



OFFICE OF THE PUBLIC AUDITOR

**Guam Memorial Hospital Authority
FY 2007 Financial Highlights**

June 25, 2008

After five years of qualified audit opinions and untimely audits, the Guam Memorial Hospital Authority's (GMHA) FY 2007 financial audit received an unqualified opinion after reconciling its accounts receivable, bad debt expenses, contractual adjustments, and capital assets. GMHA closed the year with a \$5.8 million (M) decrease in net assets compared to the \$5.3M increase in FY 2006, a negative change of \$11.1M from the prior year. GMHA had six audit findings with no questioned costs, however the auditors made 29 adjusting entries with a net effect increase of \$4.2M in total net assets. The number and amount of adjustments indicates that weaknesses still exist in GMHA's accounting infrastructure. Several other factors continue to pose significant challenges to GMHA's viability, most notably the overall increase in operating expenses, the collectibility of accounts receivable, and the heavy reliance on general fund appropriations and Compact Impact grants from the Executive Branch.

GMHA Receives Unqualified Opinion

The prior GMHA audits were qualified because of considerable differences in accounts receivables and capital assets ledgers. To resolve the qualifications, GMHA:

- **Reconciled accounts receivable and increased allowance for contractual adjustments and bad debt:** In 2007, GMHA wrote off approximately \$14.4M in uncollectable patient receivables from collection agencies, Medicaid (MAP) and Medically Indigent Program (MIP) and others. GMHA can now reasonably and adequately estimate bad debts and contractual allowances based on management's analysis of self-pay accounts and account confirmations from major third party payors.
- **Conducted a physical count of its capital assets and reconciled to general ledger:** GMHA adjusted capital assets by \$10.5M as of September 30, 2007. Of the \$10.5M, \$6.1M in capital assets (with related accumulated depreciation of \$5.9M) had been surveyed. However, the control accounts had not been reconciled to actual physical inventory. As a result of the reconciliation, GMHA wrote off \$460,000 in net capital assets.

Operating Revenues, Receivables, and Allowances

GMHA operating revenues declined by nearly \$2M in FY 2007, going from \$67.2M to \$65.5M. However, gross patient service revenues during the year increased by nearly \$10M, going from \$110.8M in FY 2006 to \$120.8M in FY 2007. Contractual adjustments and bad debts were \$55.9M or 46%, leaving \$64.8M in net patient revenues. Management estimates the largest allowances for Self-Pay (73%), MIP (68%), and Medicaid (63%) as unrealized revenue.

Accounts receivable collections continue to be a challenge. Total gross patient accounts receivable increased to \$140.2M compared to \$130.8M from the prior year. Similarly, contractual adjustments and allowance for bad debts increased to \$111.6M compared to \$100.3M. As a result, net patient accounts receivable are \$28.3M compared to \$30.2M in FY 2006, a decrease of nearly \$2M. This means that for every dollar in patient receivables, GMHA expects to collect only 20 cents in FY 2007, a decrease from the expected collection of 23 cents on the dollar in FY 2006.

Increase in Operating Expenses

In FY 2007, GMHA operating expenses increased considerably by \$8.6M going from \$79.3M in FY 2006 to \$87.9M. The increase was mainly attributed to the \$5.4M increase in nursing expenses including \$2.1M in overtime and a \$1.5M accrual of retro-pay during the year. While nursing costs have increased, GMHA is still experiencing a shortage of nurses with only 418 nurses at the close of FY 2007 compared to 455 nurses in FY 2006. GMHA's expenses increased in every reported category. Professional support increased by 5% to \$20.6M, administrative support increased by 5% to \$10.7M, fiscal services increased by 5% to \$6.8M, and the administrative and medical staff expenses increased by 8% and 21% respectively, to \$2.8M and \$2.3M. GMHA's operating expenses have continually increased over the last three years, going from \$75.8M in FY 2005, to \$79.3M in FY 2006 and \$88M in FY 2007.

Reliance on General Fund Appropriations and Federal Grants

To sustain operations and deliver quality healthcare, GMHA received \$17.1M in FY 2007 from government of Guam appropriations and Compact Impact grants. Even with the additional \$17.1M in subsidies, GMHA could not cover the \$88M in FY 2007 expenses. This resulted in a \$5.8M decrease in net assets. In addition, GMHA still owes the Government of Guam Retirement Fund \$14.2M. As such, GMHA received a going concern comment from the independent auditors for FY 2007, due to its heavy reliance on General Fund appropriations and Compact Impact grants, which represents over 20% of GMHA total revenues.

Summary of Audit Findings & Management Letter Comments

The Independent Auditor's Report on Compliance and Internal Control noted only six findings and no questioned costs in FY 2007. This is a notable decrease from prior year's 19 audit findings and questioned costs of \$607,789. As of FY 2007, total unresolved questioned costs are \$1.7M. GMHA management and staff are to be congratulated for this improvement however structural deficiencies remain.

Of the six audit findings identified, three findings relative to Medicare billings, aging accounts from third party payors and inventory in the Pharmacy department are repeat findings. The remaining three findings include:

- Self-pay receivables aged over 120 days total \$24.2M and may result in significant write offs of these accounts.
- The accounting department did not timely record entries, which resulted in audit adjustments.
- The Schedule of Federal Awards did not include \$412,655 in program expenditures from FEMA, National Bio-Terrorism, and Compact Impact.

A separate management letter identified eight comments pertaining to procurement, payroll, travel, and cash receipts reconciliation. For a more detailed commentary of GMHA's operations refer to the Management Discussion and Analysis at www.guamopa.org. Independent auditors J. Scott Magliari and Company conducted the financial and compliance audits.