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June 27, 2014

Mr. Joseph P. Verga
Chief Executive Officer
Guam Memorial Hospital Authority
850 Governor Carlos Camacho Road
Tamuning, Guam 96913

Dear Mr. Verga:

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, 2013 (on which we have issued our report dated June 27, 2014), 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, 2013 that we wish to bring to your attention. We have also separately reported in a letter dated June 27, 2014 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 27, 2014, 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,

Deloitte & Touche LLP

SECTION I – DEFICIENCIES

We identified the following deficiencies involving GMHA's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

(1) Receivable Suspense Accounts

As of September 30, 2013, the following receivable suspense accounts have not been reconciled.

Account Number	Amount
1024-2001	($272,272)
1024-2002	($408,547)

These balances were substantially carried forward from prior years.

These receivable suspense accounts should be researched and adjusted.

(2) Inventories

Damaged inventory items held for disposal were appropriately 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.

(3) Inventories

As of September 30, 2013, book inventories of $2,957,468 were adjusted to agree to the actual count of $2,238,278. However, detailed reconciliations and investigations of differences were not performed.

Location	Per Books	Per Count	Difference
Warehouse	$ 1,675,339	$ 1,751,164	$ 75,825
Central supply room	1,038,321	136,190	(902,131)
Pharmacy warehouse	243,808	350,924	107,116
	$ 2,957,468	$ 2,238,278	$ (719,190)

We recommend that significant differences between the general ledger and the physical inventory be investigated.

(4) Pharmacy Inventories

GMHA does not maintain perpetual pharmacy inventory records. A year-end physical count is performed and the general ledger is adjusted to reflect count results. As of September 30, 2013, pharmacy inventory was adjusted by $150,266 to agree the book balance of $941,425 to the actual count of $1,091,691. Furthermore, detailed reconciliations and investigations of differences were not performed.

We recommend GMHA consider maintaining a perpetual system for pharmacy inventories.

SECTION I – DEFICIENCIES, CONTINUED

(5) Fixed Assets

Of twenty-nine items tested for fixed asset existence, the following were noted:

a. One fully depreciated asset (ref. tag #6848 with a cost of $99,434) has not been in use for approximately five years and there are no plans to fix the asset. The asset should be surveyed and be removed from the fixed asset listing.

b. One fully depreciated asset (ref. tag #5740 with a cost of $20,525) represents several asset items under multiple purchase orders. However, several of the items cannot be located. Additionally, several items have been surveyed but were not removed from the fixed asset listing.

We recommend that fully depreciated assets that will not be used be surveyed and be removed from the fixed asset listing.

(6) Payroll

Of seventy-five items tested, the sick leave lump sum payout to one employee (ref. employee #948993 on PPE 1/26/2013), was overpaid due to application of the employee's most recent payrate on the accrued unused sick leave. Under Public Law 26-86, Section 3, subpart (i), lump sum leave shall be calculated at the employee's hourly rate based on the average of the three highest salaries received by an employee during that person's years of credited service, by one-half (1/2) of the employee's unused accumulated sick leave hours.

We recommend that GMHA scrutinize sick leave lump sum payouts.

SECTION II – DEFINITIONS

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.

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.