

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, 2018

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, 2018, 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 3, 2019.

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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

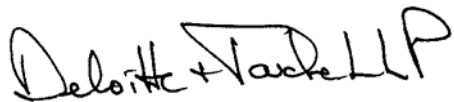
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results 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 + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

June 3, 2019

**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, 2018. 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, 2018.

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.

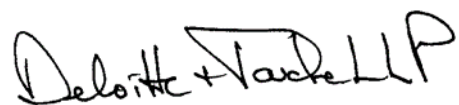
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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, 2018, and have issued our report thereon dated June 3, 2019, 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.



June 3, 2019

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

<u>Federal Grantor/ Pass-Through Grantor/CFDA#</u>	<u>Program Title</u>	Pass-Through Entity Identifying Number	<u>Federal Expenditures</u>
U.S. Department of the Interior			
Passed through from the Government of Guam:		980018947	
15.875	Economic, Social and Political Development of the Territories:		
	Compact Impact FY 2015-5 : GMH & SNU Renovations		\$ 119,402
	Compact Impact FY 2016-2 : GMHA Family Birth Center		54,539
	Compact Impact FY 2016-4 : Operations Offset		200,000
	Compact Impact FY 2017-5 : Assistance Operations Offset Grant		2,000,000
	Empowering Insular Communities Grant		<u>295,584</u>
	Total U.S. Department of the Interior		<u>2,669,525</u>
U.S. Department of Health and Human Services			
Passed through from the Government of Guam:		980018947	
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements:		
	National Bioterrorism Hospital Preparedness Grant FY 2016		46,312
	National Bioterrorism Hospital Preparedness Grant FY 2017		347,754
93.817	Hospital Preparedness Program (HPP) - Ebola Preparedness and Response Activities		
	HPP Ebola Preparedness & Response FY 2015		13,004
	Total U.S. Department of Health and Human Services		<u>407,070</u>
	Total Expenditures of Federal Awards		<u>\$ 3,076,595</u>
Reconciliation to the financial statements:			
	Federal program expenditures recorded in operating expenses	\$ 497,297	
	Federal program expenditures recorded in capital assets	2,373,941	
	Nonoperating expenses: Federal program expenditures	<u>205,357</u>	
			<u>\$ 3,076,595</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, 2018

(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 Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Authority under programs of the federal government for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the net position, changes in net position or cash flows of the Authority.

(3) Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported in the Schedule are reported on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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. Pass-through entity identifying numbers are presented where available.

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.

Indirect Cost Rate

The Authority does not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 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 2 CFR 200.516(a)? | No |
| 9. Identification of major federal programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements

- | | |
|--|-----------|
| 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>
2018-001	Patient Receivables

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, 2018

Finding No. 2018-001 – Patient Receivables

Criteria: Measures and actions should be undertaken to collect and address long-outstanding and increasing receivables. Additionally, an effective system of internal control includes procedures over timely billing.

Condition: Tests of patient receivables noted the following:

- In FY 2016, GMHA recorded \$220 million of write-offs from its general ledger which were not initially reflected in its subledgers. In FY 2018, GMHA has written off the accounts from its subledgers.
- An analysis and schedule of accounts receivable (AR) suspense accounts of \$7.14 million were not provided until April 2019. Furthermore, 33% of the balance came from prior years and includes items dated as early as FY 2008.
- The number of days from discharge to billing ranged from 8 - 53 days for 40 (or 27%) of 150 revenue samples. The average days for bills to drop is set at 7 days.

Cause: The causes of the above condition appear to be (1) GMHA's mandate to service all in need of medical services regardless of patient condition, (2) a lack of continuous familiarity by GMHA personnel with the new revenue and collection management system, and (3) the relatively high volume and complexity of billing and collection processes compared to the limited availability of resources.

Effect: The effects of the above condition are the accumulation of uncollectible receivables and the potential for inadequate cash flows to meet current obligations. Further, lack of timely analysis of receivables and AR suspense accounts may result in lost revenue for late billing and disputed receivables because of collections in the AR suspense accounts not recorded against specific receivable balances.

Recommendation: We recommend that the Authority continue its effort to follow up on outstanding patient receivables and continually review existing collection measures and strategies. Additionally, receivables and receivable suspense accounts should be timely analyzed and adjusted as necessary. We further recommend that the Authority revisit the adequacy of resources assigned to the billing and collections division. Also, documentation should be on file in support of recorded financial statement transactions. Finally, we recommend that GMHA take reasonable steps to improve posting of charges to the revenue system and timely billing within the established period.

Identification as a Repeat Finding: Finding 2017-001

Views of Auditee and Planned Corrective Actions:

See the auditee-prepared corrective action plan.



Guam Memorial Hospital Authority

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CORRECTIVE ACTION PLAN 2 CFR § 200.511 (c) Year End September 30, 2018

Finding 2018-001 Patient Receivables

Name of Contact Person: Benita Manglona (Chief Financial Officer)

Views of Auditee and Planned Corrective Actions:

As part of GMHA's ongoing efforts to resolve this patient receivables finding, which has been a concern for the past several years, the hospital management:

- Has recently assigned a staff to oversee the Business Office.
- Continues to meet at least monthly with the Department of Public Health and Social Services (DPHSS) and the insurance providers to resolve claims and rebill denied or disputed claims.
- Continues to provide ongoing staff training for system familiarization.
- Cross trains and reassigns staff to assist in billing, reconciliation, rebilling, and clearing of suspense accounts.
- Has recently hired four accounting technicians to assist with the billing and collection processes.
- Continues to review and restructure its billing and collection processes and redirect resources to where they are most needed.
- Implemented the electronic billing for local insurance providers, which has reduced manual billing processes and has reduced posting errors.
- Has terminated the FY 2016 insurance provider agreements and is in negotiation for new provider agreements effective June 1, 2019 to strengthen and reduce provider insurance denials.
- Coordinated with DPHSS and hired an Eligibility Specialist to help identify and assist patients to obtain Medicaid and MIP coverage.
- Implemented the online payment, which has yielded collections of both old and new patient accounts.
- Continues to meet weekly with the entire Revenue Cycle staff and Utilization Review Team to identify and resolve revenue capture, billing, collection, and documentation issues to help facilitate and improve the process with other service departments and providers.
- Continues to coordinate with the Department of Revenue and Taxation in the garnishment of patients' tax refunds.
- Enlisted the Office of the Attorney General to assist GMHA in aggressively collecting from self-pay patients. This has boosted the hospital's collections by encouraging patients to enter into payment plans and make payments towards their outstanding balances.



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CORRECTIVE ACTION PLAN, CONTINUED

2 CFR § 200.511 (c)

Year End September 30, 2018

While billings are set to drop seven days from patient discharge, majority of the late postings are due to the late submission of Physician Fee vouchers and servicing department charges for posting and billing. As noted in GMHA's FY 2017 corrective action plan, physicians were previously allowed 30 days to submit vouchers, but this was changed to require the physician fee vouchers to be submitted within 72 hours from the date of service. All incumbent internal medicine hospitalists have been trained and currently charging their fees via GMHA's electronic voucher system IMED, which have resulted in improved timely postings. However, training is still ongoing for all incoming hospitalists, as well as part-time and full-time physicians. GMHA staff continue to send reminders to all physicians regarding the importance of timely submission and have even resorted to restricting physician access to the IMED when they are consistently delinquent.

GMHA recognizes that its complex billing and collection processes require additional resources to review and streamline all processes and ensure compliance with internal controls. In its FY 2019 budget and FY 2020 budget proposals, management is intending to fill the vacant positions to augment these processes. In addition, GMHA recently hired an Internal Auditor to review, provide recommendation, monitor, and strengthen the hospital's processes and internal controls.

Proposed Completion Date: Ongoing.



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Summary Schedule of Prior Audit Findings Year Ended September 30, 2018

Finding No.	CFDA No.	Requirement	Status at September 30, 2018
2015-001	N/A	Patient Receivables	Not corrected. Refer to the planned corrective actions in the Corrective Action Plan for Finding 2018-001.
2016-001	N/A	Patient Receivables	Not corrected. Refer to the planned corrective actions in the Corrective Action Plan for Finding 2018-001.
2017-001	N/A	Patient Receivables	Not corrected. Refer to the planned corrective actions in the Corrective Action Plan for Finding 2018-001.