

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, 2015

**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, 2015, 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 June 24, 2016.

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 2015-001 and 2015-002 that we consider to be significant deficiencies.

Compliance and Other Matters

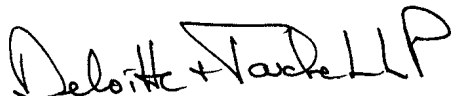
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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.

June 24, 2016

**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
OMB CIRCULAR A-133**

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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 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 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, 2015.

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 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.

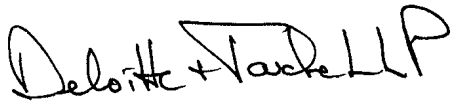
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Guam Memorial Hospital Authority (the Authority) as of and for the year ended September 30, 2015, and have issued our report thereon dated June 24, 2016, 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 OMB Circular A-133 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.

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

June 24, 2016

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

<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 2011-3 : GMH Medical Equipment	\$ 70,342
	Compact Impact FY 2015-2 : GMH Operations Offset	<u>3,000,000</u>
	Total U.S. Department of the Interior	<u>3,070,342</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 2013	153,190
	HPP Grant FY 2014	59,444
	HPP Grant FY 2015	49,900
Passed through the Government of Guam:		
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	<u>87,652</u>
	Total U.S. Department of Health and Human Services	<u>350,186</u>
	Total Federal Awards	<u>\$ 3,420,528</u>
Reconciliation to the financial statements:		
	Federal program expenditures recorded as operating expenses	\$ 3,118,730
	Nonoperating expenses: Federal program expenditures	291,938
	Capital grants and contributions: Federal grants	<u>9,860</u>
		<u>\$ 3,420,528</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, 2015

(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 OMB Circular A-133 audit (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 and U.S. Department of Health and Human Services.

(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 OMB Circular A-133. 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
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

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 510(a) of OMB Circular A-133? | 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: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2015-001	Patient Receivables
2015-002	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, 2015

Finding No. 2015-001 - 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 \$39,757,834 (or 15%) from \$258,528,949 at September 30, 2014 to \$298,286,783 at September 30, 2015. The allowance for contractual adjustments and estimated uncollectible accounts increased by \$40,012,654 (or 17%) from \$236,950,690 at September 30, 2014 to \$276,963,344 at September 30, 2015.
- There appears to be a slow-down in the billing process. GMHA's unbilled receivables increased by \$8.4 million (or 144%) from \$5.8 million at September 30, 2014 to \$14.2 million at September 30, 2015.
- During the July 24, 2014 meeting, the Board of Trustees approved \$178 million of receivable write-offs; however, these adjustments have not been reflected in the Authority's books as of September 30, 2015.

Cause: The cause of the above condition appears to be declining economic conditions, as evident with the increase in the self-pay payer mix, inadequate resources invested in the billing and collections function, and migration to a new revenue and collection management system.

Effect: The effect of the above condition is a 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 to continually review existing collection measures and strategies to further develop other plans to address increasing patient receivables. We further recommend that the Authority revisit the adequacy of resources provided in the billing and collections division.

Prior Year Status: The matter relating to increased patient receivables as described above was reported as a finding in the Single Audit of the Authority for fiscal years 2010 through 2014.

Auditee Response and Corrective Action Plan:

- Corrective action efforts identified in the 2014 Financial Audit have been implemented and are ongoing. These include for all financial classes, the hiring of additional Accounting staff to reconcile third party provider payments, transfer secondary payers to the appropriate financial class, review post payment denials, write-off non-collectible charges and referral of clean patient account receivables to appropriate collection agencies.
- An On-line Payment Option Agreement has been negotiated and is ready for implementation. This will provide another avenue for patients to view their account on-line and be able to make payments at their own convenience.
- Negotiations for a new Provider Agreement have been completed and all four on-island Third Party Payers have signed the agreement effective June 1, 2016. New contract removed an 8% discount previously provided to them saving the Hospital approximately \$2M per year.

- **GUAM MEMORIAL HOSPITAL AUTHORITY**
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- Schedule of Findings and Questioned Costs, Continued
 - Year Ended September 30, 2015

Finding No. 2015-001 - Patient Receivables, Continued

Auditee Response and Corrective Action Plan:, Continued

- Center of Medicare and Medicaid Services (CMS) commissioned an audit of GMHA's FY2013 Medicare Cost Report for the purpose of rebasing GMHA's Medicare reimbursement rate. The results validated GMHA's position that it is being underpaid for its delivery of healthcare services. The rebasing decision is expected anytime soon and will mean additional monies coming to the GMHA.

Contact Person: Benita Manglona

Corrective Action: In process

Proposed Completion Date: Ongoing

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-002 - Inventory

Criteria: Perpetual inventory records should exist and 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. This matter was cited in the FY12 audit. In FY13 the Authority addressed certain matters related to these controls by having the pharmacy remain open and operational on an all-day basis. This action effectively limits the amount of inventory that has to be transferred out each night to hospital staff. However, results of inventory count observations for the current year audit identified that basic control issues do not appear effective without some form of perpetual inventory system over material dollar values of inventory.

A variance of \$1.2 million between the final inventory count listings and the general ledger was noted and was subsequently corrected through adjustments provided by the Authority. Details follows:

Total inventory per final count listing	\$ 3,704,822
Add: Inventory received from count date to September 30, 2015	692,304
Less: Inventory issuances from count date to September 30, 2015	<u>(194,675)</u>
Should be inventory balance at September 30, 2015	4,202,451
Inventory per general ledger	<u>2,986,032</u>
Variance	\$ <u>1,216,419</u>

Also, inventory movement reports of receipts and issuances after the actual count date through September 30, 2015 could not be provided for two inventory types (GL #1084 and #1085).

Cause: The Authority has not been able to implement a perpetual inventory system for the pharmacy in which records are maintained and reconciled with the general ledger, and internal control procedures over inventory are lacking.

Effect: The effect of the above condition is the potential for discrepancies in quantities of inventory on hand.

Recommendation: Authority management should attempt to maintain perpetual inventory records which reflect quantities on-hand. If it is not possible to establish a perpetual system, then perpetual inventory controls should be implemented and documented for key drugs and other high dollar value items while the Authority continues to seek a solution. We further recommend that the Authority strengthen controls over inventory including year-end count procedures.

Prior Year Status: The matter relating to pharmaceutical department inventory as described above was reported as a finding in the Single Audit of the Authority for fiscal years 2010 through 2014.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-002 – Inventory, Continued

Auditee Response and Corrective Action Plan:

Currently, 90% of the pharmacy inventory is accounted for under the perpetual inventory system of the supply chain inventory management module. However, the current software system does not have the functionality to electronically inventory medication doses once bulk packages are broken down, as medication doses are often customized based on patient weight, age, metabolism, etc. This finding is reflective of the existing EHR's limitations.

Nonetheless, GMH is taking several steps to increase controls, and improve accountability, over pharmacy inventory. Specifically, the GMH executive management has budgeted for an automated dispensing machine (Pyxis®), established a go-live date of September 2016 for the electronic medication activity report (eMAR), and has installed bar codes on IV medication labels. Collectively, such technological advancements will significantly improve accountability over the pharmacy inventory.

Ultimately, the adoption of an electronic perpetual inventory system will require a comprehensive overhaul, versus modular upgrades.

Contact Person: Jason Boyd, Vince Quichocho, Benita Manglona, Dolores Pangelinan

Corrective Action: Ongoing

Proposed Completion Date: Ongoing

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

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2015

Questioned Costs:

For the year ended September 30, 2015, the following questioned costs were noted and prior questioned costs were resolved:

	Questioned Costs Set Forth in Prior <u>Audit Report</u>	Questioned Costs Resolved during Fiscal Year <u>2015</u>	Questioned Costs at <u>September 30, 2015</u>
Unresolved Questioned Costs FY 2014	\$ <u>2,426,465</u>	\$ <u>(2,246,465)</u>	\$ -
Questioned Costs for FY 2015			_____
			\$ _____

Summary Schedule of Prior Audit Findings

As of September 30, 2015, the status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2014 is as follows:

Finding No.	CFDA No.	Requirement	Questioned Costs Reported	Questioned Costs Resolved	Status at September 30, 2015
2014-002	15.875	Allowable Costs/Cost Principles	\$ 224,477	\$ 224,477	Resolved as per determination letter approved by the Government of Guam dated June 10, 2015
2014-003	15.875/ 93.074	Equipment and Real Property Management	-	-	
2013-2	15.875	Equipment and Real Property Management	-	-	
2012-4	15.875	Procurement and Suspension and Debarment	153,568	153,568	Resolved as per OMB A-133 Section .315 (b)(4)
2012-5	15.875	Equipment and Real Property Management	-	-	Resolved as per OMB A-133 Section .315 (b)(4)
2011-4	81.041	Procurement and Suspension and Debarment	21,817	21,817	Resolved as per OMB A-133 Section .315 (b)(4)
2010-3	15.875	Procurement and Suspension and Debarment	699,938	699,938	Resolved as per OMB A-133 Section .315 (b)(4)
2010-4	93.889	Procurement and Suspension and Debarment	29,075	29,075	Resolved as per OMB A-133 Section .315 (b)(4)
2009-03	15.875	Procurement and Suspension and Debarment	103,898	103,898	Resolved as per OMB A-133 Section .315 (b)(4)
2009-04	93.889	Allowable Costs/Costs Principles, and Procurement and Suspension and Debarment	52,700	52,700	Resolved as per OMB A-133 Section .315 (b)(4)
2008-07	15.875	Allowable Costs/Costs Principles, and Procurement and Suspension and Debarment	841,956	841,956	Resolved as per OMB A-133 Section .315 (b)(4)
2008-08	93.889	Allowable Costs/Costs Principles, and Procurement and Suspension and Debarment	219,708	219,708	Resolved as per OMB A-133 Section .315 (b)(4)
2008-09	93.889	Period of Availability	79,328	79,328	Resolved as per OMB A-133 Section .315 (b)(4)
2008-10	93.889	Cash Management	_____	_____	Resolved as per OMB A-133 Section .315 (b)(4)
			\$ <u>2,426,465</u>	\$ <u>2,426,465</u>	