

June 30, 2018

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, 2017 (on which we have issued our report dated June 30, 2018), 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, 2017 that we wish to bring to your attention. We have separately reported in a letter dated June 30, 2018 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 30, 2018, 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.

Deloitte.

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,

Deloitte + Stack LLP

SECTION I – DEFICIENCIES

We identified the following deficiencies involving GMHA’s internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention:

(1) Inventory

Comment: The following inventory matters were noted:

- One item with a zero unit cost. The cost was not carried over when the inventory system changed from AS400 to ORMED.
- One item with a negative unit cost. The receiving report was incorrectly entered in FY2015.

Recommendation: We recommend GMHA monitor inventory listings for unusual balances.

(2) Collections

Comment: Collection reports, payment remittance advices, deposit slips and other collection documentation could not be provided for two items.

Recommendation: Control procedures over collections should be improved and all documents supporting collection should be kept in file.

(3) Patient Receivable Credit Balances

Comment: Patient receivables include \$3.68 million of credit balances as of September 30, 2017. An extrapolated amount of \$163k of overpayments which should be presented as a liability was noted.

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

(4) Patient Receivable

Comment: The 5% increase for all room and board charges effective April 1, 2017 was neither reflected nor effected in the system and was corrected only after the issue was raised as a result of audit.

Recommendation: We recommend that GMHA take action to effect the approved 5% increase of all room and board charges in the system.

(5) Patient Revenue

Comment: Instances of charges and/or billing adjustments that were not timely posted and of late charges that were not billed.

Recommendation: We recommend that GMHA take reasonable steps to improve posting of charges to the revenue system.

SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Stale Checks

Comment: No significant movement occurred in payables arising from stale dated checks as almost 97% pertain to balances dated 2016 and prior.

SECTION II – OTHER MATTERS, CONTINUED

(1) Stale Checks, Continued

Recommendation: We recommend management establish internal control policies relative to timely reviewing and updating stale dated checks.

(2) Journal Entry Review Process

Comment: We noted a journal voucher with no signature of the approver.

Recommendation: We recommend management review and approve journal entries.

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.