



OFFICE OF THE PUBLIC AUDITOR

Guam Memorial Hospital Authority FY 2005 Financial Highlights

November 2, 2006

The fiscal year (FY) 2005 audited financial statements of the Guam Memorial Hospital Authority (GMHA) were completed four-months past the June 30th deadline. GMHA was the only component unit of the government of Guam that was not included in the fiscal year 2005 government-wide audit, which resulted in a qualification for the government of Guam as a whole. GMHA received a qualified opinion for the fourth-consecutive year due to the inadequacies of the accounting records and difficulties in the reconciliation of certain account balances in the financial statements.

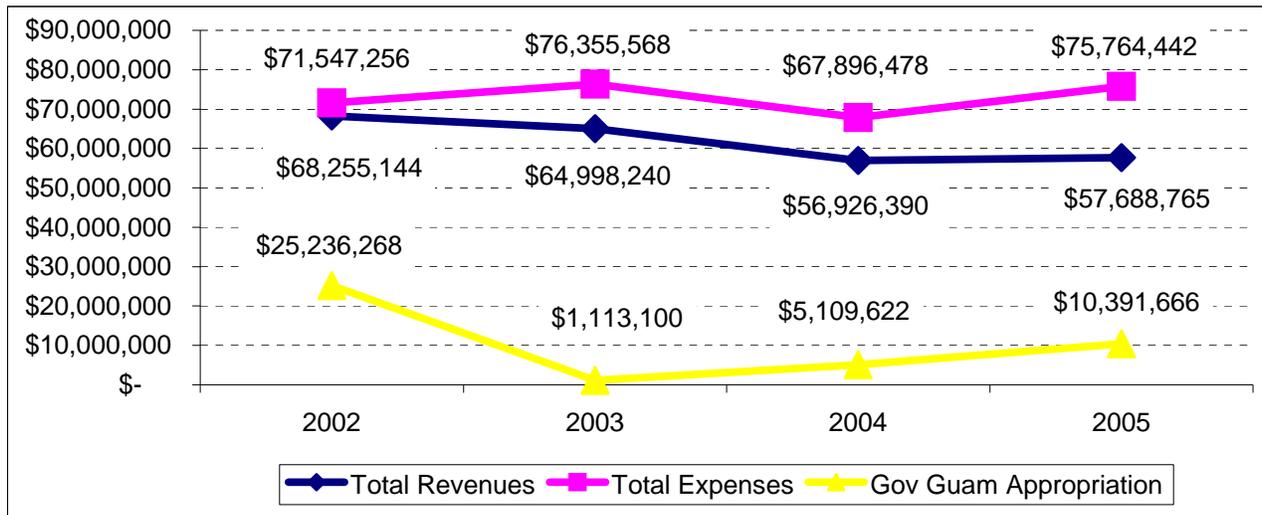
The independent auditor's opinion was again qualified for:

- \$15.6 Million (M) difference in the accounts receivable general and subsidiary ledgers;
- \$1.7M overstatement in the movable equipment account;
- \$1.7M understatement in the buildings fixed asset control account;
- Reasonableness of \$76M in the allowance for bad debts and contractual agreements;
- Significant differences in accounts receivable confirmations from third-party payors as compared to GMHA's subsidiary ledger summary with no reconciliations performed to identify the differences; and
- Inability to apply audit procedures as to the adequacy of the accounts receivable, the allowance for bad debts, and the contractual adjustments to determine that such account balances were fairly stated as of September 30, 2005 and 2004.

The lack of continuity in GMHA's management, particularly with the Hospital Administrator and Chief Financial Officer (CFO) positions, has created instability at the hospital resulting in major audit qualifications and questioned costs of \$4.4M over the last four years. In September 2006, the CFO resigned after approximately two years with the hospital. The hospital's current administration, which took office in April 2005, has taken strides to resolve the audit findings. Herculean efforts have been made to reconcile individual accounts receivable to the master control, which had differences of \$23.5M for current receivables and \$7.9M for collection agency receivables. Approximately \$19.5M of the \$23.5M discrepancy has been reconciled, leaving only \$4M.

In FY 2005, GMHA continued to incur operating losses and negative cash flows from operations that were insufficient to pay current expenses and liabilities. In each of the last four years, expenses have far exceeded realized revenues. GMHA incurred operating losses of \$18.1M, \$11M, \$11.4M, and \$3.3M for fiscal years 2005, 2004, 2003, and 2002, respectively. Government of Guam appropriations over the four years totaled \$10.4M, \$5.1M, \$1.1M and \$25.2M between FY 2002 and FY 2005. See chart 1 for details. The auditors expressed concern that GMHA may not be able to continue as a viable entity without continued subsidies from the general fund.

Chart 1: Revenues, Expenses and Government of Guam Appropriations



Federal grants and contributions have also increased over the years from \$2M in FY 2002 to \$8.1M in FY 2005.

In FY 2005, operating revenues were \$57.7M, while operating expenses were \$75.7M. The major increases in expenses were due to a \$3.8M increase in nursing expense, \$3M increase in ancillary expense, and \$1.6M increase in administration expenses. GMHA's personnel cost increased by \$3M over the prior year as a result of the 2005 Government of Guam Budget Act¹ which included provisions such as the reinstatement of salary increments, merit bonuses, and weekend overtime for nurses and other health care professionals. During the year, GMHA also increased its personnel staffing levels from 796 to 844, including hiring of in-house physicians, which also contributed to the increase in personnel cost. Although expenses increased, GHMA closed the year with an increase in net assets of \$100,033, a direct result of government subsidies of \$10.4M and federal contributions of \$8.1M.

Unpaid liabilities continue to trouble GMHA. At the close of the fiscal year, GMHA had an aggregate payable to the Government of Guam Retirement Fund of \$17.3M. The amount due consists of unpaid employer and member contributions, interest and penalties, and supplemental annuity benefits for retirees. GMHA is continually assessed interest and penalties on these unpaid liabilities and incurred \$1.6M in FY 2005.

The Compliance and Internal Control Reports cited 22 findings in FY 2005, a decrease from the 39 findings in FY 2004 and the 45 findings in FY 2003. Of the 22 compliance findings, 10 findings were considered material weaknesses², 12 were repeat findings from the prior year, and eight were unresolved findings from the prior two years' audits relating to federal awards. For the first time in four years, the independent auditor issued a separate management letter that identified 21 additional findings.

¹ P.L. 27-106.

² A Material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited.

In FY 2005, GMHA incurred \$1.7M in questioned costs, the highest amount of questioned costs in four years. GMHA’s questioned costs from unresolved audit findings over the last four years now totals \$4.4M. See table 1 for detail.

Table 1: Summary of Unresolved Questioned Cost

<u>Period</u>	<u>Unresolved Questioned Costs</u>
FY 2005	\$ 1,692,678
FY 2004	671,975
FY 2003	867,038
FY 2002	<u>1,189,417</u>
Total Unresolved Questioned Cost at September 30, 2005	<u>\$4,421,108</u>

The 22 findings discussed in the FY 2005 report include:

Medicare Billings: Finding 05-02*; From October 1, 2004 through February 28, 2006, approximately \$590,000 of dropped billings could not be submitted to the Medicare Program because the required unique physician identification number (UPIN) was not provided. GMHA could have been reimbursed by Medicare had the required UPINs been obtained within a reasonable time from these physicians.

Allowance for Doubtful Accounts and Contractual Adjustments: Finding 05-05*; GMHA does not have a formal written policy for determining its accounting estimates for bad debts, contractual allowances and adjustments. In FY 2005 and FY 2004, the patient affairs department wrote-off approximately \$25M and \$35M, respectively, of uncollectible patient accounts receivable. GMHA was unable to substantiate its methodology for determining its accounting estimates for bad debts.

Current Receivables and Bad Debt: Finding 05-07*; Current accounts receivable compared to the prior year increased \$16.5M or 28%, and bad debt receivables decreased \$25.2M or 43%. The decrease in bad debts receivable did not result from increased collection; rather, it was the result of a failure to properly evaluate significant delinquent self-pay accounts from current receivables to its bad debts receivables account. Potential uncollectibles in the near term total \$26.9M.

Patient Affairs Department: Finding 05-08*; GMHA has current receivables totaling \$10.4M from the Medicaid (MAP) and Medically Indigent Program (MIP) that represent potential write-offs in the near term resulting from the lack of management oversight and proper handling of MIP and MAP accounts.

Physical Inventory of Fixed Assets and Reconciliation of Register: Finding 05-11*; GMHA has not conducted a physical count of its fixed assets and has not reconciled the variances between the fixed assets general ledger control account and the fixed assets subsidiary register for the past four years.

* Considered a material weakness.

Pharmacy Inventory: Finding 05-12*; In FY 2005, the physical inventory in the Pharmacy department was not properly valued and posted in the inventory system and general ledger. GMHA did not have the adequate controls to ensure that inventory in the Pharmacy department were properly accounted for with the proper levels of segregation of duties. As a result, GMHA's inventory could be materially understated and pharmaceutical expenses could be overstated.

Activities Allowed or Unallowed: Finding 05-18; Charges of other grant program/project were also charged to the Compact Impact 2005 Federal Grant. The supporting expenditures and corresponding invoices in which cost/charges were also claimed under other grants totaled \$192,679.

In Finding 05-19, the questioned cost of \$1.5M resulted from a draw down from the Department of Administration. GMHA was not able to properly substantiate the amounts paid for the project.

For a more detailed commentary of GMHA's operations, refer to the Management Discussion and Analysis in the audit report.