



## Guam Memorial Hospital Authority FY 2012 Financial Highlights

May 23, 2013

After the largest loss in over a decade in FY 2011, the Guam Memorial Hospital Authority (GMHA) ended fiscal year (FY) 2012 with an increase in net assets of \$8.3 million (M) compared to a negative \$28.7M. This was mainly attributed to the \$12.3M General Obligation Bonds. Although operating revenues increased by \$15.8M to \$85.6M, GMHA had an operating loss of \$17.9M as expenses amounted to \$103.5M, a slight decline from \$105.8M in FY 2011. GMHA’s viability is dependent upon continued subsidies from GovGuam as the hospital’s services cannot be withheld based on the financial ability of the customer.

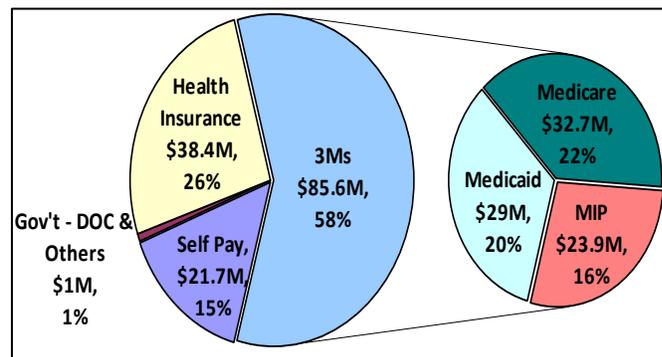
Deloitte & Touche, LLP rendered an unqualified or “clean” opinion on the financial statements. GMHA, however, received a qualified opinion on the independent auditors’ reports on internal control and on compliance due to continued material weaknesses and significant deficiencies. Of the four material weaknesses and one significant deficiency, three were repeat findings pertaining to collection of patient receivables, unbilled patient receivables, and the lack of a perpetual inventory in pharmacy. The other two findings involved noncompliance with federal equipment and real property requirements and insufficient procurement documentation, which resulted in questioned costs of \$154 thousand (K). As of September 30, 2012, cumulative unresolved questioned costs amounted to \$2.2M.

### Operating Revenues and Collections Increase

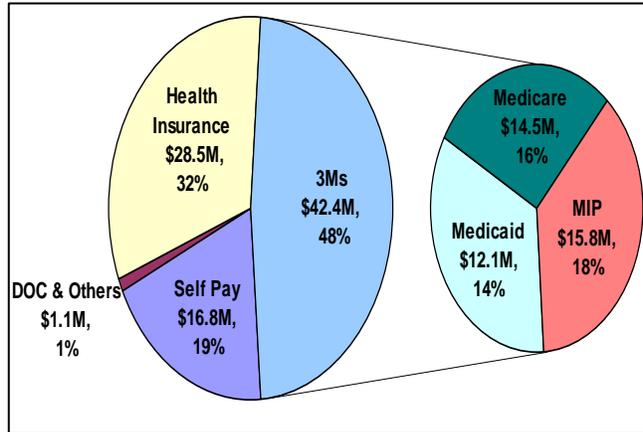
The increase in operating revenues was mainly attributed to improved collections, which increased net patient revenues by \$14.9M to \$84.1M. Forty-eight percent of patient revenues came from the “3Ms”: Medicare (22%), Medicaid (16%) and Medically Indigent Program (MIP) at 10%; however, the reimbursement structure under these programs has resulted in contractual adjustments of \$42.1M, or 60%. As a result, 3Ms’ revenues amounted to \$28.3M compared to \$29.6M in FY 2011. Despite this decline, net service revenues from other patients accounted for 50% of net revenues and increased by \$9.9M or 32% from \$31.8M to \$41.8M. Additionally, net service revenues from self-pay patients significantly increased by 82% or \$6.3M from \$7.7M to \$14M as GMHA received \$6M in the 4<sup>th</sup> quarter of 2011 from garnished tax refunds.

In FY 2012, GMHA collected 61 cents on the dollar for its billings of \$146.7M. This is an improvement from the previous year where 50 cents on the dollar was collected. Based on GMHA’s schedule of billings and collections, the largest class of patient billings was for the 3Ms, which represent 58% or \$85.6M of total billings of \$146.7M. Contrary to popular opinion, health insurance providers made up 26% or \$38.4M of GMHA’s billings. This is followed by self-pay patients (15%) and GovGuam (1%). Refer to Chart 1.

**Chart 1: GMHA Billings**



**Chart 2: GMHA Collections**



GMHA collected a total of \$88.8M of the \$146.7M billed. Of the total collections, 48% or \$42.4M was received from the 3Ms. Although, health insurance providers represented 26% of billings, 32% of the collections, or \$28.5M, came from these payors. Reimbursement from the 3Ms is less than the actual cost of providing services. Collections from insurers provide reimbursements near GMHA's costs. Collections from self-pay patients represented 19% and collections from GovGuam made up 1% as illustrated in Chart 2.

**Operating Expenses Outpace Operating Revenues**

In FY 2012, GMHA incurred an operating loss of \$17.9M which was significantly lower than the prior year's loss of \$35.9M, the largest operating loss incurred by GMHA in over a decade. While total operating revenues significantly increased to \$85.6M from \$69.9M, it was not enough to off-set the operating expenses of \$103.5M. GMHA's operating expenses slightly declined by 2.2% from \$105.8M in FY 2011. Over 58% of the expenses, or \$49.4M was attributed to Nursing, of which nearly 90% or \$43.9M was for personnel costs. Overall, GMHA's personnel count dropped from 999 in FY 2011 to 967, but personnel costs dropped nominally from \$71.6M to \$71.1M. This can be attributed to GMHA's increased contribution to GovGuam retirement costs from 25.95% in FY 2011 to 28% in FY 2012.

**Dependency on the Government of Guam**

In addition to losses from operations, GMHA had \$4.3M in negative cash flows from operations, and recorded \$47.2M in contractual allowances and \$17M for a provision for uncollectible accounts. Additionally, delinquent and unpaid retirement contributions, including interest and penalties were \$2.6M as of September 30, 2012. As noted in the audit report, management believes that the hospital's continued operation is dependent on payments by GovGuam for services provided under Medicaid and MIP, the collection of long outstanding patient receivables, and improvements in operations. GovGuam made various payments totaling \$28M during FY 2012 as follows:

- \$12.3M from bond proceeds to pay past due GovGuam Retirement Fund liabilities;
- \$4M from the General Fund, of which \$1.9M was paid on behalf of hospital retirees;
- \$8.6M from the Pharmaceuticals Fund for Medicaid and Charity Care patients;
- \$2.7M from the Healthy Futures Fund; and
- \$320K from the 2007 Tobacco Bond proceeds.

The Hospital also received \$7.2M in Federal Grants. Of this amount, \$6.2M was from Compact Impact funding, which was at the discretion of the Governor, and \$270K was related to the American Recovery and Reinvestment Act.

**Income Tax Withholding Not Remitted Timely**

In addition to past due retirement contributions, GMHA did not make required payments of withholding taxes for certain quarters of tax years 2010 and 2011. As of September 30, 2012, unpaid income tax withholdings amounted to \$6.4M. GMHA did not record accrued interest or penalties as Management believed that these penalties can be administratively reduced.

## Report on Compliance and Management Letter

Five findings were identified in the Reports on Compliance and Internal Control, of which four were considered material weaknesses and one was a significant deficiency. These findings involved the following, of which the first three listed below were repeat findings from FY2011:

- **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.
- **Unbilled Patient Receivables:** Patient receivables were not billed on a timely basis. Unbilled receivables are at \$6M – a reduction from \$6.9M at FY2011, but high compared to FY 2010 levels.
- **Procurement and Suspension and Debarment:** In 2 of 52 expenditures tested, there was insufficient documentation to detail the history of the procurement or the rationale for vendor selection. This resulted in questioned costs of \$154K, which increased cumulative unresolved questioned costs to \$2.2M.
- **Equipment and Real Property Management:** Of the 75 federal asset samples tested, one asset was not maintained in accordance with applicable federal equipment and real property guidelines.

A separate letter was issued to management citing 16 control deficiencies compared to 10 in the previous year. These included issues pertaining to untimely collections being applied to patient accounts; damaged inventory not being included in the year-end count, fixed asset disposals not being reviewed for validity; unrecorded interest charges by vendors; overpayment to on-call physicians due to input errors, and incorrect classification of expenses. In addition, six IT related control deficiencies were identified.

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](http://www.guamopa.org) or at [www.gmha.org](http://www.gmha.org).