

**Guam Memorial Hospital Authority  
FY 2002 Financial Highlights**

November 24, 2004

The fiscal year 2002 audit of the Guam Memorial Hospital Authority (GMHA) received a qualified opinion due to difficulties in the reconciliation of various account balances in the financial statements, such as the reconciliation of the subsidiary ledgers to the general ledger for receivables and allowance for bad debts, which have variances of \$13.2 million and \$22.8 million, respectively. The auditors also cited a \$31.1 million variance in accounts receivable confirmations when compared to GMHA's subsidiary ledger summary. As a result, the audit is over a year and a half late. The 2002 audit was conducted by J. Scott Magliari & Company. The prior year audit disclosed a \$19 million unreconciled difference between the accounts receivable control account and subsidiary ledger; however, the prior year auditors did not qualify the FY 2001 audit opinion.

GMHA's operating loss decreased from \$7.1 million in FY 2001 to \$3.3 million in FY 2002, due to the decline in operating revenues from \$73.2 million to \$68.3 million and the decline in operating expenses from \$80.2 million to \$71.5 million. The reduction in revenues was primarily due to the inability to reconcile the receivables. We did note that while GMHA's number of personnel increased from 945 to 952, personnel costs decreased \$3.6 million from \$47.8 million in FY 2001 to \$44.2 million in FY 2002. GMHA expended \$1.1 million in interests and penalties.

In FY 2002, GMHA received a substantial cash infusion of \$25.2 million, compared to \$5.7 million in FY 2001, from the Government of Guam. The funds were used for the following:

<u>Amount</u>	<u>Funding Source</u>	<u>Used to Fund</u>
\$ 20,380,334	Guam Economic Development and Commerce Authority's re-issuance of government revenue bonds	Payoff existing bank loan
2,240,258	Government appropriation under Public Law 26-33	Tax obligations in arrears at the Department of Revenue and Taxation
2,615,676	Tobacco Bond Proceeds <sup>1</sup>	GMHA's operational and capital expenditures

As a result, long-term debt declined from \$26.8 million to \$1.1 million. Without continued subsidies from the Government of Guam, the auditors recognize GMHA's inability to operate as a going concern.

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<sup>1</sup> According to OPA Report 04-12, Department of Administration's Health and Human Services Fund and Youth Tobacco Education and Prevention Fund, GMHA is entitled to \$4.9 million of the total \$9.8 million (Series 2001 A Bond); however, only \$2.6 million was expended in FY 2002.

The sluggish collection of receivables continues to place GMHA in a cash flow crunch. The allowance for doubtful receivables was \$73,679,214; thus, GMHA expects to collect only 32 cents of every dollar, while 68 cents remains uncollected.

The Compliance and Internal Control Reports cited 24 findings, up from 10 findings in FY 2001. Fourteen of the findings were considered material weaknesses, of which two findings concerned cash receipts, three discussed payroll, three expressed procurement issues, and five findings concerned password access, software licensing, patient valuables, security department, and pharmaceuticals inventory. The auditors considered findings 02-02 through 02-17 and 02-19 as reportable conditions; three of which concerned the reconciliation of the accounts receivable and allowance for bad debts mentioned above. Findings 02-07, 02-08, 02-10, 02-14, and 02-17 are repeat findings of FY 2001. Other findings discussed in the report were:

**Notes Payable.** GMHA has an outstanding payable of \$15.8 million to the Government of Guam Retirement Fund (Retirement Fund) as of September 30, 2002 and GMHA currently does not have a new payment schedule agreement or promissory note on all of its outstanding liabilities with the Retirement Fund.

**Payroll-Accrued Leave.** A personnel file did not have documentation to support remaining annual leave balance of 178.30 leave-sharing hours. This occurred due to a lack of internal control over the maintenance of the annual leave register.

**Fund Balance/Net Assets.** In Finding 02-13, the auditors spent numerous hours investigating the discrepancy totaling \$919,283 in the Unrestricted Fund beginning balance and the audited financial statements, which were due to the failure to post four prior year adjustments.

**Procurement.** In Finding 02-07, the Hospital Administrator approved a purchase order (PO) in the amount of \$572,994 without any written justification to validate the reason for using the sole source method. In Finding 02-08, two bids were solicited for certain items in which the vendor with a \$22,771 bid was chosen over another vendor's \$18,252 bid without any written justification for selecting the higher bidder. In Finding 02-19, four POs, totaling \$26,177, lacked documentation of vendor invoice and/or receiving reports.

**Password Access.** Finding 02-20 discussed the absence of control in tracking passwords to access modules that should have only been assigned to limited number of personnel. Giving access to unauthorized individuals increases the potential for fraud when pertinent information could unknowingly be lost, suppressed, duplicated, or otherwise improperly modified.

**Patient Valuables.** Patient valuables were not adequately safeguarded at GMHA. Finding 02-22 cited eight weaknesses, including five patients' unclaimed valuable envelopes that were not found in the safe, four patient valuable envelopes dating back to 1997 were missing a total of \$846, and no written policy on how to dispose of unclaimed envelopes that have been in the hospital's safe for a specified amount of time.

The current management<sup>2</sup> acknowledges the deficiencies, which took place under the previous management, and are currently taking corrective actions. See the Management's Discussion and Analysis (MD&A) for further detail.

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<sup>2</sup> The Hospital Administration and the Chief Financial Officer were hired in calendar year 2003 and February 2004, respectively.