

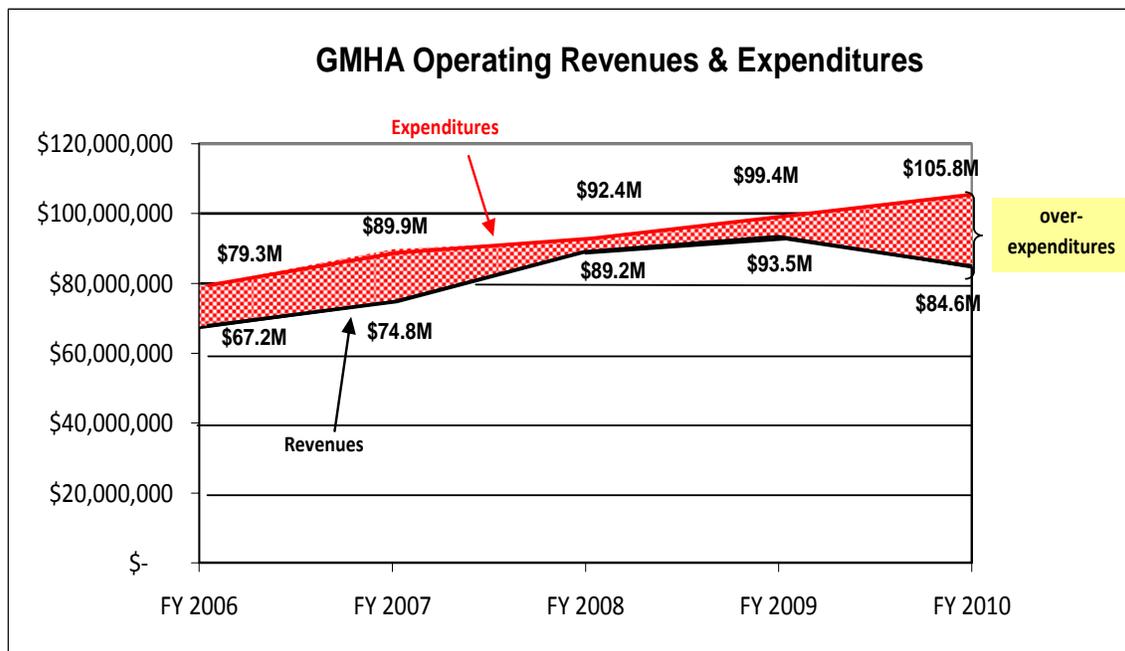


Guam Memorial Hospital Authority FY 2010 Financial Highlights

January 12, 2011

The Guam Memorial Hospital Authority (GMHA) should be applauded for issuing its audited financial statements early for the second year in a row and attaining accreditation from the Joint Commission after 26 years. Despite these achievements, operations continue to be challenged due to the high dependency of government of Guam appropriations. GMHA management stated that “the hospital is the only component of the government of Guam in which services cannot be withheld due to the financial ability of the patient.”

The hospital ended fiscal year (FY) 2010 with a \$12.4M decrease in net assets, a 215% decline from the \$10.9M increase in net assets in FY 2009. While gross patient revenues increased, the collection of revenues declined from 65% to 57% contributing to the \$8.9M decline in operating revenues. In FY 2010, GMHA continued to spend more than it took in. See chart below for operating revenue and expenditure trends since FY 2006.



GMHA is the first entity to release its FY 2010 audit. Deloitte & Touche, LLP rendered an unqualified or “clean” opinion on the financial statements; however, in order to receive the clean opinion, six audit adjustments were made which had a cumulative effect of reducing net assets by \$3.2M. GMHA received a qualified opinion on the independent auditors’ reports on internal control and on compliance due to three material weaknesses involving patient receivables, pharmaceutical department inventory, and procurement. Additionally, one significant deficiency was cited involving procurement. Questioned costs amounted to \$729K increasing cumulative unresolved questioned costs as of September 30, 2010 to \$2M. Repeat material weakness and the significant deficiency pertaining to procurement and lack of perpetual inventory in pharmacy still persists.

Dependency on the Government of Guam

GMHA incurred losses from operations of \$21M and negative cash flows from operations of \$2.5M. Although disbursement from the General Fund slightly increased by \$560K to \$28.6M for Medically Indigent Program (MIP) and Medical Assistance Program (MAP) billings (see table below for a breakdown), the Hospital estimated loss revenues of over \$17M. This is despite the improved ability of GMHA to capture patient charges and thus recognizing an increase of gross billings for both MIP and MAP. Aggregate increase of patient billings for MIP and MAP grew by 9.4% from FY2009 to FY2010 equating to additional revenue of over \$4.4M dollars.

	FY 2010	FY 2009
MIP	\$12,542,554	\$ 6,632,404
Pharmaceutical Fund (MIP)	\$ 2,460,235	\$ 6,414,680
MAP	\$13,595,866	\$14,991,805
Total	\$28,598,655	\$28,038,889

Compact Impact funding, which is at the discretion of the Governor provided much needed cash assistance. A total of \$5.5M was given to GMHA of which \$3.5M was used toward vendor payables. As footnoted in the audit, management believes that the hospital's continued operation is dependent on continued payment by the government of Guam for services provided under MIP, the collection of long outstanding patient receivables, and continued improvements in operations.

Collectibility of Operating Revenues Decline

Despite the decline in patient admissions from 48,636 to 46,302, overall, gross patient service revenues increased by \$4M from \$142.6M to \$146.7M. Nearly every category of patient services increased from services provided to Medicare and Medicaid patients, services to Medically Indigent Program (MIP) patients through the Pharmaceutical Fund, services to self-pay patients, and other patients. However, contractual adjustments and provisions for uncollectible accounts grew by \$13.2M resulting in the decline in operating revenues of \$8.9M.

Public Law (P.L.) 29-132, enacted in January 2009, changed the funding sources from the government of Guam to GMHA. Prior to being enacted, GMH received three sources of funding: (1) for MIP adjudicated claims, (2) for MAP adjudicated claims, and (3) Pharmaceutical Fund transfers. P.L. 29-132 resulted in the Pharmaceutical Fund being used to pay MIP adjudicated claims.

GMHA's gross patient accounts receivable grew by 9%, or \$15.2M, from \$167M to \$183M. Likewise, uncollectible and bad debts increased, but by 10% or \$12.5M, from \$126.6M to \$139.1M. This reflects that GMHA is collecting only 24 cents for every dollar owed by its patients. Uninsured Self Pay patients increased 28% from 4,292 to 5,478. Over 76% of uninsured Self-Pay patients were self-declared to be unemployed.

Expenses Outpace Revenues

GMHA's operating expenses continue to grow faster than its revenues. Since 2006, revenues have increased by 26%, from \$67.2M to \$84.6M in FY 2010. Coupled with lower collection rates this increase has been insufficient to cover operating expenses, which grew 33% in the same time frame, from \$79.3M to \$105.8M. Nursing was the largest category that increased from \$34.5M to \$50.6M, or 47%. According to GMHA management, the increase in expenses for the Hospital can be directly attributed to the recruitment of nurses as part of their pursuit for accreditation. The Hospital has had to resort to using what are called 'traveling nurses' in order to maintain sufficient number of licensed/registered nurses to meet their patient load. As a result, GMHA incurred an operating loss of \$21.1M in FY 2010, a 263% increase from the \$5.8M reported in the previous year. Personnel

costs account for 64%, or \$67.9M of its total operating expense of \$105.8M. As of September 30, 2010, GMHA's total employee count was 1,063 compared to 948 in 2009.

GMHA management stated that they strained to ensure employees were paid every two weeks, but the required withholdings were not made. As of September 30, 2010 unpaid withholding taxes amounted to \$2.8M resulting in accrued penalties and interest of \$298K. There was barely enough cash to pay vendors to maintain critical patient services, make delivery of pharmaceuticals, or maintain medical equipment. GMHA's cash constraints has caused them to be restricted from dealing with vendors who offer federal pricing rates and instead work with other vendors whose pricing may not be competitive. Trade payables significantly increased by 79%, or \$7.3M, from \$9.2M in FY 2009 to \$16.5M in FY 2010.

In addition, accounts payable to the Government of Guam Retirement Fund increased, from \$7.2M to \$8.9M. In FY 2009, bond proceeds of \$10.5M was paid for past due liabilities; however, GMHA is requesting an accounting of \$7.2M balance.

Report on Compliance and Management Letter

Four findings were identified in the Report on Compliance and Internal Control of which three were material weaknesses as follows:

- **Patient Receivables:** Measures and actions should be undertaken to collect and address long outstanding and increasing receivables.
- **Pharmaceutical Department Inventory:** GMHA does not have a perpetual pharmaceutical inventory. Only a year-end count is performed and detailed reconciliations and investigations of differences are not performed.
- **Procurement and Suspension and Debarment:** Sole-source procurement was used to procure healthcare professional services from one vendor, however, there was insufficient information to indicate how GMHA determined no other vendors could provide required services. This resulted in questioned costs of \$700,000.

The remaining finding was a significant deficiency and resulted in additional questioned costs of \$29,000 bringing the total of unresolved questioned costs as of September 30, 2010 to \$2M. This finding involved:

- **Procurement and Suspension and Debarment:** Sole-source and small purchase procurement was utilized to procure various pharmaceutical supplies, equipment, and services without sufficient evidence to indicate applicable procurement regulations were followed.

A separate letter was issued to management citing five control deficiencies relating to the hospital's stale-dated checks, employee receivables, collections, payables, and accrued taxes and related liabilities. The auditors also noted that all journal entries should be approved and that the unpaid invoices schedule should be reviewed to ensure that paid and/or cancelled invoices are identified and excluded. In addition, a separate document to the Board was issued outlining audit strategies, required communications, audit differences and adjustments, and management representations.

For a more detailed commentary on GMHA's operations, refer to the Management Discussion and Analysis in the audit report. For more details, view the reports in their entirety at www.guamopa.org or at www.gmha.org.