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December 29, 2010

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, 2010 (on which we have issued our report dated December 29, 2010), 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, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Board of Trustees, also dated December 29, 2010, 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 – CONTROL DEFICIENCIES

We identified the following control deficiencies involving the Authority's internal control over financial reporting as of September 30, 2010:

(1) Cash – Stale Dated Checks

Six (7%) of eighty-five outstanding checks, aggregating $4,004, 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) Employee Receivables

Of $33,975 recorded in receivables from employees (ref. GL#1023.13000) as of September 30, 2010, $1,697 represents receivables from three active employees and no collections have been received during the last six months or more. We recommend that the Authority pursue collection of these receivables.

(3) Collections

For the fiscal year ended September 30, 2010, the other revenue account (GL #1-5780-0) aggregates $367,151, of which $252,931 represents collections from fiscal years 2008 and prior that have not been applied to specific patient receivable accounts due to lack of supporting information. GMHA had initiated action to obtain supporting information from payors. We recommend the Authority continue its efforts to obtain necessary information to apply collections to appropriate accounts.

(4) Payables

Of $249,902 in unbilled PO receipts payable account (GL account #1-2022-0) as of September 30, 2010, $71,650 represents payables that have been outstanding on or prior to September 2009. Details are as follows:

Vendor Number	Amount
1031	$ 37,557
1036	2,673
1049	19,020
1348	7,000
8850	5,400
	$ 71,650

We recommend that the Authority investigate long outstanding payables to demonstrate their validity.

(5) Accrued Taxes and Related Liabilities

The Authority has not made required payments of withholding taxes for the second and third quarter of tax year 2010. As a result, the Authority has incurred penalties and interest charges. The Authority has recorded accrued penalties and interest of $298,451 on unpaid withholding taxes of $2,809,316 as of September 30, 2010. The Authority may be liable for additional penalties and interest. We recommend the Authority pay tax liabilities as they become due and evaluate the legal implications of nonpayment and develop action plans as deemed necessary.

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, 2010, that we wish to bring to your attention:

(1) Journal Entries

Of thirty-five journal entries (JE) tested, the JE for three (ref. #s JE 03-11, 03-20 and 03-22) items were not signed by approving personnel. We recommend GMHA ensure that all JE's are approved and approvals are reduced to writing.

(2) Unpaid Invoices Schedule

2 (or 5%) of the 42 items tested aggregating $2,666,714 included in the unpaid invoices schedule as of September 30, 2010 related to offsetting payments or invoice cancellations, as such, do not represent unpaid invoices. We recommend the Authority review the unpaid invoices schedule and ensure that paid and/or cancelled invoices are identified and excluded.

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.

APPENDIX II

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.