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May 13, 2008

Board of Trustees
Guam Memorial Hospital Authority

In planning and performing our audit of the financial statements of Guam Memorial Hospital Authority (GMHA) for the year ended September 30, 2007, on which we have issued our report dated May 13, 2008, we developed the following recommendations concerning matters related to its internal control. Our comments and recommendations are summarized below:

Finding No. 1 – Procurement: Receipt of Purchase Orders (PO)

Comment:

There was no acknowledgement receipt of purchase orders from the vendors on file for sixteen (16) PO's. Based on our inquiries, the buyers often prepare and fax PO's directly to vendors. The fax is simply placed in the vendor's PO jacket.

Recommendation:

Pursuant to the compliance requirements of the procurement, vendors must sign and acknowledge receipt of the PO and such should be documented in the vendor PO jacket. Consequently, the Material Management Department should adhere to its procurement policies and procedures.

Finding No. 2 – Accounting Department – Reconciliation of Unbilled PO's

Comment:

The general ledger control account for unbilled purchase orders is not periodically or properly reconciled to the actual unbilled receiving report. The schedule of unbilled purchase order receipts did not agree to general the general ledger balance at September 30, 2007, as follows:

| | |
|--------------------------------------------------|---------------------|
| Per Schedule of Unbilled Purchase Order Receipts | \$ 358,612.83 |
| Per General Ledger | (299,033.16) |
| Difference | <u>\$ 59,579.67</u> |

Recommendation:

Internal control policies and procedures should be established and implemented to ensure the general control account for unbilled purchase orders and the Materials Management receiving report are properly reconciled in a timely manner. The accounts payable clerk should review the file of unmatched receiving reports on a monthly basis.

Finding No. 3 – Reconciliation of General Ledger Accounts

Comment:

The general ledger balance of accounts payable is understated by \$32,716.25 compared to the schedule of accounts payable provided at September 30, 2007.

Additionally, the inventory general ledger control accounts for inventory did not agree to the supporting physical count valuation report at September 30, 2007, as follows:

| | <u>Per Physical Count Valuation Report</u> | <u>Per General Ledger Balances</u> | <u>Difference</u> |
|------------------------------|----------------------------------------------------|--------------------------------------------|-------------------|
| General Stores Inventory | \$ 1,437,045 | \$ 1,436,132 | \$ 913 |
| Pharmacy Warehouse Inventory | <u>1,385,364</u> | <u>1,376,772</u> | <u>8,592</u> |
| | <u>\$ 2,822,409</u> | <u>\$ 2,812,904</u> | <u>\$ 9,505</u> |

Recommendation:

Management should strengthen its internal control over ensuring general ledger agrees to the supporting account schedules and physical count of inventory.

Finding No. 4 – General Ledger Revenue Center for Local Third-Party Payors

Comment:

Revenue transaction codes for a certain third-party payor were not properly linked to its designated general ledger revenue centers 1050, 2050, and 3050; however, they were captured in the general ledger revenue centers 1090, 2090, and 3090, representing revenue center for Third-party payor – Other. Also another major third-party payor was linked to the general ledger as Other Third Party Payor.

Recommendation:

The Business Office should take action to correct the general ledger transaction links for above transaction codes for the third-party payor. Management should consider establishing a distinct general ledger revenue center for each major third-party payor for financial statements reporting and evaluation purposes.

Finding No. 5 – Payroll Department – Employee’s Personnel Filing System

Comment:

Initial Form W-4 and other payroll deduction forms are maintained in employee personnel files. However, all subsequent payroll deduction authorization forms and updated Form W-4’s are maintained by the Payroll Department but are not properly organized or systematically filed for easy retrieval. The deduction forms are filed by pay-period rather than maintaining a control copy by employee or placed in employee personnel files.

Recommendation:

Management should systematically inspect all personnel files to ensure all required payroll deduction authorization forms and related forms are centralized, systematically filed, kept up-to-date and on-file.

Finding No. 6 – Payroll Overtime Hours

Comment:

There was no approval signature of certain Department/Division Heads for one of the overtime work request forms reviewed. Two of the employees we tested did not have overtime hours approved for the period based on our review the Overtime Work Request submitted by the Department.

Recommendation:

Management should establish and implement internal control policies and procedures ensure that all overtime requests are properly approved by the appropriate Department and Division Heads.

Finding No. 7 – Interest accrued on Note payable-Retirement Fund

Comment:

The basis of accrual for interest on the note payable to the Retirement Fund calculated by the Government of Guam Retirement Fund (GGRF) does not appear to be amortized for interest and special payments made on the principal balance. At September 30, 2007, the balance confirmed GGRF for accrued interest on the notes payable did not reflect GMHA’s payments of interest during the year of which approximated \$850,000.

Recommendation:

GMHA management should obtain an updated amortization schedule from GGFR, recalculate and determine the basis of computing the principal amount of the note payable and determine GGRF’s method of computing and application of the interest payments against the interest accrual calculations of GGRF.

Finding No. 8 – Travel Authorizations

Comment:

Based on our audit procedures performed on travel authorizations (TA), the following were noted:

1. Three price quotations for airfare were not obtained for TA 46-07. The TA request was turned in five days prior to departure.
2. For eight (8) TA's tested, the required itinerary report was not submitted within the stated period required under the GMHA's travel policy. The actual submission date ranged from being 18-to 152 days late.
3. Certificate of attendance was not submitted for TA 46-07.
4. Six (6) TA requests were not submitted to Fiscal Services for review and check processing 30 working days prior to travel date. The TA's were submitted 5-to 16 days prior to departure.

Recommendation:

GMHA should strictly enforce its policies and procedures on travel requests. The following are instructions from the Management to Fiscal Services Personnel:

1. Provide traveler the Travel Itinerary Form before departure to ensure completion and submission of supporting documents upon return from travel.
2. Directive from Hospital Administrator on travel requirements per Travel Policy Circular #6124.
3. Provision of reminder letter on the 6th and 8th day after the return of the traveler in order to meet the 10th day reporting requirement of the Travel Policy.

Board of Trustees
Guam Memorial Hospital Authority
May 13, 2008

This report is intended solely for the information and use of Board of Trustees, the management of Guam Memorial Hospital Authority and the Office of the Public Auditor of Guam.

We wish to thank the staff and management of the Guam Memorial Hospital Authority for their cooperation and assistance during the course of this audit engagement. We are available to discuss any questions that you may have concerning the above comments at your convenience.

Very Truly Yours,

J. Scott Maglian & Company