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May 21, 2013

The Board of Trustees
Guam Memorial Hospital Authority

Dear Members of the Board of Trustees:

In planning and performing our audit of the financial statements of the Guam Memorial Hospital Authority (the Authority) as of and for the year ended September 30, 2012 (on which we have issued our report dated May 21, 2013), 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 the Authority'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 the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Authority's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Trustees, also dated May 21, 2013, on our consideration of the Authority'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 III 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 the Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I – DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2012:

(1) Receivable Collections

Four of twenty-one collections tested (ref. patient #s 10630288, 10767051, 10779646 and 10827702) were applied to the patient's account between 20 to 73 days after the collection date.

We recommend that collections be timely applied to patient's accounts.

(2) Unbilled Receivables with Exceptions

Unbilled receivables with exceptions as of September 30, 2012 and 2011 are as follows:

Exceptions Category	2012	2011
Not coded	$ 4,869,035	$ 3,771,801
Patient still in hospital	1,493,138	1,849,497
Missing documents	232,052	60,179
With QM	155,345	52,446
Others	98,443	26,663
	$ 6,848,013	$ 5,760,586

Of the unbilled receivables with exceptions, patient charges of $86,739 (or 1%) and $473,300 (or 8%) as of September 30, 2012 and 2011, respectively, are over 60 days from patients' discharge dates.

We recommend that GMHA continue to investigate and address long outstanding unbilled receivables with exceptions.

(3) Inventories

Damaged inventory items for disposal were not included in the year-end count. However, no reports were prepared to account for these items.

We recommend GMHA account for damaged inventories, and disposals, if any, be approved.

(4) Inventories

For three (items #s 4448, 330476 and 130006 with total costs of $36,702) of eight inventory (aggregating $122,629) price tests, a reconciliation was not provided for variances in unit costs between final inventory listings and audit expectations. The total variance in unit cost was $3,213. The extrapolated misstatement is not material to the financial statements.

We recommend that unit cost variances be reconciled.

(5) Inventories

Two (item #13005 and 111205 with total costs of $2,308) of three items test counted aggregating $2,399 at the Central Supply room did not agree to the final inventory listing, and a reconciliation of the variances was not provided. The total variance was $335. The extrapolated misstatement is not material to the financial statements.

We recommend that count records be reconciled with final inventory listings.

(6) Inventories

The allowance for inventory obsolescence ($500,000 as of September 30, 2012) is only evaluated and adjusted at year-end.

We recommend GMHA perform timely (i.e. quarterly) evaluation of inventory reserves.

(7) Fixed Assets

Of sixty-two items tested for fixed asset existence, the following were noted:

a. GMHA purchased a new asset (tag# 6923) to replace a fully depreciated asset (tag# 1085 with original cost of $118,264) but did not remove the replaced asset from the fixed asset register. This matter was subsequently corrected by GMHA through a proposed adjustment.

b. One fully depreciated asset (ref. tag #3262) with an original cost of $17,100 has not been used for several years. GMHA did not complete a disposal form ("report of survey") to remove the asset.

We recommend that GMHA ensure that replaced assets are identified and removed from the fixed asset register. Further, we recommend GMHA examine fixed assets listing for assets that should be submitted for survey.

(8) Fixed Assets

Of twenty four fixed asset disposals tested aggregating $5,493,132, the following were noted:

a. Eighteen items totaling $4,091,161 were fully depreciated but are still in use and in good working condition. Therefore, these were not valid disposals.

b. Four items totaling $1,352,147 are fully depreciated, are not in use but can be repaired or are under repair, and do not represent valid disposals.

c. Two items totaling $49,824 were fully depreciated and were written off as the assets could not be located.

For fiscal year 2012, GMHA recorded $10,542,881 in fixed asset disposals. GMHA subsequently corrected this amount to exclude $9,269,440 relating to existing assets still in use. The remaining $1,273,441 represented either assets that were recommended for disposal or that were not located during GMHA's biennial count. These assets were fully depreciated as of September 30, 2012.

We recommend that disposals be reviewed for validity. Further, we recommend GMHA revisit its policies and procedures over fixed asset disposals. For assets identified for disposal, we recommend GMHA accounting coordinate with appropriate departments to verify that assets are surveyed prior to being written-off.

(9) Construction in Progress

Of five CIP projects tested aggregating $4,159,051, one $737,526 project (ref. 20111591 Wall Hardening) was completed as of September 30, 2012 but was not reclassified to a fixed asset account. This was subsequently corrected by GMHA through a proposed adjustment.

We recommend that GMHA periodically (usually quarterly) monitor the status of CIP projects for completion and in service dates.

(10) Accounts Payable

During tests of payable reconciling items, we noted the following:

a. Interest assessed by a vendor and unrecorded by GMHA was $855,607.

b. $629,333 ($210,610 in CIP, $93,027 in inventory and $325,696 in operating expenses) in reconciling items related to invoices not recorded and/or not timely recorded by GMHA. This was corrected by GMHA through an adjustment.

We recommend GMHA review the process of entering invoices in the system. The date the item was received or the service was provided should be the date used to record the liability and expense/inventory, so as to obtain appropriate cut-off. We also recommend that the process for identifying accrued liabilities be reviewed. Further, we recommend GMHA develop action plans to address interest on unpaid liabilities.

(11) Accrued Taxes

GMHA did not make required payments of withholding taxes for certain quarters of tax years 2010 and 2011. While GMHA accrued estimated penalties and interest on unpaid withholding taxes as of September 30, 2012, GMHA may be liable for additional penalties and interest.

We recommend GMHA continue to evaluate the legal implications of nonpayment and develop action plans as deemed necessary.

(12) Patient Revenues

Of 75 patient revenue items tested, we noted the following:

a. Charges for one patient (ref. patient #10822903) were entered fifteen days after service date due to delay in submission of relevant documents.

b. One patient (# 10862384) was discharged in August 2012 and was billed in November 2012. Patient was originally a self-pay and subsequently registered with Medicaid.

We recommend that patient management review processes to ensure charges be timely entered and billed.

(13) Patient Revenues

We noted total late patient charges of $ 1,047,552 with service dates on or prior to September 30, 2012 which were not accrued at year-end. This was subsequently corrected through an adjustment. Three (ref. patient #s 10864208, 10867457 and 10853719) of four items tested were due to input errors not timely corrected and one item (ref. patient #10854962) was due to a delay in submission of relevant documents.

We recommend that a process for identifying patient revenue accruals at year-end be established.

(14) Payroll Expenses

Of 75 items tested, we noted three on-call physicians (ref. employee #s 266959 for PPE 01/28/12, 949824 for PPE 12/03/11, 947983 for PPE 12/31/11) were overpaid due to input errors.

We recommend GMHA strengthen payroll review procedures.

(15) Expense Classification

Of twenty-four non-payroll expenses aggregating $4,520,272 tested, three items totaling $110,828 related to medical supplies (account #7500-4100) posted to contracted services (7500-2600). GMHA further analyzed the contracted services account and identified $1,432,122 in total charges that should have been posted to medical supplies. This was corrected by GMHA through an adjustment.

We recommend that expenses be posted to appropriate general ledger accounts.

SECTION II — OTHER MATTER

We also identified, and have included below, another matter involving the Authority's internal control over financial reporting as of September 30, 2012, that we wish to bring to your attention:

Payables

The unpaid invoices schedule contained several offsetting payments or invoice cancellations which do not represent unpaid invoices.

We recommend the GMHA review the unpaid invoices schedule and identify and exclude paid and/or cancelled invoices.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* 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

The Authority'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.