

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, 2010

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 the financial statements of the Guam Memorial Hospital Authority (the Authority) as of and for the year ended September 30, 2010, and have issued our report thereon dated December 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 and 2010-2 to be material weaknesses.

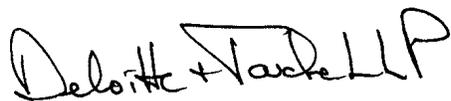
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated December 29, 2010.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Trustees, the Office of Public Accountability of Guam, federal awarding agencies, the cognizant audit and other federal agencies, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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December 29, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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**

Board of Trustees
Guam Memorial Hospital Authority:

Compliance

We have audited the Guam Memorial Hospital Authority's (the Authority) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 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, 2010. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 18). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in items 2010-3 and 2010-4 in the accompanying Schedule of Findings and Questions Costs, the Authority did not comply with requirements regarding procurement and suspension and debarment that are applicable to its National Bioterrorism Hospital Preparedness Program (CFDA# 93.889) and Economic, Social, and Political Development of the Territories: Compact Impact Grants Program (CFDA #15.875). Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the previous paragraph, the Authority complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of the Authority 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 our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the Authority's internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies and material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in internal control over compliance 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 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 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-3 to be a material weakness.

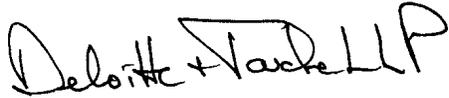
A *significant deficiency* in internal control over compliance is a deficiency, or combination of deficiencies with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-4 to be a significant deficiency.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses, and accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Guam Memorial Hospital Authority as of and for the year ended September 30, 2010, and have issued our report thereon dated December 29, 2010. Our audit was performed for the purpose of forming our opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 7) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Trustees, the Office of Public Accountability of Guam, federal awarding agencies, the cognizant audit and other federal agencies, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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

December 29, 2010

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

Schedule of Programs Selected for Audit
in Accordance with OMB Circular A-133
Year Ended September 30, 2010

The following list specifies programs selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements.

| <u>Grantor</u> | <u>CFDA #</u> | <u>Amount of</u> <u>Description</u> | <u>Expenditures</u> |
|--|---------------|--|---------------------|
| U.S. Department of the Interior | 15.875 | Economic, Social, and Political Development of the Territories: Compact Impact Grants | \$ 5,461,705 |
| U.S. Department of Health and Human Services | 93.889 | National Bioterrorism Hospital Preparedness Program | <u>562,164</u> |
| | | Total program expenditures tested | \$ <u>6,023,869</u> |
| | | Total federal program expenditures | \$ <u>6,066,688</u> |
| | | % of total federal program expenditures tested | <u>99%</u> |

**GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

| <u>CFDA#</u> | <u>Agency/Program</u> | <u>2010 Federal Expenditures</u> |
|--|---|--|
| <u>U.S. Department of the Interior:</u> | | |
| Passed through the Government of Guam: | | |
| Economic, Social and Political Development of the Territories: | | |
| 15.875 | Compact Impact FY 2007 - Pharmaceutical supplies and equipment | \$ 353,473 |
| 15.875 | Compact Impact FY 2007 - Building Improvement Projects | 713,687 |
| 15.875 | Compact Impact FY 2008 - CIP 2008 | 533,987 |
| 15.875 | Compact Impact FY2008 - Pharmaceutical supplies and equipment | 57,661 |
| 15.875 | Compact Impact FY 2009 - Pharmaceutical supplies and equipment | 177,897 |
| 15.875 | Compact Impact FY 2009 - Operational assessment | 125,000 |
| 15.875 | Compact Impact FY 2010 - Vendor payables | <u>3,500,000</u> |
| | Total U.S. Department of the Interior | <u>5,461,705</u> |
| <u>U.S. Department of Health and Human Services:</u> | | |
| National Bioterrorism Hospital Preparedness Program: | | |
| 93.889 | Bioterrorism Hospital Preparedness Grant FY 2007 | 63,587 |
| 93.889 | Bioterrorism Hospital Preparedness Grant FY 2008 | 94,080 |
| 93.889 | Bioterrorism Hospital Preparedness Grant FY 2009 | 345,128 |
| 93.889 | Bioterrorism Hospital Preparedness Grant FY 2010 | 11,987 |
| 93.889 | Pan Flu | <u>47,382</u> |
| | | 562,164 |
| 93.089 | Emergency System for Advance Registration of Volunteer Health Professionals | <u>42,819</u> |
| | Total U.S. Department of Health and Human Services | <u>604,983</u> |
| | Total Federal Program Expenditures | <u>\$ 6,066,688</u> |
| Reconciliation to the basic financial statements: | | |
| | Pharmaceutical supplies and healthcare services | 3,500,000 |
| | Capitalized as fixed asset additions | 2,155,330 |
| | Federal program expenditures recorded as nonoperating expenses | <u>411,358</u> |
| | | <u>\$ 6,066,688</u> |

See accompanying notes to schedule of expenditures of federal awards.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

(1) Scope of Audit

The Guam Memorial Hospital Authority (the Authority) is a component unit of the Government of Guam, a governmental entity created on July 26, 1977 under Public Law No. 14-29 as an autonomous agency of the Government of Guam. Only the federal expenditures of the Authority are included within the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the Authority's cognizant agency for the Single Audit.

a. Programs Subject to Single Audit

A Schedule of Expenditures of Federal Awards is presented for each Federal program related to the following agencies:

- U.S. Department of Health and Human Services
- U.S. Department of the Interior

(2) Summary of Significant Accounting Policies

a. 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 OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

b. Matching Costs

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

c. Indirect Cost Allocation

The National Bioterrorism Hospital Preparedness Grant allows, upon prior grantor approval, an indirect cost allocation of 10% of certain administrative expenses to be charged against the grant. The Authority did not charge indirect costs against this program during fiscal year 2010.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|---|---------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|-----------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 7. Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. The Authority's major programs were as follows: | |

| Name of Federal Program | CFDA Number |
|--|-------------|
| Economic, Social and Political Development of the Territories: | |
| Compact Impact Grants | 15.875 |
| National Bioterrorism Hospital Preparedness Program | 93.889 |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$300,000 |
| 11. The Authority qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No |

Part II – Financial Statement Findings Section

| Finding Number | Findings |
|----------------|-------------------------------------|
| 2010-1 | Patient Receivables |
| 2010-2 | Pharmaceutical Department Inventory |

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Section III – Federal Award Findings & Questioned Costs

| Reference Number | CFDA Number | Findings | Questioned Costs |
|---------------------|----------------|--|---------------------|
| 2010-3 | 15.875 | Procurement and Suspension and Debarment | \$ 699,938 |
| 2010-4 | 93.889 | Procurement and Suspension and Debarment | \$ 29,075 |

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No. 2010-1 - Patient Receivables

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

Condition: During tests of receivables at September 30, 2010, the following were noted:

1. Patient receivables increased by \$15,220,874 from \$167,311,367 at September 30, 2009 to \$182,532,241 at September 30, 2010. Based on the Authority's analysis, estimated uncollectible accounts increased by \$12,534,324 from \$126,611,480 at September 30, 2009 to \$139,145,804 at September 30, 2010. Further, the Authority's analysis of the aging of patient receivables as of September 30, 2010 indicated that approximately 36% of the total patient receivables are over 365 days old.
2. As of September 30, 2010, receivables from self-pay patients alone amounted to \$17.9 million, of which 72% are from individuals without insurance. Further, of the \$17.9 million, approximately 60% is due from individuals who appear to have limited or who have no capacity to pay based on their stated employment status.
3. For the fiscal year ended September 30, 2010, total collections of total gross patient billings is at 54% compared to 59% for the fiscal year ended September 30, 2009. Further, while total gross patient billings for fiscal year 2010 increased by 8.3% from fiscal year 2009, collections decreased by 1.3%.
4. For the fiscal year ended September 30, 2010, self pay admissions amounted to \$11.4 million, of which 59% are from unemployed individuals. For the fiscal year ended September 30, 2009, self pay admissions aggregated \$7.8 million, of which 38% are from unemployed individuals. The \$3.6 million increase in self pay admissions related substantially to unemployed individuals.

The Authority has implemented various collection measures and strategies to address increasing receivables and has established an allowance for balances deemed uncollectible as of September 30, 2010.

Cause: The cause of the above condition appears to be declining economic conditions.

Effect: The effect of the above condition is the 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 to further develop other plans to address increasing patient receivables.

Auditee Response and Corrective Action Plan: The Hospital acknowledges the finding. Accessibility to health insurance is a problem not only on Guam but on a national level. In March 2010, the United States passed a comprehensive health care reform law, also known as the Affordable Care Act to allow the estimated 32 million Americans access to health insurance. Although Guam does have the MIP and MAP, possession of health insurance still poses a challenge as evident in the growing number of unemployed patients.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No. 2010-1 - Patient Receivables, Continued

The volume of work involved in the collection from uninsured Self Pay patients is extensive. If the information provided by the patient at the point of admission is correct (such as contact numbers and mailing address), the Hospital has an opportunity to collect. If the patient's contact information that was provided is incorrect, then the Hospital would then begin the process to immediately refer the account to an external collection agency.

The Hospital has implemented in previous fiscal years and will continue to:

1. Focus on up front collection efforts both at the point of admissions and discharge.
2. To work with our uninsured Self Pay patients in processing and obtaining either or both MIP and MAP coverage with the Department of Public Health and Social Services.
3. Additional in-house collection staff was recently added in April 2010. The intent was to focus their efforts on performing in-house collection calls to patients whose accounts are at a maximum over 90 days outstanding. The collection staff has validated via their collection efforts, the fact that our patients just don't have the funds to pay the Hospital. Case in point, the Hospital did a public outreach to the seventeen thousand plus uninsured Self Pay accounts to come into the Hospital to settle their account. The Hospital only netted a little over twenty five hundred patients making contact or coming in to discuss their bill. The Hospital only realized a little over four hundred thousand dollars as most executed a payment or payroll deduction to address their account.
4. Refer accounts older than 90 days for further collection efforts with external collection efforts.
5. The Hospital recently retained internal legal counsel (December 2010). Plans are being formulated to pursue either the referral of accounts through the Superior Court for either Small Claims or Probate.
6. P.L. 30-196 appropriated to the Hospital over \$2M for Charity Care. A draft policy has been generated and is being reviewed by Senior Hospital management. The Hospital is looking at implementing a Charity Policy subsequent to the approval of the policy by the Board of Trustees in January 2011.

Responsible Party: The Chief Financial Officer will be responsible to provide structure and direction to the Collection staff based on the above guiding collection principles. The goal will be to maintain no less than three to four months of uninsured Self Pay accounts in its Accounts Receivable. This would equate to about \$9M in unpaid uninsured Self Pay accounts.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No. 2010-2 Pharmaceutical Department Inventory

Criteria: Perpetual inventory records should reflect inventory quantities on-hand. Furthermore, underlying records should reconcile to the general ledger and differences should be investigated and reconciled in a timely manner.

Condition: The Guam Memorial Hospital Authority does not maintain perpetual inventory records for the pharmacy department. Only a year-end physical count is performed and the general ledger is adjusted to reflect the results of the count. Furthermore, detailed reconciliations and investigations of differences are not performed. The Authority addressed certain matters related to these controls by having the pharmacy open and operating on an all day basis. This effectively limits the amount of inventory that had to be transferred out each night to hospital staff. However, basic control issues do not appear effective without some form of perpetual inventory system over material dollar values of inventory.

Cause: The Authority has not been able to implement a perpetual inventory system for the pharmacy.

Effect: Pharmacy inventory balances may potentially be misstated. Furthermore, the potential for misappropriation of assets exists and it appears that such would not be prevented or detected in a timely manner.

Prior Year Status: Lack of adequate controls over pharmaceutical department inventory was reported as a finding in the Single Audits of the Authority for fiscal years 2008 and 2009.

Recommendation: The Guam Memorial Hospital Authority management should attempt to maintain perpetual inventory records which reflect quantities on-hand. If it is not possible to establish a perpetual system for all of pharmacy, then perpetual inventory controls should be implemented for key drugs and other high dollar value items while the Authority continues to seek a solution for the entire pharmacy inventory.

Prior Year Status: Lack of adequate controls over pharmaceutical department inventory was reported as a finding in the Single Audits of the Authority for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan: The Hospital acknowledges the finding. As we have had to prioritize the use of limited liquid cash, the Hospital explored the availability of using federal funds to upgrade our Health Information System in early FY2010. Unfortunately, subsequent to the submission of the grant application, the Hospital was advised that this grantor did not fund hardware or software purchases/upgrades.

With the passage of the Affordable Care Act, the United States government through the Center for Medicare & Medicaid Services (CMS) is providing funding incentives for Electronic Health Records (EHR). If CMS certified hospitals demonstrate compliance by 2012 of meaningful EHR usage, they would be entitled to receive at least \$2M in funding.

The Hospital is currently working its Health Information provider, Keane to meet that deadline. In addition to the EHR component, Keane is introducing a complete update of all of its health care software, with the Pharmacy module to be included. Such upgrades are projected to include the required connection between the subsidiary and general ledger, and most importantly the generation of reports tracking receiving and disbursement from all aspects of the charge capture process.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No. 2010-2 Pharmaceutical Department Inventory, Continued

The Hospital is currently working with the Health Information provider to meet the 2012 deadline. Keane is one of the few Health Information providers to have attained EHR certification with CMS – a required process in order to qualify for EHR monetary incentives. Upon receipt, the incentives would be used to fund the upgrade with Keane.

In the meantime, the Pharmacy department now staffs one full time procurement personnel responsible to monitor the ordering and inventory of pharmaceuticals – from the point of receipt to the issuance to the servicing department. Accounting, along with the Procurement department works with the Pharmacy department in monitoring pharmacy activities.

The Hospital also continues to conduct an annual inventory of on-hand pharmaceuticals as a measure to track usage.

Responsible Party: The BOT IT, Facilities, and CIP Committee is committed to ensuring internal efforts are maintained to meet the 2012 deadline of meaningful use of EHR in order to qualify and receive CMS funding incentives.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-3
CFDA Program.: 15.875 Economic, Social, and Political Development of the Territories
Agency: U.S. Department of the Interior
Grant: Compact Impact Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$699,938

Criteria: In accordance with applicable procurement regulations, the grantee shall maintain records that detail the history of the procurement, including the rationale behind the method of procurement chosen, selection of contract type, rationale for contract/bid selection or rejection, and basis for contract price.

Condition: For 3 (or 6%) of 51 transactions tested totaling \$2,690,168, sole source procurement was used to procure healthcare professional services from one vendor (vendor #7375). Based on the information provided, there was insufficient information to indicate how the grantee determined that no other vendors could provide required services and that the vendor selected is the only source of the requested services.

| <u>Purchase Order</u> | <u>Amount</u> |
|-----------------------|-------------------|
| 20101086 | \$ 270,103 |
| 20101320 | 119,673 |
| 20101085 | <u>76,999</u> |
| Total | \$ <u>466,775</u> |

The related total fiscal year 2010 expenses paid to the vendor and charged to federal programs was \$699,938.

Cause: There appears to be inadequate documentation evidencing compliance with applicable procurement requirements.

Effect: The Authority appears to be in noncompliance with applicable procurement requirements. Therefore, a questioned cost of \$699,938 results from this condition.

Recommendation: The Authority should strengthen controls to ensure compliance with applicable procurement requirements.

Prior Year Status: Inadequate documentation evidencing compliance with applicable procurement regulations was reported as a finding in the Single Audit of the Authority for fiscal year 2009.

Auditee Response and Corrective Action Plan: The Hospital acknowledges the finding. With the assistance of the administration and the Bureau of Budget and Management Research, the Hospital had reprogrammed Compact Impact funds originally planned for the purchase of capital equipment. The reprogramming stemmed from the urgent need to address outstanding vendor invoices.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

| | |
|------------------|---|
| Finding No.: | 2010-3, Continued |
| CFDA Program.: | 15.875 Economic, Social, and Political Development of the Territories |
| Agency: | U.S. Department of the Interior, Continued |
| Grant: | Compact Impact Grants |
| Requirement: | Procurement and Suspension and Debarment |
| Questioned Cost: | \$699,938 |

The Hospital has recently retained the services of legal counsel assigned from the Office of the Attorney General's Office early December 2010 via a MOA. The attorney has been assigned to work with the Hospital's personnel and procurement matters. As procurement is an overall Government of Guam concern, the attorney has and will be dedicating time to review and analyze internal processes. The Hospital has already seen the revamping of forms, creation of check lists, updating/revamping of internal policies.

The assigned attorney will continue to work the Hospital and our procurement department for the duration of the MOA.

Responsible Party: The Materials Management Administrator along with the AG assigned attorney will be responsible to strengthen the procurement process.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-4
CFDA Program.: 93.889 National Bioterrorism Hospital Preparedness Program
Agency: U.S. Department of Health and Human Services
Grant: Bioterrorism Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$29,075

Criteria: In accordance with applicable procurement regulations, the grantee shall maintain records that detail the history of the procurement, including the rationale behind the method of procurement chosen, selection of contract type, rationale for contract/bid selection or rejection, and basis for contract price.

Condition:

1. For 1 (or 4%) of 24 transactions tested totaling \$323,132, sole source procurement was used to procure various pharmaceutical supplies, equipment, and services. Based on information provided, there was insufficient evidence to indicate how the grantee determined that no other vendor was capable of providing the required supplies, equipment, and services. We additionally noted that sole source justification was not signed by the Hospital Administrator.

| <u>Purchase Order</u> | <u>Amount</u> |
|-----------------------|-----------------|
| 20103959 | \$ <u>4,627</u> |

2. For 1 (or 4%) of 24 transactions tested totaling \$323,132, small purchase procurement was used to obtain various pharmaceutical supplies, equipment, and services. Based on information provided, there was insufficient evidence to indicate that other vendors were solicited for quotes.

| <u>Purchase Order</u> | <u>Amount</u> |
|-----------------------|-----------------|
| 20100821 | \$ <u>5,710</u> |

3. For 2 (or 8%) of 24 transactions tested totaling \$323,132, architectural and engineering costs were incurred with a vendor that provided such services in FY2006. Based on information provided, there was insufficient evidence to indicate that other vendors were solicited for the services.

| <u>Purchase Order</u> | <u>Amount</u> |
|-----------------------|------------------|
| 29003563 | \$ 12,752 |
| 29003563 | <u>5,986</u> |
| Total | \$ <u>18,738</u> |

Cause: There appears to be inadequate documentation evidencing compliance with applicable procurement requirements.

Effect: The Authority appears to be in noncompliance with applicable procurement requirements and questioned costs of \$29,075 results from this condition.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-4, Continued
CFDA Program.: 93.889 National Bioterrorism Hospital Preparedness Program
Agency: U.S. Department of Health and Human Services
Grant: Bioterrorism Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$29,075

Recommendation: The Authority should strengthen controls to document that applicable procurement requirements have been met.

Prior Year Status: Inadequate documentation evidencing compliance with applicable procurement regulations was reported as a finding in the Single Audit of the Authority for fiscal year 2009.

Auditee Response and Corrective Action Plan: The Hospital acknowledges the finding. As noted in the Hospital's response to finding 2010-3, the procurement process is under review with our AG assigned attorney. Senior management will be expecting the outcome of the review process to strengthen the procurement process.

Responsible Party: Both the Materials Management Administrator and the AG assigned attorney shall be responsible to ensure the Hospital will fully resolve this finding and satisfy any and all future audit inquiries.

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Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2010

Questioned Costs:

For the year ended September 30, 2010, the following questioned costs were noted and prior questioned costs resolved:

| | Questioned Costs Set Forth in Prior Audit Report <u>2010</u> | Questioned Costs Resolved for Fiscal Year <u>2010</u> | Questioned Costs at <u>September 30, 2010</u> |
|----------------------------------|---|--|--|
| Unresolved Questioned Costs FY09 | \$ <u>1,297,590</u> | <u>-</u> | \$ 1,297,590 |
| Questioned Costs for FY10 | | | <u>729,013</u> |
| | | | \$ <u>2,026,603</u> |

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 through 18).