

December 28, 2009

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, 2009 (on which we have issued our report dated December 28, 2009), 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, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Board of Trustees, also dated December 28, 2009, 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.

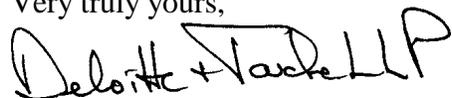
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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,



SECTION I – CONTROL DEFICIENCIES

We identified the following control deficiencies involving the Authority's internal control over financial reporting as of September 30, 2009:

(1) Expenses

Comments: For 6 (or 6%) of 100 payroll expense items tested, employee increments were not effectuated in a timely manner due to a delay in transmitting approved Personnel Action Forms (PAF) from the Personnel Department to the Payroll Department. Furthermore, for 45 (or 38%) of 120 non-payroll expense items tested, the underlying vendor invoice or contract was not available for examination.

Recommendation: We recommend that PAFs be transmitted to the Payroll Department in a timely manner and that employee increments be timely input to the payroll system. Additionally, we recommend that all non-payroll expense items be supported by vendor invoices, contracts or other supporting documentation.

(2) Cash

Comment: Eight (or 13%) of 60 outstanding checks tested, aggregating \$3,627, were outstanding for more than nine months.

Recommendation: We recommend that the Authority consider transferring stale dated checks to a liability account maintained by someone who is independent of the cash receipt/disbursement and bank reconciliation functions.

(3) Penetration Testing

Comment: The Authority's IT system is connected to the internet. While firewalls and other safeguards are utilized, the Authority has not engaged in formal penetration tests.

Recommendation: We recommend that the Authority engage in formal externally engaged penetration tests.

SECTION II — OTHER MATTERS

We also identified, and have included below, another matter involving the Authority's internal control over financial reporting as of September 30, 2009, that we wish to bring to your attention:

(1) EDP Software Maintenance Service

Comment: A software maintenance vendor responsible for maintaining the financial and clinical system ceased the provision of maintenance services for two months because maintenance fees were not timely paid.

Recommendation: We understand that from time to time, the Authority must make difficult choices in determining how to deploy scarce cash resources; however, we believe that continuation of the software maintenance contract is critical to ensure the continuity of operations.

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.

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.