approved as to legality and form only in October 2003, however, was deficient of the Governor’s signature signifying approval. The P.O. was subsequently paid.
25001696	4296	110,000.00	This procurement is for Capital Development Services. The consulting agreement was incomplete of the approving signature as to legality and form by the Attorney’s General Office and therefore, contract was not valid. At September 30, 2005, total payment paid for services rendered without valid contract in place was \$46,447.80, or approximately 42% of the contract price.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-16, continued
Area: Procurement: Contracts
CFDA No. N/A

Condition, continued:

<u>Purchase Order No.</u>	<u>Vendor No.</u>	<u>Amount of Open Purchase Order</u>	<u>Finding Remarks</u>
25002343	8704	\$ 82,350.00	The procurement was for physician's services. The contract agreement was incomplete of the approving signature as to legality and form by the Attorney's General Office and therefore, the contract was not valid. At September 30, 2005, the purchase order amount was paid with an excess of \$1,350.00 over PO amount.

Cause:

Management has overridden the internal control on procurements.

Effect:

GMHA is in noncompliance with applicable procurement requirements. Additionally, unusual relationship may have existed.

Recommendation:

The management of GMHA should enforce its internal control policies and procedure to ensure strict compliance to its procurement regulations. Contracts should not be executed until appropriate documentation and requisite approvals have been obtained and duly documented.

Auditee Response and Correction Action Plan:

The Hospital acknowledges the finding. All three purchase orders were issued as ordered by the former Hospital Administrator/CEO and approved by the former CFO. In all cases, the services were rendered prior to the initiation of the procurement process. Requisitions and purchase orders were eventually processed due to the vendor demanding payments.

The Material Management Administrator was prudent and strongly advised the former Hospital Administrator /CEO and former CFO of the possible procurement violation. However, in this instance the ultimate responsibility and accountability is with the GMHA Certifying Officer, former Hospital Administrator/CEO.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-16, continued

Area: Procurement: Contracts

CFDA No. N/A

Auditee Response and Correction Action Plan, continued:

The Supply Administrator will continue to properly advise the Hospital Certifying office, the Hospital Administrator/CEO and the CFO as to the proper and correct procurement regulations. The Supply Administrator will document of any violation for proper documentation and recordkeeping. The Hospital does not expect a repeat of this finding in FY 2007.

Responsible Parties:

Hospital Administrator/CEO - Adhere to all procurement rules and regulations.

Hospital Certifying Officer - Adhere to all procurement rules and regulations.

Accounts Payable - Responsible to ensure that all procurement documents are in order prior to the processing of payments and render payment on a timely basis.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

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

Criteria:

In accordance with the requirement of Federal Emergency Management Agency (FEMA), quarterly reports should be submitted 15 days after the end of each calendar quarter.

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

Cause:

The person in-charge of preparing the quarterly progress reports was at the time of the due date for the report focused in preparing federal grant application for National Bio-terrorism Hospital Preparedness Program.

Effect:

GMHA is not in compliance with applicable Federal grant financial reporting requirements.

Recommendation:

GMHA should establish internal control policies and procedures ensure compliance with the applicable federal grant reporting requirements.

Auditee's response and Corrective Action Plan:

The Hospital agrees with this finding. Organizationally, the Planning Department is responsible for the coordination and administration of FEMA and Bio-Terrorism (BT) Program for GMHA.

In this instance, the delay in the submission of one (1) quarterly progress report was due to lack of personnel in the Planning Department. The untimely of the resignation of the previous BT Coordinator caused the department to be late in the submission of the 2005 BT grant application which was due early July 2006. The month of June 2006 was spent meetings with various hospital departments, compiling data, and then writing the grant application.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

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

Auditee Response and Correction Action Plan, continued:

After the BT 2005 application was submitted, the Planning Department prepared and submitted the 06/30/2005 progress report fourteen (14) days late. Subsequent quarterly progress reports were submitted on time and without cause. It should be noted that 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.

Responsible Parties

Chief Planner -	Responsible to ensure that the Hospital is compliant with all Federal Grant requirements. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding.
BT Coordinator -	Responsible for the compilation of federal grant reporting requirements. The submission of the succeeding grants application. The maintenance of all federal grant documentation for record keeping purposes.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

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

Criteria:

In accordance with the requirement of 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 statute. Eligible cost to a federal program should not be included as cost of other federally-supported activities of the current period or a prior period.

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 to pharmaceutical vendors. The supporting expenditures and corresponding invoices in which cost/charges were also claimed on other grants totaled \$192,678.66 are as follows:

Compact FY 2005, GR 570079, DOA check No. 68104, dated 8/15/05

<u>Invoice Number</u>	<u>Vendor Number</u>	<u>GMHA Check Payment Number</u>	<u>Date of Check</u>	<u>Amount</u>	<u>Reimbursement of Costs/Charges to Other Grant Project:</u>
93000373905	3049	103349	08/19/05	\$ 71,547.00	National Bio-Terrorism Hospital Preparedness Program, Grant Years 2002-2003, GR U3RMC00058-02-03, Drawdown No.13, DOA ck #72190 dated 8/26/05
71947	1036	102946	06/17/05	43,753.00	National Bio-Terrorism Grant Preparedness Program, Grant Years 2002-2003, GR U3RMC00058-02-03, drawdown No.12, DOA ck #63356 dated 7/18/05
	Sub-total			<u>\$ 115,300.00</u>	

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

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

Condition, continued:

Compact FY 2005, GR 570079, DOA check No. 68104, dated 8/15/05, continued:

<u>Invoice Number</u>	<u>Vendor Number</u>	<u>Payment Number</u>	<u>Date of Check</u>	<u>Amount</u>	<u>Reimbursement of Costs/Charges to Other Grant Project:</u>
		GMHA Check			
Sub-total forwarded				\$ 115,300.00	
1459179	1041	103317	08/18/05	6,318.33	National Bio-Terrorism Hospital Preparedness Program, Grant Year 2004, Grant No. U3RHS038520-01-03, drawdown No. 2, DOA ck #83561 dated 10/27/05
4201215	1049	103326	08/18/05	614.78	Compact Impact FY 2005,GR 570079, drawdown no. 2, DOA check no. 63677 dated 7/25/05, received 7/26/05
4201247	1049	103326	08/18/05	197.30	-same above-
4189357002	1049	103326	08/18/05	499.45	-same above-
4208893	1049	103326	08/18/05	57.42	-same above-
4208899	1049	103326	08/18/05	1,925.00	-same above-
4208907	1049	103326	08/18/05	16,613.60	-same above-
4208910	1049	103326	08/18/05	52.00	-same above-
4208913	1049	103326	08/18/05	1,123.20	-same above-
4208916	1049	103326	08/18/05	714.50	-same above-
42089903	1049	103326	08/18/05	1,008.00	-same above-
4211565	1049	103326	08/18/05	1,038.40	-same above-
418941001	1049	103326	08/18/05	4,798.56	-same above-
4101972	1049	103326	08/18/05	2,265.00	-same above-
4137127	1049	103326	08/18/05	78.00	-same above-
4137130	1049	103326	08/18/05	1,011.84	-same above-
4137137002	1049	103326	08/18/05	360.64	-same above-
4146765001	1049	103326	08/18/05	82.40	-same above-
4158090	1049	103326	08/18/05	185.25	-same above-
4177645	1049	103326	08/18/05	84.38	-same above-
4177708	1049	103326	08/18/05	71.90	-same above-
	Sub-Total			<u>\$ 154,399.95</u>	

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

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

Condition, continued:

Compact FY 2005, GR 570079, DOA check No. 68104, dated 8/15/05, continued:

<u>Invoice Number</u>	<u>Vendor Number</u>	GMHA Check <u>Payment Number</u>	<u>Date of Check</u>	<u>Amount</u>	<u>Reimbursement of Costs/Charges to Other Grant Project:</u>
Sub-total forwarded				\$ 154,399.95	
					Compact Impact FY 2005,GR 570079, drawdown no. 2,DOA check no. 63677 dated 7/25/05, received 7/26/05
4186052	1049	103326	08/18/05	1,375.88	-same above-
4186061	1049	103326	08/18/05	84.50	-same above-
4189357	1049	103326	08/18/05	706.05	-same above-
4189410	1049	103326	08/18/05	2,559.59	-same above-
4189432	1049	103326	08/18/05	977.60	-same above-
4160639	1049	103326	08/18/05	1,260.00	-same above-
4189320	1049	103326	08/18/05	477.36	-same above-
4189342	1049	103326	08/18/05	1,300.70	-same above-
4189357001	1049	103326	08/18/05	7,189.72	-same above-
4193900	1049	103326	08/18/05	152.82	-same above-
4190286	1049	103326	08/18/05	4,256.90	-same above-
2252	4386	103316	08/18/05	316.80	-same above-
2253	4386	103316	08/18/05	1,703.00	-same above-
2256	4386	103316	08/18/05	108.00	-same above-
2257	4386	103316	08/18/05	530.00	-same above-
2258	4386	103316	08/18/05	1,254.00	-same above-
2263	4386	103316	08/18/05	420.00	-same above-
2265	4386	103316	08/18/05	1,281.00	-same above-
2266	4386	103316	08/18/05	3,492.00	-same above-
2247	4386	103316	08/18/05	232.00	-same above-
2248	4386	103316	08/18/05	3,874.19	-same above-
2251	4386	103316	08/18/05	3,882.00	-same above-
S100019170	1400	103319	08/18/05	717.00	-same above-
S100019172	1400	103319	08/18/05	127.60	-same above-
	Total			<u>\$ 192,678.66</u>	

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

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

Questioned Costs:

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

Cause:

The supporting invoices claimed on the \$3,005,000 Compact Grant assistance program did not pass through Federal/Planning Division of the Hospital for review ensuring that such invoices were not claimed as allowable charges/cost of other federally supported program of the Hospital. Additionally, there is a lack of internal controls and procedures to adhere to the requirement of the Common Rule federal regulations.

Effect:

GMHA is not in compliance with federal requirements as result of this condition. Therefore, a questioned cost exists of \$192,678.66, as a result of this condition.

Recommendation:

We recommend GMHA to adhere to the requirements of OMB Circular A-87. Adequate internal controls and procedures should be in place ensuring claims for reimbursements/or charges for a federal award programs are not duplicated to other grant programs.

Auditee Response and Correction Action Plan:

The Hospital agrees with this 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. As a result of the coordinated efforts, the Hospital does do not expect a repeat of this finding in FY 2007.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

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

Auditee Response and Correction 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.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

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

Criteria:

In accordance with applicable allowable costs/cost principles and the Common Rule, expenditures charged to federal programs should be reasonable and necessary for the proper administration of the program; allocable to particular cost objective in accordance with relative benefits received; conform to the applicable cost principles or limitation, if any, in the program agreement, program regulations, or program statute; should be properly supported by appropriate documentation, and be maintained on file for audit trail and review.

Condition:

The supporting invoices for drawdown #1, project number COFA-2005-1, GR 570079 for check #57215 for \$1,500,000 received 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 as following:

Listings of Pharmaceutical vendors' invoices provided by GMHA in support for above the drawdown	\$ 2,909,096.83
Actual cost requirement for compliance test	<u>1,500,000.00</u>
Excessive vendor's invoices not in the scope of test	<u>\$ 1,409,096.83</u>

Cause:

There is a lack of internal control procedures to ensure that only allowable and actual costs were charged to the drawdown requested and such were documented and on file.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

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

Effect:

The potential exists that a duplication of charges to other federal grant programs were requested for reimbursements. Therefore, a questioned cost exists of \$1.5 million as a result of this condition. Additionally, GMHA is not in compliance to the applicable activities allowed or unallowed requirements and OMB Circular A-87.

Recommendations:

The above discrepancy should be promptly investigated to properly identify the duplication of expenditures reimbursed under above Federal grant programs. We recommend that management develop internal control policies and procedures ensuring program expenditures incurred and requested for reimbursements are based on actual documented costs, specifically identified, rather than budgeted or projected amounts. GMHA should adhere to the requirement of applicable federal regulations.

Auditee Response and Correction Action Plan:

The Hospital agrees with this finding. The former CFO, prior to his separation from the Hospital 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.

Realizing the effect upon the Hospital if the finding is not resolved immediately, the General Accounting Supervisor has respectfully volunteered and been assigned to review the \$2.9M listing and do appropriate reconciliation. We have presently reinforced procedures that all Compact Impact reimbursements have to be quality-checked by Planning Department.

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. As a result of the coordinated efforts, the Hospital does do not expect a repeat of this finding in FY 2007.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

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

Auditee Response and Correction 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.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-20
Area Accounting – Federal Grants Financial Management
CFDA No. 15.875 and 97.039, 93.003
Program Name Compact Impact 2005, Economic, Social, and Political Development
of the Territories, FEMA and National Bio-Terrorism Hospital
Preparedness

Criteria:

In accordance with OMB Circular A-110 Subpart C, grantees of federal awards are required to maintain financial management systems to properly identify and have effective control over the accountability for all federal funds on a grant-by-grant basis.

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.

Cause:

The current system is inadequately designed to maintain a separate cost centers for each grant program of the hospital.

Effect:

GMHA is not in compliance with OMB Circular A-133 and A-110 requirements. Certain accounts such as equipments, construction in progress and other cost centers were misstated. Depreciation could be misstated. The timely completion of the audit was delayed as result of this condition. At September 30, 2005, misstatements were corrected upon reconciliation and adjustments subsequently performed by the General Accounting Supervisor in May 2006.

Recommendation:

We suggest that GMHA maintain separate cost centers for each federal funding source and clearly reflect activity on a grant by grant basis. This practice will also facilitate the reporting requirements for grants and contracts collaborated by the monitoring controls maintained by the planning department and federal awards.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-20, continued
Area Accounting – Federal Grants Financial Management
CFDA No. 15.875 and 97.039, 93.003
Program Name Compact Impact 2005, Economic, Social, and Political Development of the Territories, FEMA and National Bio-Terrorism Hospital Preparedness

Auditee Response and Correction Action Plan:

The Hospital agrees with this finding. Note that the audit finding can be directly attributed to lack of accounting staff. Due to the Hospital being unable to properly recruit additional accounting staff, the Hospital is unable to fully comply with all its accounting functions and needs. The Hospital has had to rely on the Planning department has had to provide the majority of information regarding awarded federal grants.

Moving forward, in FY 2006, the Hospital was fortunate to be awarded the Administration for Native Americans (ANA) grant, Bio-Terrorism, and FEMA Hazard Mitigation Grant. Actual expenditures for each of the listed grants are reviewed on a monthly basis by the Planning Department in coordination with Accounting. Equipments that have been purchased through such grants has been capitalized and added to the Hospital's Fixed Assets system module.

As a measure of internal control and review, Accounting will be establishing a cost center unique to each awarded federal grant. Upon receipt of the notification of award, a journal entry to record both the grant receivable and deferred revenue as prepared. Expenditures associated with each grant will be treated in the same manner in which a cost center will be assigned. Such measures will make for straightforward tracking of requisitions and purchase orders. This will ensure federal grant information will correspond with that of Planning and the Accounting Departments.

The Hospital does not expect a repeat of this citation in FY 2007.

Responsible Party:

General Accounting Supervisor - Will ensure that such finding will be completely mitigated with the creation of a cost center for the receivable and expenditure associated with each grant. Will also be responsible to ensure that the Hospital's Information System reflects accurate and correct grant information. Will reconcile with Planning to ensure consistency of grant data. Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-21
Area: Personnel Department- Random Drug Testing
CFDA No. 15.875 and 97.039, 93.003
Program Name Compact Impact 2005, Economic, Social, and Political Development of the Territories, FEMA and National Bio-Terrorism Hospital Preparedness

Criteria:

Pursuant to the requirements of the Federal Drug-Free Workplace Act, GMHA is required to conduct random drug testing for all employees.

Condition:

During the year 2005, GMHA has not performed a random drug testing on employees in Testing Designated Positions (TDP's) involved in the direct care of patients

Cause:

The cause of this condition is unknown; however, the TDP positions are currently being reviewed by Executive Management Council.

Effect:

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

Prior Year Status:

The above conditions were cited as findings in the prior year audits 2002 through 2004.

Recommendation:

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

Auditee Response and Correction Action Plan:

The Hospital agrees with this finding. The Personnel department is planning to implement the Random Drug Testing program (RDT) by January 2007. The Hospital's Executive Management Council (EMC) has decided that all positions within the Hospital should be subject to random testing. The listing of additional positions to be tested will be compiled with the appropriate justification to be submitted to the Attorney General's Office for approval.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-21, continued
Area: Personnel Department- Random Drug Testing
CFDA No. 15.875 and 97.039, 93.003
Program Name Compact Impact 2005, Economic, Social, and Political Development of the Territories, FEMA and National Bio-Terrorism Hospital Preparedness

Auditee Response and Correction Action Plan, continued:

The Hospital is in the process of developing an all encompassing Request for Proposal in the administration of the RDT. Former efforts did not include the services of a Medical Review Officer. The Hospital is also moving forward with developing an education program for its employees. The Hospital has budgeted funds for the implementation of the RDT program in the FY2007 budget. The Hospital does not expect a repeat of this finding for FY 2007.

Responsible Party:

Personnel 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.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-22
Area Cash Management
CFDA No. 15.875
Program Name Compact Impact 2005, Grant Numbers 570079 and 470089

Criteria:

In accordance with the applicable cash management requirements, the time elapsed between the receipt of Federal Funds from the recipient and pay out of funds or check disbursements for program purposes should be minimized.

Condition:

Based on review of the above grant, certain drawdown disclosed pay-out or check disbursements dates with excessive time elapsed between receipt of the federal funds to disbursement date/and or clearance date for the following:

<u>Grant Award Number/Year</u>	<u>Date Funds Received from Pass-through Agency(DOA)</u>	<u>Date of the Check Disbursement</u>	<u>Check Number</u>	<u>Program Cost</u>	<u>Days Elapsed</u>
GR570079/FY2005	11/10/05	12/07/05	104194	\$ 47,255.03	27 days
GR570079/FY2005	11/10/05	12/06/05	104182	90,725.15	26 days
GR570079/FY2005	11/10/05	03/17/06	104644	2,645.28	127days
GR570079/FY2005	11/10/05	12/16/05	104217	3,650.00	36 days
GR570079/FY2005	11/10/05	02/02/06	104384	29,537.50	84 days
GR570079/FY2005	11/10/05	03/03/06	104539	10,099.79	113 days
GR570079/FY2005	11/10/05	11/30/05	104134	7,723.66	21 days
GR570079/FY2005	07/26/05	08/18/05	103326	53,122.74	23 days
GR570079/FY2005	07/26/05	08/03/05	103235	41,045.55	8 days
GR570079/FY2005	07/26/05	08/18/05	103316	17,092.99	23 days
GR570079/FY2005	07/26/05	08/01/05	103208	29,232.50	6 days
GR570079/FY2005	07/26/05	08/18/05	103319	844.60	23 days
GR570079/FY2005	08/17/05	09/22/05	103699	700.00	36 days
GR570079/FY2005	08/17/05	09/27/05	103732	1,091.97	41 days
GR570079/FY2005	08/17/05	09/28/05	103744	<u>640.87</u>	42 days
	Total			<u>\$335,407.63</u>	

Cause:

There is a lack of establish internal controls and procedures to minimize the time elapsed between the receipt of Federal funds from pass-through entity and the disbursement of checks.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Finding No. 05-22, continued
Area Cash Management
CFDA No. 15.875
Program Name Compact Impact 2005, Grant Numbers 570079 and 470089

Effect:

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

Recommendation:

We recommend that management should establish 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. The internal control and procedures should be in place to ensure compliance with federal cash management requirements.

Auditee Response and Correction Action Plan:

The Hospital agrees with this finding. The former CFO was provided numerous reminders and memorandums from the Planning Department as to the importance of the timely payment of grant related expenditures upon receipt of the funds. These reminders and memorandums were disregarded thus resulting in the audit finding. The former CFO did not consider payments for qualified Compact Impact expenditures as a priority.

In FY 2005, the Hospital's Accounts Payable (A/P) had grown to a huge outstanding balance with poor collections of Patient Receivables; the Hospital was creative in requesting the reprogramming of Compact Impact funds to specifically meet pharmaceutical obligations. It was only upon the approval of the Governor that the Hospital was able to avert a pharmaceutical emergency situation.

The current Hospital Administration has recognized this oversight by the former CFO and has mandated the Accounting department to process payments for all programs within five to seven (5 to 7) working days upon receipt of the funding.

With improved coordination between Accounting and the Planning department, the Hospital does not expect a repeat of this finding in FY 2007.

Responsible Parties:

Chief Planner -

Communicate to the staff as to the specifics of this findings and work towards the exclusion of the finding. Coordinate with Accounting to ensure that qualified vendors are paid as per the stipulations of the grant and Hospital mandated timeline.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Finding No. 05-22, continued
Area Cash Management
CFDA No. 15.875
Program Name Compact Impact 2005, Grant Numbers 570079 and 470089

Auditee Response and Correction Action Plan, continued:

Responsible Parties, continued:

General Accounting Supervisor -	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.
Accounts Payable -	Ensure the qualified vendors are paid within the Hospital management mandated timeline of three to seven (3 to 7) working days. Also will be responsible to ensure that all related procurement and grant documents are attached to the payable request.

GUAM MEMORIAL HOSPITAL AUTHORITY

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

FOR THE YEAR ENDED SEPTEMBER 30, 2005

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Arising from Prior Year Single Audits Year Ended September 30, 2005

2004 Audit Findings

Finding No.04-20—Property Management and Accounting Department-Physical Inventory of Fixed Assets

Condition: GMHA did not conduct a physical inventory of fixed assets during the year. Furthermore, for twelve (12) or 27%, of forty-five (45) movable equipments tested for physical existence, the equipment had been surveyed-out to the General Services Agency (GSA) in prior years; however, the fixed assets register system in the AS-400 had not been updated to remove the disposed equipment from the system.

Corrective Action & Current Response:

GMHA's corrective action and current response is documented in Finding No. 05-11, pages 88 and 89.

Auditor's

Response: A reiterative condition was cited in the current year audit as Finding No.05-11.

Finding No.04-25—Property Management & Accounting Department –Fixed Asset Register Reconciliation

Condition: There are no established written procedures for reconciling detailed fixed assets records on a regular and timely basis. GMHA did not conduct a physical count of its fixed asset inventory for the year ended September 30, 2004. During fiscal year 2004, approximately 140 items comprising of computer equipment and peripherals, and medical equipment were surveyed-out and transferred to GSA for disposition; however, none of those items were posted as disposed in the AS-400 fixed assets module system. Furthermore, at September 30, 2004 the GMHA fixed assets balances per general ledger did not agree with that of the balances in the fixed assets register in the AS-400.

Corrective Action & Current Response:

GMHA's corrective action and current response is documented in Finding No. 05-11, pages 88 and 89.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Arising from Prior Year Single Audits Year Ended September 30, 2005

2004 Audit Findings, continued

Finding No.04-25—Property Management & Accounting Department –Fixed Asset Register Reconciliation, continued

Auditor's

Response: A reiterative condition was cited in the current year audit as Finding No.05-11.

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:

GMHA issued a draft policy No. 6440-12 "Budget Modification" to provide a process that will allow the transfer of the GMHA's Board of Trustee Approved Fiscal Year Operational budget on a line item appropriation from one expense category to another in order to meet fiscal year shortfalls.

The Materials Management was advised to stop issuing "estimated monthly" purchase orders and uses another unit of measure to better track the balance available for one-year purchase orders.

Auditor's

Response: The questioned costs on this finding have not been resolved. Therefore, this finding remained unresolved.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Arising from Prior Year Single Audits Year Ended September 30, 2005

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:

Construction purchase orders do not necessarily expires at the end of the fiscal year but at the completion date as agreed upon by GMHA Facilities and by the contractor. Each project has a start date and an end date. In some cases change orders are issued and the Material Department will issue a new purchase orders.

Auditor's

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

Finding No.04-37—Procurement: Bid Invitation and Award / RFP forms

Condition: For twelve (12) or 24% of the fifty (50) purchase orders tested, the Bid Invitation and Award or the Request for Proposal form was either not on file or not signed by the Hospital Administrator.

Corrective Action & Current Response:

Materials Management has created a check list for step-by-step processing and documentation requirements for RFP and Formal Bids.

Auditor's

Response: It was noted that the GMHA's corrective action plan was properly implemented during the fiscal year ending September 30, 2005. Therefore, this finding is considered resolved.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Arising from Prior Year Single Audits Year Ended September 30, 2005

2004 Audit Findings, continued

Finding No.04-39—Procurement: Qualified Bidders List

Condition: For four (4) or 8% of the fifty (50) purchase orders tested, the same three (3) vendors (Vendor #8068, #8352 and #8528) were contacted for bid proposals for emergency procurements made by the Hospital Administrator. Furthermore, there was no qualified bidders list on file that would list all of the potential vendors who have provided construction services for the Hospital in the past. There was no rational basis to determine how the three particular vendors were recommended for submitting bid proposals for the requested construction projects.

Corrective Action & Current Response:

Materials Management will make sure a bidder's list is provided in the bid packets. Although the list was not provided, the requesting department had done its research and only selected the vendors that have provided similar services to the Hospital in the preceding 12 months.

Auditor's

Response: It was noted that the GMHA's corrective action plan was properly implemented during the fiscal year ending September 30, 2005. Therefore, this finding is considered resolved.

GUAM MEMORIAL HOSPITAL AUTHORITY

Summary Schedule of Unresolved Prior Year Audit Findings Arising from Prior Year Single Audits Year Ended September 30, 2005

2003 Audit Findings

Finding No. 2003-21—Property Management & Accounting Dept.- Fixed Asset Register Reconciliation

Condition: There are no procedures for reconciling detailed fixed records to the general ledger on a regular and timely basis. The lack of such procedure has led to the inaccurate reporting of fixed asset cost and depreciation expense in the monthly financial statements. At September 30, 2003, the fixed assets balances per general ledger did not agree with that of the balances in the fixed assets register in the AS-400 system.

Corrective Action & Current Response:

GMHA's corrective action and current response is documented in Finding No. 05-11, pages 88 and 89.

Auditor's

Response: A reiterative condition is cited in fiscal year audits 2005 and 2004.

Finding No. 2003-22—Property Management and Accounting Dept.- Physical Inventory of Fixed Assets

Condition: GMHA did not conduct a physical inventory of fixed assets during the year. Twelve (12), or 46%, of twenty-six (26) movable equipments tested for physical existence could not be located.

Corrective Action & Current Response:

GMHA's corrective action and current response is documented in Finding No. 05-11, pages 88 and 89.

Auditor's

Response: A reiterative condition is cited in fiscal year audits 2005 and 2004.

GUAM MEMORIAL HOSPITAL AUTHORITY

**SUMMARY OF UNRESOLVED QUESTIONED COSTS
SEPTEMBER 30, 2005**

	Questioned Costs	Costs Allowed	Costs Disallowed	Unresolved Questioned Costs
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	682,771	10,796	-	671,975
Questioned costs for fiscal year ending 2005	<u>1,692,678</u>	<u>-</u>	<u>-</u>	<u>1,692,678</u>
Total unresolved questioned costs At September 30, 2005	<u>\$ 4,431,904</u>	<u>\$ 10,796</u>	<u>\$ -</u>	<u>\$ 4,421,108</u>

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