

April 12, 2021

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, 2020 (on which we have issued our report dated April 12, 2021), 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, 2020 that we wish to bring to your attention. We have separately reported in a letter dated April 12, 2021 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 12, 2021, 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 + 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, 2020 that we wish to bring to your attention:

(1) Pharmacy Inventory

Comment: Inventory issuances from the Pharmacy department are not recorded in a perpetual system; instead, inventory balances are adjusted based on results of annual inventory counts. While an inventory module was implemented to track the movement of pharmaceuticals within pharmacy, this module is not interfaced with the ORMED GL system. Currently, no formal procedures exist to verify that pharmacy inventory issuances are recorded in the general ledger.

Recommendation: We recommend that GMHA implement procedures to timely record, analyze and monitor pharmacy inventory movements.

(2) Patient Receivable Credit Balances

Comment: Patient receivables include \$4.24 million of credit balances as of September 30, 2020. Of that balance, an extrapolated amount of \$151,000 of overpayments may require presentation as a liability.

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

(3) Patient Fees

Comment: The rate for hospital fee charges to be effective April 1, 2020 was effected in the system on April 16, 2020.

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

(4) Patient Revenue

Comment: For 81 revenue transaction samples, four had charges and/or billing adjustments not timely posted and/or late charges not billed.

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

(5) Fixed Assets

Comment: Of 12 assets examined, one did not have an asset tag. Additionally, one asset item of \$0.4 million was incorrectly recorded as repairs and maintenance and was corrected through a proposed adjustment.

Recommendation: We recommend management: (1) ensure that assets are appropriately tagged; (2) review repairs and maintenance expenditures to determine completeness of fixed asset capitalization.

SECTION I – DEFICIENCIES, CONTINUED**(6) Professional Service Contracts**

Comment: For seven professional service contracts with local physicians and physician groups, documents evidencing the following were not provided: a) the department's need for physician services; and b) medical staffing office's process for selecting qualified physicians. Except for one, physician contracts are in place for the sampled physicians and renew automatically unless terminated. GMHA has no written process regarding recruitment and retention of physicians; however, steps for new physician search are performed with assistance from the Human Resource Department.

Recommendation: We recommend that GMHA establish a policy on recruitment and retention of professional services. Such policy should include periodic evaluation of ongoing professional service contracts.

(7) File Retention and Procurement

Comment: One of 19 payment request forms tested, was missing due to shredding of the original file after scan. While the check copy was signed by an appropriate signatory, accounting procedures require payment request forms be signed and filed. In addition, one sole source purchase has a pending purchase order and missing procurement file.

Recommendation: We recommend management establish a policy of document retention and review the completeness of electronic and original files. Additionally, management should ensure purchase orders are completed prior to concluding a purchase transaction.

(8) Journal Entries

Comment: Two manual journal entries, pertaining to clearing of long-outstanding receivables and stale-dated checks, were prepared and posted by the prior General Accounting Supervisor. While adjustments address the prior year issues on long-outstanding accounts, the entries were not reviewed and approved by upper management or the Board prior to posting.

No similar issue is noted in tests of manual journal entries posted by the current General Accounting Supervisor.

Recommendation: Manual journal entries should be reviewed and approved by another officer prior to posting. Additionally, analysis should be performed to substantiate the propriety of the adjustment.

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, which has a net book value of \$14.0 million as of September 20, 2020. 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.

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.