

GUAM MEMORIAL HOSPITAL AUTHORITY

**(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

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

YEAR ENDED SEPTEMBER 30, 2016

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

Board of Trustees
Guam Memorial Hospital Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Guam Memorial Hospital Authority (the Authority), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2016, and the related statements of revenues and expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

Compliance and Other Matters

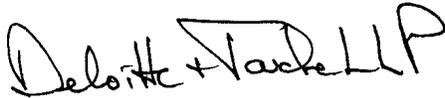
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

The Authority's Response to Findings

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

Purpose of this Report

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

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

April 24, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
THE UNIFORM GUIDANCE**

Board of Trustees
Guam Memorial Hospital Authority:

Report on Compliance for Each Major Federal Program

We have audited Guam Memorial Hospital Authority's (the Authority's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2016. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control Over Compliance

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

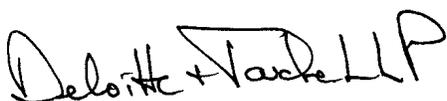
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Guam Memorial Hospital Authority (the Authority) as of and for the year ended September 30, 2016, and have issued our report thereon dated April 24, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



April 24, 2017

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

<u>Grantor/CFDA#</u>	<u>Program Title</u>	<u>Expenditures</u>
U.S. Department of the Interior		
Passed through the Government of Guam:		
15.875	Economic, Social and Political Development of the Territories: Compact Impact FY 2015-5 : GMH & SNU Renovations	\$ 107,475
	Compact Impact FY 2016-2 : GMH Operations Offset	<u>2,257,437</u>
	Total U.S. Department of the Interior	<u>2,364,912</u>
U.S. Department of Health and Human Services		
Passed through the Government of Guam:		
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements: HPP Grant FY 2015	170,168
	HPP Grant FY 2015 - HPP 2014 Carryover	178,486
Passed through the Government of Guam:		
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	<u>56,659</u>
	Total U.S. Department of Health and Human Services	<u>405,313</u>
Office of Civil Defense		
Passed through the Government of Guam:		
97.047	Pre-Disaster Mitigation FY 2013 Pr-Disaster Mitigation (PDM) Competitive Grant	<u>40,900</u>
	Total Federal Awards	<u>\$ 2,811,125</u>
Reconciliation to the financial statements:		
	Federal program expenditures recorded as operating expenses	\$ 2,717,617
	Nonoperating expenses: Federal program expenditures	<u>93,508</u>
		<u>\$ 2,811,125</u>

See accompanying notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

(1) Scope of Audit

Guam Memorial Hospital Authority (the "Authority") is a component unit of the Government of Guam (GovGuam), a governmental entity created on July 26, 1977, under Public Law No. 14-29 as an autonomous agency of GovGuam. Only the transactions of the Authority are included within the scope of the Uniform Guidance (the "Single Audit").

Programs Subject to Single Audit

The accompanying Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of the Interior, the U.S. Department of Health and Human Services and the Office of Civil Defense.

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Matching Costs

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

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 200.516(a) of the Uniform Guidance? | No |
| 9. Identification of major programs: | |
| <u>CFDA Number</u> <u>Name of Federal Program or Cluster</u> | |
| 15.875 Economic, Social and Political Development of the Territories | |
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2016-001	Patient Receivables
2016-002	Inventory

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

**GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-001 – Patient Receivables

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

Condition: Tests of patient receivables noted the following:

- Patient receivables increased by \$10,640,103 (or 4%) from \$298,286,783 at September 30, 2015 to \$308,926,886 at September 30, 2016 and the allowance for contractual adjustments and estimated uncollectible accounts increased by \$9,720,327 (or 4%) from \$276,963,344 at September 30, 2015 to \$286,683,671 at September 30, 2016. In March 2017, GMHA recorded a \$220 million of write-offs to correct receivables and to reflect active accounts; however, the write-off has not been reflected in the subledgers as of September 30, 2016. Documentation of Board approval of the \$220 million write off is yet to be provided.
- There appears to be an improvement in the billing process with the total unbilled receivables decreasing from \$14.2 million as of September 30, 2015 to \$5.5 million as of September 30, 2016. However, GMHA’s total unbilled receivables include approximately \$3.8 million which are over 30 days as of September 30, 2016. Details follow:

<u>Aging</u>	<u>Number of Items</u>	<u>% of total</u>	<u>Amount</u>
0-30 days	368	32%	\$ 1,750,804
31-60 days	99	9%	639,184
61-90 days	71	6%	497,933
91-180 days	155	14%	1,052,219
181+ days	<u>444</u>	<u>39%</u>	<u>1,606,230</u>
Grand Total	<u>1137</u>	<u>100%</u>	<u>\$ 5,546,371</u>

Cause: The cause of the above condition appears to be (1) GMHA’s mandate to service all those in need of medical services regardless of patient condition; (2) lack of continuous familiarity by GMHA personnel with the new revenue and collection management system; and (3) volume and complexity of billing and collection processes compared to available resources.

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

Recommendation: We recommend that the Authority continue its effort to follow-up on outstanding patient receivables and continually review existing collection measures and strategies. We further recommend that the Authority revisit the adequacy of resources assigned to the billing and collections division.

Views of Auditee and Planned Corrective Actions: We will adhere to the correction action plan on page 10 in this audit report.

**GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-002 – Inventory

Criteria: Inventory records should reconcile to the general ledger and differences should be investigated and be timely reconciled.

Condition: The final inventory reports did not agree to the general ledger as of September 30, 2016. Further, documentation that general ledger inventory balances were updated based on actual counts including necessary roll forward from count date to yearend was not evident. Detailed reconciliations and investigation of differences between counts and records did not appear to be performed. Details are as follows:

	<u>Per General Ledger</u>	<u>Per Final Inventory Reports</u>	<u>Variance</u>
Pharmacy in materials	\$ 1,921,089	\$ 1,925,215	\$ (4,126)
Pharmacy in pharmacy	278,898	278,598	300
General stores	1,642,594	1,477,233	165,360
Central supply	<u>-</u>	<u>99,828</u>	<u>(99,828)</u>
	<u>\$ 3,842,581</u>	<u>\$ 3,780,874</u>	<u>\$ 61,707</u>

Cause: The cause of the above condition is the lack of coordination between the Fiscal Office and the Inventory Management Office and the lack of controls over yearend inventory count and reconciliation.

Recommendation: We recommend that the Authority strengthen controls over inventory including yearend count procedures and reconciliation to the general ledger. The Authority may consider establishing a threshold that will determine when to investigate significant variances and movements in inventory balances.

Views of Auditee and Planned Corrective Actions: We will adhere to the correction action plan on page 10 in this audit report.

**GUAM MEMORIAL HOSPITAL AUTHORITY
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Corrective Action Plan
Year Ended September 30, 2016

Finding No. 2016-001 – Patient Receivables

Name of Contact Person: Benita Manglona (Chief Financial Office) and Edward Birn (Assistant Chief Financial Officer)

Corrective Action Plan: GMHA continues to review and restructure its billing and collection resources. It has updated and improved reporting processes and these reports are being provided to and discussed with major payors. The write-off of receivables has been approved by board members by proxy vote and will be documented at the next full board meeting.

Proposed Completion Date: GMHA is in the process of implementing the above corrective actions.

Finding No. 2016-001 – Inventory

Name of contact person: Benita Manglona (Chief Financial Office) and Edward Birn (Assistant Chief Financial Officer)

Corrective Action Plan: GMHA has instituted reports which identify inventory differences on a periodic basis. GMHA has ordered and is in the process of installing the Pyxis pharmacy control system which will significantly reduce inventory variations and enhance billing procedures. Year-end procedures will be revised so that the Fiscal Office will be the department with primary responsibility for the year-end inventory count and reconciliation.

Proposed Completion Date: GMHA is in the process of implementing the above corrective actions.

**GUAM MEMORIAL HOSPITAL AUTHORITY
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Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2016

Questioned Costs:

There are no questioned costs reported as of September 30, 2016.

Summary Schedule of Prior Audit Findings

As of September 30, 2016, the status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2015 is as follows:

Finding No.	CFDA No.	Requirement	Status at September 30, 2016
2014-003	15.875/ 93.074	Equipment and Real Property Management	Resolved.
2015-001	N/A	Patient Receivables	Not corrected. Refer to 2016-001
2015-002	N/A	Inventory	Not corrected. Refer to 2016-002