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March 23, 2012

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, 2011 (on which we have issued our report dated March 23, 2012), 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, 2011 that we wish to bring to your attention.

We have also issued a separate report to the Board of Trustees, also dated March 23, 2012, 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 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

**APPENDIX I**

## SECTION I – DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2011:

(1) Cash – Stale Dated Checks

Seven checks as of September 30, 2011, totaling $6,493, were outstanding for more than six months.

We recommend that the Authority consider transferring stale dated checks to a liability account maintained by someone independent of the cash receipt/disbursement and bank reconciliation functions.

(2) Unbilled Receivables with Exceptions

Of $5,760,856 in unbilled receivables with exceptions, patient charges of $277,415 (or 5%) are over 90 days from patients' discharge dates.

We recommend that long outstanding unbilled receivables with exceptions be investigated and addressed.

(3) Fixed Assets – Construction in Progress

Two construction in progress (CIP) projects totaling $2,184,040 as of September 30, 2011 were substantially completed and in use during fiscal year 2011. Unrecorded depreciation expense of $140,460 for the non-capitalized projects was noted. This condition was corrected through an entity proposed adjustment.

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

(4) Fixed Assets – Fixed Asset Register (Sub ledger)

The fixed asset register as of September 30, 2011 did not reflect prior year adjustments to the general ledger, resulting in a variance of $306,749 in beginning balances.

We recommend that fixed asset register be reconciled with the general ledger.

(5) Inventory – Price Testing

For one (or 5%) of nineteen samples tested, invoices were not available to support the stated unit cost. The last purchases for the item occurred in 1998 and no quantities were listed in the prior year: however quantities are listed in fiscal year 2011 with a cost of $336.

We recommend that records to support inventory costing be safeguarded and maintained.

(6) Inventory – Reconciliation of Count Results and Final Listings

For two (or 25%) of eight inventory price tests for the General and Central Supply Stores, a reconciliation was not provided for variances between final quantities agreed during the count and the final inventory listings. The total dollar value of the variances was $11,262.

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

(7) Accrued Taxes and Related Liabilities

The Authority has not made required payments of withholding taxes for the second, third quarter and fourth quarter of tax year 2010 and first and third quarter of tax year 2011. As a result, the Authority has incurred penalties and interest charges. The Authority has recorded accrued penalties and interest of $585,340 on unpaid withholding taxes of $6,404,278 as of September 30, 2011. The Authority may be liable for additional penalties and interest.

We recommend the Authority pay tax liabilities as they become due, evaluate the legal implications of nonpayment and develop action plans as deemed necessary.

(8) Patient Revenues

Of 75 patient revenue items tested, we noted five instances where patient charges were entered between 5 to 20 days after service dates. Further, we noted total late patient charges of $791,054 with service dates on or prior to September 30, 2011; however, such were not accrued at year-end. Two of three items tested were due to either a delay in entering charges or a delay in submission of documents.

We recommend that patient charges be timely entered.

(9) Network Penetration Testing

GMHA did not perform network penetration tests in fiscal year 2011 due to budget constraints.

We recommend that network vulnerability tests and/or network penetration testing be performed annually.

## SECTION II — OTHER MATTERS

We also identified, and have included below, other matters involving the Authority's internal control over financial reporting as of September 30, 2011, that we wish to bring to your attention:

(1) Accounts Payable

Three of twenty items tested aggregating $191,655 included in the unpaid invoices schedule relate to offsetting payments or invoice cancellations, and as such, do not represent unpaid invoices.

We recommend the Authority 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.