

*Financial Statements*

**AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
(A Component Unit of the American Samoa Government)**

**SEPTEMBER 30, 2006**

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
(A Component Unit of the American Samoa Government)  
SEPTEMBER 30, 2006

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INDEPENDENT AUDITORS' REPORT

The Board of Directors  
American Samoa Medical Center Authority -  
Lyndon B. Johnson Tropical Medical Center

We have audited the accompanying statement of net assets of American Samoa Medical Center Authority - Lyndon B. Johnson Tropical Medical Center (Medical Center), a component unit of the American Samoa Government, as of September 30, 2006. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following three paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provides a reasonable basis for our opinion.

Because we were not engaged as auditors until after September 30, 2006, we were not present to observe the physical inventories taken at September 30, 2006, and we were unable to satisfy ourselves regarding inventory quantities by means of other audit procedures. The amount of inventory at September 30, 2006 enters into the determination of changes in net assets (deficit) for the year ended September 30, 2006.

The Balance Sheet at September 30, 2005 was not audited. The Balance Sheet accounts at September 30, 2005 enter into the determination of changes in net assets for the year ended September 30, 2006.

Because of the matter discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Statement of Revenues, Expenditures, and Changes in Net Assets and Statement of Cash Flows for the year ended September 30, 2006.

In our opinion, based upon our audit, except for:

- the effects on the financial statements, if any, as might have been determined to be necessary had we been able to satisfy ourselves about:
  - i. inventory quantities at September 30, 2006;
  - ii. the accuracy of the beginning capital assets balances

the Statement of Net Assets, the financial position of the Medical Center as of September 30, 2006, is fairly stated in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 4, 2007 on our consideration of the Medical Center's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

RC Holsinger Associates, P.C.

Wexford, Pennsylvania  
September 4, 2007

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
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MANAGEMENT DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2006

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction of the LBJ Tropical Medical Center's (LBJ) basic financial statements. In accordance to Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), a government entity's basic financial statements are required to contain three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements.

Government-wide financial statements are designed to provide readers with a broad overview of the government entity's finances in a manner similar to that of a private sector business. The Statement of Net Assets presents information on all of the government entity's assets and liabilities, with the difference between the two reported as net assets. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the government entity's net assets changed during the most recent fiscal year. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets are prepared using the economic resources measurement focus and the full accrual basis of accounting.

Fund financial statements are presented to demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All funds of a government entity can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. LBJ's funds are categorized as proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flow. Proprietary fund financial statements are similar to that of the government-wide financial statements in that they are also prepared using the economic resources measurement focus and the full accrual basis of accounting.

Under the provisions of GASB No. 34, the LBJ Tropical Medical Center Authority is considered to be a Special Purpose government entity. As a Special Purpose government entity engaged only in business-type activities, the financial statements required are those for proprietary funds. Accordingly, LBJ's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, a Statement of Cash Flows, and Notes to the Financial Statements.

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 MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED  
 SEPTEMBER 30, 2006

**Financial Analysis**

**Statements of Net Assets**

Summarized financial information of the LBJ Tropical Medical Center Authority's Statements of Net Assets as of September 30, 2006, compared to ending results for September 30, 2005, is as follows:

	<u>9/30/2006</u>	<u>9/30/2005</u>	Change
<b>ASSETS</b>			
Current Assets	\$ 9,461,644	\$ 5,558,871	\$ 3,902,773
Capital Assets – net	<u>10,554,384</u>	<u>10,289,092</u>	<u>265,292</u>
Total assets	20,016,028	15,847,963	4,168,065
<b>LIABILITIES</b>			
Current liabilities	3,328,734	10,903,881	(7,575,147)
Accrued leave – less current portion	1,380,037	1,280,098	99,939
Due to American Samoa Government	<u>5,000,000</u>	<u>4,952,571</u>	<u>47,429</u>
Total liabilities	9,708,771	17,136,550	(7,427,779)
<b>NET ASSETS</b>			
Invested in capital assets	10,554,384	10,289,092	265,292
Unrestricted	<u>(247,127)</u>	<u>(11,577,679)</u>	<u>11,330,552</u>
Total net assets	\$10,307,257	\$ (1,288,587)	\$11,595,844

The Medical Center received a substantial influx of capital during FY 2006, primarily in the form of a grant from the Territory of American Samoa (ASG) which was funded by a \$10 million loan from the American Samoa Government Employees Retirement Fund to ASG. The loan was structured as a Credit Facility Advance to the Medical Center. \$8.3 million of this Credit Facility Advance was appropriated for FY 2006; approximately \$6.25 million was paid to LBJ during FY 2006. The balance of the \$2.05 million is shown as an accounts receivable.

As the Credit Facility is not required to be repaid by LBJ, the \$8.3 million appropriation is recorded as nonoperating income in FY 2006. The remaining \$1.7 million of the Advance is restricted, and carries the option to be separately appropriated if LBJ meets certain conditions. This restricted balance has not been accrued for FY 2006, as the conditions required for appropriation have not been met as of September 30, 2006.

This influx of capital allowed LBJ to significantly reduce its current liabilities. It also increased the hospital's cash and cash equivalents (working capital) position, by nearly \$3 million, bringing the total cash and cash equivalents to \$3.83 million.

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 MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED  
 SEPTEMBER 30, 2006

**Capital Assets**

At September 30, 2006, LBJ's capital assets, net of accumulated depreciation, comprised 52.7% of its total assets. The net value of capital assets decreased by \$265,292 during FY 2006. This decrease is a result of capital asset additions of \$1,343,587, depreciation expense of \$1,050,884, and net capital asset disposals of \$27,411. Major capital asset additions included \$161,725 for a new ultrasound system, \$104,657 to install fire sprinklers in patient wards, and \$315,265 for construction of physician housing units.

A summary of the LBJ Tropical Center Authority's capital assets as of September 30, 2006 is as follows:

CAPITAL ASSETS

Building and improvements	\$15,535,274
Equipment	5,658,413
Construction in progress	<u>2,407,949</u>
	\$23,601,636
Less accumulated depreciation	<u>(13,047,252)</u>
Capital assets – net	<u>\$10,554,384</u>

**Current Assets**

At September 30, 2006, LBJ's current assets approximated 47.3% of its total assets. This is an increase of \$3,524,172 from September 30, 2005. Changes in current assets are as follows:

	<u>9/30/2006</u>	<u>9/30/2005</u>	Change
Cash and cash equivalents	\$3,827,654	\$1,434,993	\$ 2,392,661
Patient accounts receivable – net of allowances	1,351,294	791,085	560,209
Due from Credit Facility	2,051,058	-0-	2,051,058
Other receivables	640,452	2,340,638	(1,700,186)
Prepaid expenses	425,503	-0-	425,503
Inventories	<u>1,165,683</u>	<u>992,155</u>	<u>173,528</u>
Current assets	<u>\$9,461,644</u>	<u>\$5,558,871</u>	<u>\$ 3,902,773</u>

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 MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED  
 SEPTEMBER 30, 2006

**Current Liabilities**

At September 30, 2006, LBJ's current liabilities approximated 34.3% of its total liabilities. This is a decrease of \$8,054,847 from September 30, 2005. Major changes in current liabilities are as follows:

	<u>9/30/2006</u>	<u>9/30/2005</u>	Change
Accounts payable	\$ 1,277,487	\$4,852,062	\$(3,574,575)
Accrued salaries and related taxes	1,071,695	2,999,786	(1,928,091)
Due to other government units	57,426	759,887	(702,461)

**Net Assets**

At September 30, 2006, net assets were \$10,307,257, an increase of \$11,595,841 from September 30, 2005. The accumulated unrestricted net deficit, which was over \$11.6 million at September 30, 2005, has virtually been eliminated.

**Statements of Revenues, Expenses, and Changes in Net Assets**

	FY 2006	FY 2005	Increase (decrease)
<b>Expenses:</b>			
Salaries and benefits	\$ 16,067,951	\$16,104,655	\$ (36,704)
Purchased services and professional fees	2,756,858	1,911,368	845,490
Supplies and drugs	6,314,546	6,057,845	256,701
Utilities	1,361,012	1,369,613	(8,601)
Repairs and maintenance	705,320	900,185	(194,865)
Depreciation and amortization	1,050,884	1,067,289	(16,405)
Other	<u>808,049</u>	<u>2,476,252</u>	<u>(1,668,203)</u>
<b>Total expenses</b>	<b>\$ 29,064,620</b>	<b>\$29,887,207</b>	<b>\$ (822,587)</b>
<b>Revenues:</b>			
Operating revenues	14,094,059	14,828,884	(734,825)
Government appropriations	13,793,027	15,116,816	(1,323,789)
State and federal grants	1,734,376	1,784,320	(49,944)
Credit Facility	8,300,000	-0-	8,300,000
Other nonoperating revenues	<u>1,527,578</u>	<u>(287,973)</u>	<u>1,815,551</u>
<b>Total revenues</b>	<b><u>39,449,040</u></b>	<b><u>31,442,047</u></b>	<b><u>8,006,993</u></b>
Income before capital contributions	10,384,420	1,554,840	8,829,580
Capital assets contributed by federal grants	<u>1,211,421</u>	<u>1,457,493</u>	<u>(246,072)</u>
<b>Increase in net assets</b>	<b><u>\$ 11,595,841</u></b>	<b><u>\$ 3,012,333</u></b>	<b><u>\$ 8,583,508</u></b>

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MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED  
SEPTEMBER 30, 2006

**Operating Expenses**

Operating expenses for FY 2006 decreased by \$311,745, or 1.13%. This is the third consecutive year expenses have decreased.

Purchased services and professional fees included the cost of medical referrals to off-island healthcare providers. These expenses were \$907,246 for FY 2006; this is an increase of \$561,127 from FY 2005.

Other expenses included a credit from a prior negotiated settlement of accumulated penalties and interest on delinquent FICA payments. A reduction of \$228,653 resulting from this credit was recorded in FY 2006.

**Revenues**

LBJ Tropical Medical Center is a heavily subsidized medical facility that received \$23.5 million and \$22.9 million in funding through direct operating grants from the U. S. Department of Interior, Medicaid and Schip in FY 2006 and FY 2005, respectively. The Territory of American Samoa provided additional funding from fuel import excise taxes, which totaled approximately \$529,000 and \$470,000 for FY 2006 and FY 2005, respectively.

Operating revenues consist primarily of patient charges and Medicaid and Schip formula reimbursements. Patient charges total approximately \$6,850,000 for FY 2006; this is a decrease of \$630,000 from FY 2005. Medicaid and Schip reimbursements, which are based on a presumed eligible percentage of medical care expenses, total approximately \$6,750,000 for FY 2006; this is an increase of approximately \$2,200,000 from FY 2005.

LBJ received \$8.3 million from a Credit Facility Advance from the Territory of American Samoa. This advance was necessitated by accumulated budget deficits and compounded by local legislation that does not allow the Medical Center Board of Directors to raise fees or charge for medical services. A total of \$10 million was appropriated and the remaining \$1.7 million is currently restricted but presumed available for FY 2007 or FY 2008.

For additional information, please contact Patricia Tindall, Chief Executive Officer, at (684) 633-4048.

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 STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2006

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 3,827,654
Patient accounts receivable, net of allowance for doubtful accounts of \$3,775,333	1,351,294
Other receivables	2,691,510
Prepaid expenses	425,503
Inventories	<u>1,165,683</u>
 Total Current Assets	 9,461,644
 Capital assets, net	 <u>10,554,384</u>
 Total Assets	 <u>\$ 20,016,028</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accrued salaries, wages, and related taxes	\$ 1,071,695
Accounts payable	1,277,487
Due to other government units	57,426
Compensated absences, current portion	<u>922,126</u>
 Total Current Liabilities	 3,328,734
 Compensated absences, net of current portion	 1,380,037
Long-term debt	<u>5,000,000</u>
 Total Liabilities	 9,708,771
Net Assets (Deficit):	
Invested in capital assets	10,554,384
Unrestricted net assets (deficit)	<u>(247,127)</u>
 Total Net Assets	 <u>\$ 10,307,257</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
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 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 YEAR ENDED SEPTEMBER 30, 2006

Operating Revenues:	
Net patient service revenue	\$ 6,851,046
Medicaid reimbursements	6,745,229
Cafeteria	241,020
Other	<u>256,764</u>
Total Operating Revenues	14,094,059
Operating Expenses:	
Clinical and other services	15,146,086
Nursing services	4,626,688
Environmental, nutrition, and plant operations, including depreciation expense of \$1,050,884	5,640,767
General and administration	2,942,688
Off-island medical care	<u>907,246</u>
Total Operating Expenses	<u>29,263,475</u>
Operating Loss	(15,169,416)
Nonoperating Revenues (Expenses):	
Government appropriations	13,793,027
Federal and local grants	1,734,376
Investment income	65,272
Other nonoperating revenues	9,762,306
Other nonoperating expenses	<u>198,855</u>
Net Nonoperating Revenues	<u>25,553,836</u>
Change in Net Assets	10,384,420
Capital contributed by federal grants for purchase of fixed assets	<u>1,211,421</u>
Change in Net Assets	11,595,841
Net Assets (Deficit) - Beginning of Year	(1,036,133)
Adjustment to Beginning Net Assets	<u>(252,451)</u>
Net Assets - Ending of Year	<u>\$10,307,257</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
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 STATEMENT OF CASH FLOWS  
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
 YEAR ENDED SEPTEMBER 30, 2006

Cash Flows from Operating Activities:	
Cash receipts from patients	\$ 8,099,429
Cash receipts from Medicaid reimbursements	6,787,803
Cash receipts from cafeteria	241,020
Other cash receipts	256,764
Payments to suppliers	(19,062,889)
Payments to employees	<u>(17,328,570)</u>
Net Cash Used in Operating Activities	(21,006,443)
Cash Flows from Noncapital Financial Activities:	
Government appropriations	14,899,277
Federal and local grants	1,174,237
Proceeds of credit facility advance	6,248,941
Proceeds of long-term loan from Territory of American Samoa	47,429
Other nonoperating cash flows net	<u>1,509,354</u>
Net Cash Provided by Noncapital Financial Activities	23,879,238
Cash Flows from Capital and Related Financing Activities:	
Capital contributed by state and federal grants	1,211,421
Acquisition of capital assets, net of disposals	<u>(1,316,176)</u>
Net Cash Used in Capital and Related Financing Activities	(104,755)
Cash Flows Provided by Investing Activities:	
Investment income	<u>65,272</u>
Net Increase in Cash and Cash Equivalents	2,833,312
Cash and Cash Equivalents - Beginning of Year	<u>994,342</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,827,654</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
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 STATEMENT OF CASH FLOWS - CONTINUED  
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
 YEAR ENDED SEPTEMBER 30, 2006

Reconciliation of operating gain (loss) to net cash:	
Used by Operating Activities	
Operating loss	\$(15,169,416)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,050,884
Changes in:	
Patient accounts receivable	(560,207)
Other receivables	1,793,739
Inventories	(173,528)
Prepaid expenses	15,148
Accrued salaries, wages, and related taxes	(1,302,004)
Accounts payable	(5,512,126)
Due to other government units	(1,190,317)
Compensated absences	<u>41,384</u>
Net Cash Used in Operating Activities	<u><u>\$(21,006,443)</u></u>

The accompanying notes are an integral part of these financial statements.

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - The American Samoa Medical Center Authority - Lyndon B. Johnson Tropical Medical Center (Medical Center) is a component unit of the American Samoa Government (Government), and the results of the Medical Center's operations are included in the Government's comprehensive annual financial report. The criteria used to determine inclusion in the financial reporting entity includes financial interdependency, selection of governing authority, designation of management, and accountability for fiscal matters.

The Medical Center was opened in 1968 to provide patient focused, comprehensive, high quality, cost effective health care and related services that address the health needs of the people of American Samoa. The Medical Center is primarily funded through territorial and federal appropriations. The Medical Center also receives patient service revenues, Medicaid reimbursements, and donations. The Medical Center was formally granted semiautonomous status as an independent agency of the Executive Branch of the Government through an Executive Order on September 22, 1997, and then by legislative act on February 26, 1998, in order to satisfy federal requirements for the continued eligibility of the Medical Center for Medicare and Medicaid funding.

The Medical Center is governed by a six-member Board of Directors (Board). The Board is appointed by the Governor of American Samoa with the advice and consent of the Legislature to serve two-year terms.

**Basis of Presentation** - The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**Use of Estimates** - The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the Medical Center considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The carrying amount of the Medical Center's deposits at September 30, 2006 was \$3,827,654 and the corresponding bank balance was \$4,526,424, of which \$4,287,642 was uncollateralized and uninsured.

**Inventories** - Inventories are stated at the lower of cost or market (net realizable value). Cost is determined using the first-in, first-out method.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2006

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
- Continued

**Capital Assets** - Capital assets are stated at cost or estimated historical cost, if purchased, or if donated at estimated fair value at date of donation. All items with a minimum unit cost of \$5,000 and a useful life of at least 3 years are considered capital assets. Capital assets, with the exception of construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 20 years. (Building structures 20 years; machinery and equipment 3 to 10 years; vehicles 4 years.) The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

**Net Assets** - The Medical Center's net assets are classified into the following net asset categories:

Invested in capital assets - Capital assets, net of accumulated depreciation.

Unrestricted - All other categories of net assets. In addition, unrestricted net assets may be designated for use by the management of the Medical Center. This requirement limits the area of operations for which expenditures of net assets may be made and requires that unrestricted net assets be designated to support future operations in these areas.

**Operating Revenues and Expenses** - The Medical Center has defined its operating revenues and expenses as those relating to the provision of health care services. Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement No. 38. These nonoperating activities generally include government appropriations, federal and local grants, interest expense and net investment income.

**Net Patient Service Revenue** - The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated settlements under reimbursement agreements with third-party payors. Settlements are accrued on an estimated basis in the period the related services are rendered and differences are recorded in future periods as final settlements are determined.

**Impairment of Long - Lived Assets and for Long-Lived Assets to Be Disposed Of** - The Medical Center's accounting policy for long-lived assets, which is applicable to the Medical Center's capital assets, prescribes the recognition and measurement criteria for the impairment of such assets. In determining whether an asset has been impaired, the Medical Center estimates the future net cash flows that are expected to result from the use and expected disposition of such assets. The Medical Center classifies an asset as impaired if the sum of the estimated net cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset. The Medical Center recognizes losses on assets meeting the recognition criteria for impairment based on the fair value of such assets less costs to sell.

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 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2006

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Charity Care - Pursuant to the American Samoa Administrative Code, the Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues in the statement of revenues, expenses, and changes in net assets.

Compensated Absences - It is the policy of the Medical Center to permit employees to accumulate earned but unused vacation benefits and unpaid overtime which will be paid to the employees upon separation from service. Vacation leave and unpaid overtime is fully vested when earned, but accumulated vacation leave cannot exceed 60 days at the end of any calendar year.

Sick leave is vested when earned and the accumulation is not limited. Employees separated from service are compensated for unused accrued sick leave at the rate of 50% of sick leave in excess of 239 hours. Retiring employees with less than 30 years of service may apply accumulated sick leave for additional service credits.

Election of Applicable FASB Statements - The Medical Center has elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

**NOTE 2 - CAPITAL ASSETS**

A summary of the capital assets of the Medical Center at September 30, 2006 follows:

	Balance October 1, 2005	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance September 30, 2006
Nondepreciable capital assets:					
Work in progress:					
Construction	\$ 1,603,496	\$ 504,883	\$ -0-	\$ -0-	\$ 2,108,379
Equipment	299,570	-0-	-0-	-0-	299,570
Depreciable capital assets:					
Building structures	15,398,221	137,053	-0-	-0-	15,535,274
Machinery and equipment	4,601,989	620,057	(94,509)	-0-	5,127,537
Vehicles	<u>566,586</u>	<u>81,594</u>	<u>(117,304)</u>	<u>-0-</u>	<u>530,876</u>
	<u>22,469,862</u>	<u>1,343,587</u>	<u>(211,813)</u>	<u>-0-</u>	<u>23,601,636</u>

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
 LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
 (A Component Unit of the American Samoa Government)  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2006

NOTE 2 - CAPITAL ASSETS - Continued

Less: Accumulated depreciation:

Building structures	(9,132,740)	(385,580)	-0-	-0-	(9,518,320)
Machinery and Equipment	(2,621,136)	(621,735)	72,820	-0-	(3,170,051)
Vehicles	<u>(426,894)</u>	<u>(43,569)</u>	<u>111,582</u>	<u>-0-</u>	<u>(358,881)</u>
	<u>(12,180,770)</u>	<u>(1,050,884)</u>	<u>184,402</u>	<u>-0-</u>	<u>(13,047,252)</u>
Net capital assets	<u>\$ 10,289,092</u>	<u>\$ 292,703</u>	<u>\$ (27,411)</u>	<u>\$ -0-</u>	<u>\$ 10,554,384</u>

NOTE 3 - LONG-TERM OBLIGATION

Long-term obligations at September 30, 2006 consists of vacation, unpaid overtime, and sick leave benefits.

	Balance October 1, <u>2005</u>	<u>Additions</u>	<u>Retirement</u>	Balance September 30, <u>2006</u>	<u>Current Portion</u>	<u>Non Current Portion</u>
Compensated absences	\$ 2,260,778	\$ 872,810	\$ (831,425)	\$ 2,302,163	\$922,126	\$1,380,037

NOTE 4 - RETIREMENT FUND

The Medical Center is a member of the American Samoa Government Employees' Retirement Fund (Fund). The Fund is a cost-sharing multiple employer contributory defined benefit retirement fund which was established in 1971 under Section 7 of the American Samoa Annotated Code to provide retirement annuities to the employees of the Government. All full-time Medical Center employees are covered by the Fund. The Fund issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the Fund at the American Samoa Government Retirement Office.

Normal retirement begins for members attaining the age of 65 who have completed five years of service, or at age 55 with 30 years or more of service. Early retirement can begin at age 55 if the member has 10 years or more of service; however, retirement benefits are reduced. Mandatory retirement is at age 70 with 5 years of service. The annual retirement benefit, payable monthly for life, equals 2% of the average annual salary multiplied by the number of years of service, up to a maximum of 30 years (from 10% to 60% based upon years of service). The average annual salary is the average of the three highest average annual salaries during the last 10 years. The minimum annual benefit is \$600.

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
(A Component Unit of the American Samoa Government)  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED SEPTEMBER 30, 2006

NOTE 4 - RETIREMENT FUND - Continued

The value of the member's individual account is payable at the member's option, either as a single-life annuity or as a qualified joint and survivor annuity. A surviving spouse of an active member, who dies before retirement, but after attaining eligibility for retirement, may receive either a refund of employee contributions with interest or a life annuity equal to one-half the retirement annuity that would have been paid to the deceased member. An additional death benefit of \$2,500 to \$10,000, based on years of service, is available to survivors of active members of the Fund.

Each member of the Fund contributes 3% of earnings and earns interest at 5% compounded annually. Employee contributions are made through payroll deductions. Employee contributions and the related interest earned are refunded in full to members whose employment is terminated for any reason other than retirement, and as a death benefit to the survivors of deceased employees not yet eligible for retirement. Employees are fully vested in the employer portion, payable as a retirement annuity, after ten years of participation in the Fund.

The employer contribution of 8% of employees' earnings is funded by the Medical Center and is included as an expense in the statement of revenues, expenses, and changes in net assets. These funds are remitted to the Government Retirement Office which administers the retirement fund. Contributions made in the years ended September 30, 2006, 2005 and 2004 were \$742,280, \$726,703, and \$704,406, respectively, which was equal to the annual required contributions.

NOTE 5 - NET PATIENT SERVICE REVENUE

The Medical Center has agreements with governmental agencies and other third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Reimbursement for these services, depending on the type of program, is based on a cost methodology as defined in the regulations and principles prescribed by the U.S. Department of Health and Human Services.

The Medical Center is reimbursed on the basis of interim rates during the year with final settlements determined after submission of annual cost reports by the Medical Center and audits by the Medicare fiscal intermediary. Such cost reports have been audited and final settlements issued by the fiscal intermediary through September 30, 2002. Interim settlement notices have been received and recorded for the September 30, 2003, 2004, and 2005 cost reports. These cost reports are subject to additional review prior to a final settlement being issued. The September 30, 2006 cost report has been filed however no interim settlement has been received.

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
 LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
 (A Component Unit of the American Samoa Government)  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 YEAR ENDED SEPTEMBER 30, 2006

**NOTE 6 - BUSINESS AND CREDIT CONCENTRATION**

The Medical Center provides health care services through its inpatient and outpatient care facility. The Medical Center grants credit to patients, substantially all of who are local residents of American Samoa. The Medical Center generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or are otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies.

**NOTE 7 - OPERATING EXPENSES**

The Medical Center provides general health care services to the Territory of American Samoa. Expenses related to providing these services for the year ended September 30, 2006 are as follows:

Salaries, wages, and employee benefits	\$ 16,067,951
Medical supplies and pharmaceuticals	4,914,726
Off-island medical care	907,246
Professional fees	1,244,205
Depreciation and amortization	1,050,884
Supplies	1,399,820
Utilities	1,361,012
Repairs and maintenance	705,320
Purchased services	605,408
Travel (excluding off-island medical care)	589,457
Office and housing rentals	271,256
Other	<u>146,190</u>
	<b>\$ 29,263,475</b>

**NOTE 8 - LEGAL PROCEEDINGS**

The Medical Center is involved in various claims and legal actions arising in the ordinary course of business. Based on information currently available, it is the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Medical Center's financial position, results of operations, or liquidity. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the Medical Center's results of operations in a particular future period.

**NOTE 9 - RISK MANAGEMENT**

The Medical Center records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. All losses in excess of \$25,000 are the responsibility of the Territory of American Samoa.

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
(A Component Unit of the American Samoa Government)  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED SEPTEMBER 30, 2006

NOTE 10 - ADJUSTMENT TO BEGINNING NET ASSETS

The Medical Center recorded two (2) adjustments to the beginning balance of Net Assets, resulting from findings during the audit of Fiscal Year 2006.

- 1) Net grant accounts payables net of receivables, totaling \$109,257 at October 1, 2005, were determined to be uncollectible or not subject to repayment and written off.
- 2) Fixed assets for buildings (physician housing units) and patient monitoring equipment, with a net value of \$361,708 and which were no longer serviceable at October 1, 2005, were written off.

**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***

The Board of Directors  
American Samoa Medical Center Authority -  
Lyndon B. Johnson Tropical Medical Center

We have audited the financial statements of the American Samoa Medical Center Authority - Lyndon B. Johnson Tropical Medical Center (Medical Center) as of and for the year ended September 30, 2006, and have issued our report thereon dated September 4, 2007. 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 Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Medical Center'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*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

RC Holsinger Associates, P.C.

Wexford, Pennsylvania

September 4, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors  
American Samoa Medical Center Authority-  
Lyndon B. Johnson Tropical Medical Center  
Pago Pago, American Samoa

**Compliance**

We have audited the compliance of the American Samoa Medical Center Authority - Lyndon B. Johnson Tropical Center (Medical Center) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2006. The Medical Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Medical Center's management. Our responsibility is to express an opinion on the Medical Center'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 Medical Center'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 Medical Center's compliance with those requirements.

In our opinion, the Medical Center, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06-1 through 06-3.

## **Internal Control Over Compliance**

The management of the Medical Center 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 Medical Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Medical Center's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-1 and 06-2 to be a material weakness.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*RC Holsinger Associates, P.C.*

Wexford, Pennsylvania  
September 4, 2007

**INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS**

The Board of Directors  
American Samoa Medical Center Authority-  
Lyndon B. Johnson Tropical Medical Center  
Pago Pago, American Samoa

We have audited the financial statements of the American Samoa Medical Center Authority - Lyndon B. Johnson Tropical Medical Center, as of and for the year ended September 30, 2006, and have issued our report thereon dated September 4, 2007. Our audit was performed for the purpose of forming opinions on the financial statements of the American Samoa Medical Center Authority - Lyndon B. Johnson Tropical Medical Center. The accompany 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 for the basic financial statements. 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.

The report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*RC Holsinger Associates, P.C.*

Wexford, Pennsylvania  
September 4, 2007

**FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
 LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
 (A Component Unit of the American Samoa Government)  
 SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED SEPTEMBER 30, 2006

Program Title	CFDA No	Grant Awards	Federal Expenditures
<b>Pass-through from American Samoa Government -</b>			
Basic operating grant	10/1/05 - 9/30/06	15.875 \$	13,264,000 \$
Capital Improvement Projects	10/1/01 - 9/30/02		9,286
	10/1/02 - 9/30/03		211,431
	10/1/03 - 9/30/04		391,237
	10/1/04 - 9/30/05		415,217
	10/1/05 - 9/30/06		1,710,000
- supplemental award	10/1/04 - 9/30/05		250,000
Capital Improvement Projects Operations and Maintenance	10/1/03 - 9/30/04		47,327
	10/1/04 - 9/30/05		8,484
<b>Total Department of Interior</b>			<b>\$ 14,756,499</b>
<b>Department of Education</b>			
Infants and Toddlers with Disabilities	10/01/04 - 9/30/05	84.181 \$	603,278 \$
<b>Total Department of Education</b>			<b>\$ (1,247)</b>
<b>Department of Health and Human Services:</b>			
<b>Pass-through from American Samoa Government -</b>			
Community Services Block Grant			
CSBG - EMS training / low income employment program	10/1/03 - 9/30/04	93.569 \$	50,000 \$
Family Planning	7/1/05 - 6/30/06	93.217	170,653
	7/1/06 - 6/30/07		250,105
<b>Total Department of Health and Human Services</b>			<b>\$ 434,387</b>
<b>HRSA</b>			
Bioterrorism Preparedness		93.003 \$	458,000 \$
<b>Total HRSA</b>			<b>\$ 115,242</b>
<b>National Institute of Health</b>			
American Samoa Community Cancer network	7/1/05 - 4/30/06	93.399 \$	368,345 \$
	7/1/06 - 4/30/07		341,740
<b>Total National Institute of Health</b>			<b>\$ 571,713</b>
<b>Pass-through grants from American Samoa Government:</b>			
Block grant for Mental Health	10/1/05 - 9/30/06	93.575 \$	70,000 \$
Criminal Justice / Victims Counseling	10/1/04 - 9/30/05	93.399	24,117
EMS for Children	3/1/06 - 2/28/07	93.127	125,000
	3/1/05 - 2/28/07		115,000
ASG / Treasury / Medical CME		93.994	400,000
/ Nursing CME			46,402
<b>Subtotal</b>			<b>\$ 250,401</b>
<b>Pass-through grants from University of Hawaii</b>			
Diabetes outreach programs	1/3/05 - 6/30/07		72,749
Cancer outreach programs		93.399	0
<b>Subtotal</b>			<b>\$ 46,538</b>
<b>Total</b>			<b>\$ 16,173,533</b>

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
 LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
 (A Component Unit of the American Samoa Government)  
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - BASIC OF PRESENTATION

The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting.

NOTE 2 - MAJOR PROGRAMS

The major programs included in the accompanying Schedule of Expenditures of Federal Awards are as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Loan Outstanding and Grant Expenditures</u>
15.875	Basic Operations, CIP and Operations and Maintenance	<u>\$14,756,499</u>
	Total Major Programs Tested	<u>\$14,756,499</u>
	Total Expenditures	<u>\$16,173,533</u>
	Percentage of Expenditures Tested	<u>91%</u>

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
(A Component Unit of the American Samoa Government)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2006

PART I - SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the general purpose financial statements was a qualified opinion.
2. No reportable conditions in internal control over financial reporting were identified.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were identified, some of which are considered to be material weaknesses.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs was an unqualified opinion.
6. The audit disclosed findings required to be reported by Office of Management and Budget (OMB) Circular A-133.
7. Major programs were:

<u>Program</u>	<u>CFDA No.</u>
U.S. Department of Interior Basic Operations, CIP and Operations and Maintenance	15.875

8. A threshold of \$3,000,000, was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Medical Center did not qualify as a low-risk auditee as the term is defined in OMB Circular A-133.

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
(A Component Unit of the American Samoa Government)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2006

Questioned  
Costs

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Department of Interior  
Capital Improvement Projects  
CFDA #15.875

**Finding 06-1: Requirement:** Circular A-110 stipulates that grantees are required to implement a free and competitive bid process for all purchases exceeding the small purchase threshold fixed at 41 U.S.C. 403 (11). Grantees are required to provide procurement records that include a basis for contractor selection and a basis for award cost or price for all purchases exceeding the small purchase threshold.

**Condition:** 12 of 25 test items represented contracts awarded without competitive bidding as required by the ASG Administrative Code - Title 10. In every case, the justification and authorization for awarding a contract without bidding was not documented in file.

\$ 553,204

**Cause:** LBJ personnel indicated they were not aware of this requirement. They indicated these actions were taken because it was in the best interest to standardize equipment thus the necessity to purchase from the same vendor. Therefore sufficient policies to ensure compliance with the federal rules were not in place.

**Effect:** LBJ is not able to assert it has provided for full and open competition. Furthermore, LBJ is not able to provide a basis for contractor selection and a basis for contract price.

**Recommendation:** LBJ should implement and enforce procedures to ensure compliance with all Federal and ASG procurement rules and that any exceptions to these rules are maintained for a minimum of 3 years. Additionally, LBJ should consistently enforce its policies and procedures relative to procurement.

**Finding 06-2: Requirement:** In accordance with the OMB Circular A-133 Compliance Supplement, contractors receiving aggregate grant funds of \$100,000 or more must certify that the organization and its principals are not suspended or debarred.

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
(A Component Unit of the American Samoa Government)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2006

**Condition:** All 35 items tested, which represent the procurement of goods or services for LBJ, were executed without concern for the Federal vendor suspension and debarment issue. In that many of the contracted vendors would presumably not be suspended/debarred by the Federal Government, related "questionable costs" is \$ -0- unattainable.

**Cause:** LBJ has not implemented sufficient policies to ensure that proper suspension and debarment certifications are obtained for all entities receiving aggregate grant funds of \$100,000 or more.

**Effect:** LBJ is not able to assert that it has complied with federal guidelines with respect to ensuring that vendors receiving aggregate grant funds of \$100,000 are not suspended or debarred.

**Recommendation:** LBJ should implement policies requiring suspension and debarment certifications to be obtained for vendors receiving aggregate grant funds of \$100,000 or more, to ensure that the contractor is not suspended or debarred from Federal contracts.

**Finding 06-3: Requirement:** OMB Common Rule 20 requires that accounting records must be supported by such source documentation as cancelled checks, accounts payable vouchers, paid bills, purchase orders, payroll time and attendance records, contracts and sub grant documentation, etc.

**Condition:** Of all 37 test items, the follow lists notable issues that need to be addressed by management:

A. Two of the 37 test items could not be located in file for review. They are:

1. SRW Industries, 6/2006 for \$10,675.00
2. Medpharm, 6/2006 for \$2,112.50

B. A receiving report could not be located for examination for:

1. Dateline Exports, 9/16/06 for \$27,858.47 paid by Check # 23884

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
(A Component Unit of the American Samoa Government)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2006

C. Cancelled check could not be located for examination for:

1. United Constructors, Inc., 12/20/06 for \$23,024.80
2. Starkey Laboratories, Inc., 6/30/06 for \$7,886.00,  
Check # 23421
3. DRE Medical, 3/6/06 for \$6,740.00, Check # 22212

D. Executed contract could not be located for examination for:

1. Fire Fighting Enterprises for upgrading the fire alarm  
system.

E. Purchase order could not be located for examination for:

1. Dateline Exports, 9/28/06 for \$16,394.82, Check #  
24964.

\$ -0-

**Cause:** These missing documents are due to the lack of adherence to the accounting documentation procedures required by the Common Rule. Internal controls over documentation are incomplete and ineffective.

**Effect:** There is an inability to verify compliance due to the possible misplacement, loss, destruction or non-occurrence of supporting information. The lack of purchase orders, invoices and receiving reports make it impossible to determine that the sample items were properly approved and actually received by LBJ.

**Recommendation:** LBJ should develop and implement policies and procedures based upon the Common Rule for the proper and efficient maintenance of records to support each transaction. A method of monitoring should also be established to ensure that the procedures are effective.

**Total Questioned Costs**

\$ 553,204

AMERICAN SAMOA MEDICAL CENTER AUTHORITY -  
LYNDON B. JOHNSON TROPICAL MEDICAL CENTER  
(A Component Unit of the American Samoa Government)  
MANAGEMENT'S CORRECTIVE ACTION PLAN  
YEAR ENDED SEPTEMBER 30, 2006

**06-01**

LBJ procurement policy does require competitive bid for purchases of goods or services exceeding \$10,000. Sole source is allowed when appropriate. A common basis for sole sourcing is to standardize equipment purchases for purposes of operation, maintenance, parts, etc. LBJ is changing its' policies to require that sole source documentation and approvals be attached to purchase orders.

Contact: Bob Wolf, Internal Auditor  
Phone: 684-633-1724

**06-02**

LBJ will prepare a standard questionnaire to be completed by all vendors receiving grant funding in excess of \$100,000 to comply with suspension and debarment requirements, and will make this part of the bidding process for all contracts let.

Contact: Bob Wolf, Internal Auditor  
Phone: 684-633-1724

**06-03**

LBJ believes that there has been substantial improvements. For example, we provided in excess of 95% of supporting documentation for all capital additions since 2000, to resolve questioned fixed asset valuations. Storage space issue has been resolved, and Finance department now has segregated, secured storage areas for documentation (completed in late 2006). LBJ now requires a "3-way match" (purchase order or contact, receiving documentation and vendor invoice) for processing vendor payments. Periodic review of transactions will be performed by LBJ's Internal Auditor (position added in mid-2006).

Contact: Bob Wolf, Internal Auditor  
Phone: 684-633-1724