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June 25, 2020

Ms. Lillian Perez-Posadas  
Chief Executive Officer  
Guam Memorial Hospital Authority  
850 Governor Carlos Camacho Road  
Tamuning, Guam 96913

Dear Ms. Perez-Posadas:

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, 2019 (on which we have issued our report dated June 25, 2020), 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 and other matters as of September 30, 2019 that we wish to bring to your attention. We have separately reported in a letter dated June 25, 2020 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 25, 2020, 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 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 GMHA for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Tuckers 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, 2019 that we wish to bring to your attention:

### (1) Collections

Comment: Collections of \$75,659 were incorrectly reported in the Daily Cash Report. Errors were corrected in the subsequent year.

Recommendation: We recommend that GMHA review the Daily Cash Report and make corrections in a timely manner.

### (2) Patient Receivable Credit Balances

Comment: Patient receivables include \$5.81 million of credit balances as of September 30, 2019. Of that balance, an extrapolated amount of \$294,000 of overpayments should be presented as a liability.

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

### (3) Patient Fees

Comment: The rate increase for professional fee charges to be effective January 1, 2019 was effected in the system on February 21, 2019.

Recommendation: We recommend that GMHA timely effect the approved rate increase of all professional fee charges in the system.

### (4) Patient Revenue

Comment: Instances were noted 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.

### (5) Professional Service Contracts

Comment: Requested documents related to GMHA's evaluation of the recruitment firm's practices were not provided for examination.

Also, for four professional service contracts with local physicians and physician groups, documents evidencing the following were not provided:

- a) Department's need for physician services
- b) Medical staffing office's process for selecting qualified physicians

Recommendation: We recommend that GMHA retain documentation of the process and evaluation of professional service contracts.

## 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) Fixed Assets

Comment: In November 2019, the US Army Corps of Engineers conducted a facility condition assessment of the hospital building. Its final report stated certain components of the building and equipment have exceeded their useful lives and recommended repairs of the roof, exterior building, HVAC, life safety and fire sprinkler, among others.

Recommendation: We recommend management revisit the remaining useful lives of the hospital building, the related improvements, and other equipment. Changes in useful lives would be accounted for prospectively.

### (2) Payables

Comment: The following matters are noted:

- a) No significant movement occurred in payables arising from stale dated checks and substantially all of such checks are dated 2018 and prior.
- b) Accounts of \$3.86 million, of which \$3.01 million relates to unremitted withholding taxes to Department of Revenue and Tax, are aged more than one year.

Recommendation: We recommend management establish internal control policies to timely review the validity of long-outstanding payables and update the stale dated checks listing.

## SECTION III – 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.