

April 24, 2017

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

Dear Mr. Camacho:

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, 2016 (on which we have issued our report dated April 24, 2017), 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, 2016 that we wish to bring to your attention. We have separately reported in a letter dated April 24, 2017 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 April 24, 2017, 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,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

**SECTION I – DEFICIENCIES**

We identified the following deficiencies involving GMHA's internal control over financial reporting as of September 30, 2016 that we wish to bring to your attention:

**(1) Fixed Assets**

Comment: Tests of fixed assets noted the following:

- a. Two assets (tags #5236 and #6930) have been obsolete for over 5 years with no immediate plans for future use. The assets have not been surveyed and continue to be included in the fixed asset register (FAR).
- b. One asset (tag #6853) has not been located since 2012.

Recommendation: We recommend timely updates of the FAR and maintenance of a log sheet be kept to monitor moveable assets. We further recommend that asset surveys be timely performed and assets which are not in use or are missing be removed from the FAR.

**(2) Patient Receivable Credit Balances**

Comment: Patient receivables include \$2.9 million of credit balances as of September 30, 2016. Our tests noted an extrapolated amount of \$433k of overpayments which should be presented as liabilities. This was corrected through a proposed journal entry reclassification.

Recommendation: GMHA should timely analyze patient receivable credit balances and make necessary adjustments.

**(3) Inventory**

Comment: Inventory balances were not adjusted at year-end based on results of annual inventory counts. A perpetual inventory system is not in place to monitor inventory movements.

Recommendation: We recommend GMHA implement a perpetual inventory system.

**(4) Accounts Payable**

Comment: For 2 of 5 (or 40%) payables tested, variances were noted between balances confirmed by vendors against September 30, 2016 balances recorded. These matters were subsequently corrected by GMHA.

Recommendation: We recommend that GMHA determine that vendor invoices are timely recorded and reconciled.

**(5) Collections**

Comment: For three of twenty seven collections tested, application of collections was not timely applied to individual patient accounts.

Recommendation: We recommend GMHA timely reconcile collections received with patient accounts.

**SECTION I – DEFICIENCIES, CONTINUED**

(6) Patient Revenue

Comment: Tests of patient revenues noted that for 49 (or 65%) of 75 revenue samples, the number of days from discharge to billing ranged from 8 - 127 days. The average days for bills to drop is set at 7 days.

Recommendation: We recommend that GMHA take reasonable steps to improve posting of charges to the revenue system and timely billing within the established period.

(7) Contracts

Comment: For two (or 5%) of thirty eight expenditures tested, there were no vendor contracts identifying the rate which the vendor will be paid.

Recommendation: We recommend GMHA monitor vendor contracts to verify the expenditure basis.

**SECTION II – DEFINITION**

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.