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Mr. Theodore Lewis  
Chief Executive Officer  
Guam Memorial Hospital Authority  
850 Governor Carlos Camacho Road  
Tamuning, Guam 96913

Dear Mr. Lewis:

In planning and performing our audit of the financial statements of the Guam Memorial Hospital Authority (GMHA) as of and for the year ended September 30, 2014 (on which we have issued our report dated June 26, 2015), 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, we considered GMHA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GMHA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GMHA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to GMHA's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention. We have separately reported in a letter dated June 26, 2015 addressed to GMHA's management, certain deficiencies involving GMHA's information technology environment.

We have also issued a separate report to the Board of Trustees, also dated June 26, 2015, on our consideration of GMHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in Section II of the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Trustees, management, the Office of Public Accountability of Guam and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of GMHA for their cooperation and assistance during the course of this engagement.

Very truly yours,

**SECTION I – DEFICIENCIES**

We identified the following deficiencies involving GMHA's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

**(1) Bank reconciliations**

Comment: Tests of bank reconciliations noted the following:

- A variance of \$47,185 between the general ledger and bank reconciliation could not be accounted for at 09/30/2014.
- Two checks that cleared in May 2014 (check #125280 and #125286) totaling \$21,871 are included as outstanding checks as of 09/30/2014.

Recommendation: We recommend that GMHA strengthen procedures over bank reconciliations and take reasonable steps to timely adjust reconciling items.

**(2) Receivable Suspense Accounts**

Comment: As of September 30, 2014, the following receivable suspense accounts have not been reconciled.

<u>Account Number</u>	<u>Amount</u>
1024-2001	(\$281,350)
1024-2002	(\$408,547)

These balances were substantially carried forward from prior years.

Recommendation: Receivable suspense accounts should be researched and adjusted.

**(3) Pharmacy Inventories**

Comment: GMHA does not maintain perpetual pharmacy inventory records. A year-end physical count is performed and the general ledger is adjusted to reflect count results. As of September 30, 2014, pharmacy inventory was adjusted by \$29,031 from the book balance of \$3,569,225 to actual count of \$3,540,193. Furthermore, detailed reconciliations and investigations of differences were not performed.

Recommendation: We recommend GMHA consider maintaining a perpetual system for pharmacy inventories.

**(4) Fixed Assets**

Comment: Existence testing of thirty fixed assets revealed the following:

- a. One fully depreciated asset (ref. tag #6848 with a cost of \$99,434) has not been in use for approximately 6 years and there are no plans to fix the asset. The asset should be surveyed and be removed from the Fixed Asset Listing as of 9/30/14.
- b. One asset (ref. tag #3589) was identified as a disposal in the fixed asset listing; however, the asset was sighted and was in working condition.

**SECTION I – DEFICIENCIES, CONTINUED**

(4) Fixed Assets, Continued

Recommendation: We recommend GMHA examine fixed assets listings for assets that should be surveyed. Further, we recommend that assets in use be carried in the fixed asset listing. Department heads should regularly monitor fixed assets assigned to them for disposals or for assets transferred to or from another department.

(5) Nonpayroll Expenditures

Comment: Of 32 nonpayroll items tested, 2 were journal entries that did not have adequate supporting schedules to substantiate the amounts adjusted.

Recommendation: GMHA should ensure that adjustments are adequately supported prior to posting.

(6) Payroll Expenditures

Comment: Of 75 payroll items tested, 11 (or 15%) personnel were paid at rates not applicable for the payroll period in which they were paid. Documentation of retroactive payment was not evident.

Recommendation: We recommend GMHA regularly monitor employee pay rates and update the payroll register accordingly based on the rates approved per personnel action forms.

(7) Travel

Comment: For two travel disbursements tested, the following was noted:

- An approved travel authorization was not in file.
- Boarding passes and a trip report documenting completion of the travel were not evident.
- Actual receipt or equivalent documentation supporting the seminar registration fee was not located.
- Reimbursements included airfare, ground transportation and food expenses which do not appear to be within the official travel dates and route.

Recommendation: We recommend that GMHA implement established travel procedures and strengthen reimbursement controls.

**SECTION II – DEFINITIONS**

The definition of a deficiency is as follows:

*A deficiency in internal control over financial reporting* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

## **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### **Management's Responsibility**

GMHA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### **Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### **Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.