Guam Memorial Hospital Authority
FY 2004 Financial Highlights

April 4, 2006

The fiscal year 2004 financial audit of the Guam Memorial Hospital Authority (GMHA) received a qualified opinion for the third year due to the inadequacies of the accounting records and difficulties in the reconciliation of certain account balances in the financial statements. The audit is nine months past due the June 30, 2005 deadline because of the myriad of problems cited by the auditors, J. Scott Magliari & Company. The auditor's opinion was again qualified for:

- $15.6 million (M) difference in the accounts receivable general and subsidiary ledgers;
- Reasonableness and adequacy of allowance for bad debts and contractual adjustments of $76.2M;
- Significant differences in accounts receivable confirmations from third-party payors as compared to GMHA's subsidiary ledger summary;
- Reconciliations not performed to identify the differences;
- $2.2M overstatement in the movable equipment control account;
- $5.5M understatement in the buildings control account;
- 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, 2004 and 2003 and
- Inability to form an opinion regarding the $42.1M in capital assets, net of accumulated depreciation, and the $3.7M depreciation expense.

The auditors also opined that operating losses of $11M in FY 2004 and $11.4M in FY 2003 raise doubt as to GMHA's ability to continue as a going concern without continued subsidies from the Government of Guam. Further, GMHA defaulted on its $6.5M note payable to the Government of Guam Retirement Fund and is in arrears on unpaid retirement contributions of approximately $10M as of September 30, 2004. GMHA is also $551,581 in arrears on principal and interest on its outstanding note payable of $1.1M to the Guam Power Authority.

In FY 2004, GMHA received $5.1M from the Government of Guam, compared to $1.1M in FY 2003 and $4.6M from Federal funds, compared to the $1.1M in FY 2003. With the subsidies and Federal grants, GMHA had a decline in net assets (loss) of $1.1M in FY 2004 compared to $8.8M FY 2003.

Although operating revenues increased by $4M from $65M to $69M, operating expenses also increased $4M from $76.4M to $80.4M. The major increases in expenses were due to a $3.6M increase in the allowance for bad debts expense from $8.9M to $12.5M. GMHA's number of personnel decreased from 817 to 796, which attributed to the $1.5M reduction in personnel costs from $43.4M to $41.9M. However, this reduction in personnel costs was offset by a $1.4M increase in contractual services from $6.2M to $7.6M.

GMHA incurred $1.5M in interest and penalties for outstanding obligations primarily due to the Retirement Fund, Department of Revenue and Taxation, and GPA. The bulk of the $1.5M was owed to the Retirement Fund or $1.4M.

GMHA continues to experience negative cash flows because of the sluggish collection of receivables. While GMHA has a total $102.4M in receivables, the allowance for doubtful receivables was $76.2M. Therefore, GMHA expects to collect 26 cents of every dollar in receivables, while 74 cents remains doubtful. This is an improvement from FY 2003's collection rate of only 24 cents of every dollar in receivables.

Of the gross patient service revenues totaling $97.1M, Medicare/Medicaid comprised $32.2M or 33%, Medically Indigent Program (MIP) made up $8.5M or 9%, Local Insurances and Other Providers consisted of $31.6M or 32%, and Self-Pay comprised $24.8M or 26%. GMHA has a policy of providing contractual allowances and adjustments for estimated revenues that may not be collected. Medicare/Medicaid revenues had contractual allowances of $13.2M or 41%. Self-Pay had a significant downward adjustment of $17.5M or 70%. Local Insurances and Other Providers were adjusted by $3M or 10%. Due to the inadequacies of the accounting records, contractual allowances and adjustments for MIP has not been determined. See table below.

	Gross Patient Service Revenues	% of Total Gross Patient Service Revenues	Management's Estimates for Contractual Allowances, Adjustments, & Denials	% of Gross Patient Service Revenue by Third-Party Payor
Medicare	$ 21,825,393	22%	$ 8,948,170	41%
Medicaid	10,325,347	11%	4,233,150	41%
MIP	8,513,650	9%	-	-
Self-Pay	24,845,577	26%	17,468,413	70%
Local Insurances	14,667,293	15%	1,173,314	8%
Other Providers	16,896,305	17%	1,857,452	11%
Total	**$ 97,073,565**	**100%**	**$ 33,680,499**	**35%**

The Compliance and Internal Control Reports cited 39 findings in FY 2004, of which 15 findings were considered material weaknesses[1]. Additionally, there are 45 findings in FY 2003 and 19 findings in FY 2002 that have yet to be addressed. This amounts to 103 findings with total unresolved questioned costs of $2,739,226. The FY 2004 unresolved questioned costs totaled $682,771.

Among the 39 findings discussed in the FY 2004 report include:

Cash Receipts. Finding 1[*] indicated there are no procedures for incoming checks received by mail, no control listing of checks or deposit verification, and no segregation of duties within the cash receipts area. Finding 2* cited that 10,557 official receipts issued did not state the type of payment (i.e. cash, check, credit card, bank, etc.).

[1] 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 risk that misstatements caused by error or fraud would be material in relation to the financial statements being audited.

[*] Considered to be of material weakness

Accounts Receivable. Finding 3* noted $620,064 from various payors remained in the Accounts Receivable Suspense Account for over one year due to GMHA's inability to identify the individual patient accounts to post the respective payments. In Finding 19, two government of Guam agencies owed GMHA over $422,000.

Compensated Overtime. In Finding 8, the Chief Hospital Pharmacist received $119,884 of overtime pay for 2,446.65 hours and $2,345 for 718 hours of night differential pay. This was in addition to his regular annual pay of $71,866. Similarly, the housekeeper supervisor, on average, was paid 17 hours a day, seven days a week, as well as 17-20 hours on weekends.

Personnel. In Finding 7, two employees that were not authorized to receive on-call differential pay received $13,383. Both were terminated in December 2004, but subsequently reinstated by the Civil Service Commission and received $41,946 for six months of retroactive pay. In Finding 11, Leave forms and supporting documents to substantiate leave taken were not provided for 21 employees.

Bad Debt Write-Offs. In Finding 16*, approximately $35M of accounts receivables were written-off without Board approval. These adjustments were made by the Assistant Chief Financial Officer and employees of the Patient Affairs Office without upper level management review or approval. Although the Board was aware that write-offs were eminent, the $35M write-off was not presented for Board action. In Finding 15, GMHA has no collection policies, or policies and procedures to age and evaluate receivables or to extend credit terms. GMHA has not established proper aging of accounts receivable in its accounting systems.

Payment Agreement Terms. In Finding 12*, two of the 15 payment agreement files tested indicated unreasonable credit terms of 573 and 415 years, respectively, well beyond the normal life span of a person. Other agreements ranged from 10 to 40 years. All 15 payment agreements, totaling $797,312 lacked credit statements or evaluations of repayment abiltiy.

Property Management. In Finding 21, GMHA loaned computer equipment and peripherals for a period of one year to a private organization that renders radiology-consulting services to GMHA. The Property Management Officer, the issuing authority, did not sign the loan equipment form. Instead, the authorization was given by the Hospital Administrator. The equipment was returned incomplete of cables and peripherals. In Finding 20*, twelve movable equipment items, totaling $259,708, had been surveyed out to General Services Agency in prior years, but were still recorded in the fixed assets register in the AS400. In Finding 25*, the general ledger's fixed assets balances did not agree with the balances in the fixed assets register. The variance in cost was $3.2M, while the accumulated depreciation was off by $243,474.

Patient Affairs. In Finding 22, 10% of physician invoices tested exceeded the 90-day limit of the Prompt Billing Act resulting in loss revenues totaling $151,878.

Pharmacy. In Finding 26, the physical count of the pharmaceutical inventory did not agree to the general ledger. Consequently, the general ledger was overstated by $213,105. In Finding 31, the Pharmacy entered into loan and borrow agreements, which resulted in $138,818 in pharmaceuticals loaned out as of December 2004.

Because controls forms used were tracked only by date the possibility exists that the loan and borrowed documents may have been incomplete and misappropriation of pharmaceuticals may have gone undetected.

Worker's Compensation. In Finding 33, two employees received $45,131 in excess of the $100,000 limit for worker's compensation. GMHA has not recovered the overpayment.

Procurement. There were six findings (34 through 39) pertaining to procurement: paid invoices in excess of purchase orders (POs) totaling $102 thousand (K); two POs ($119K) were paid after the PO's expiration date; one PO ($87K) had no requisition on file; one PO did not agree with the requisition and had a variance of $4,923; 12 POs ($2.4M) did not have complete procurement files as to history and selection; two POs ($285K) did not have documentation to justify sole source when this type of merchandise is not sole source; and four POs for $1.1M indicated that the same three vendors were always contacted for bid proposals for emergency procurement, even though there was no rational basis to determine how the three particular vendors were selected and there was no qualified bidders list on file.

Offset Transactions. In Finding 4, property insurance premiums totaling $998,910 were not paid by checks from the GMHA hospital funds, but through an offset arrangement from the periodic settlement of a third-party payer to the hospital. There was no formal Board of Trustees' resolution approving this offset arrangement.

Travel. In Finding 9, The Travel Authorization of one of the employees cited in Finding 7 lacked adequate documentation. Three quotations were not obtained; there was no certificate of attendance, and the airline-boarding pass appeared to have been altered. The employee was being timed-in and out by the timekeeping supervisor and was compensated for at least two weeks while the employee was supposedly off-island for 30 days' training. Management is investigating the matter further to determine whether the employee should return the travel funds.

DRT Receivable. In Finding 23, levied amounts approximating $400,000 received from the Department of Revenue and Taxation (DRT) could not be matched to individual patient accounts in the DRT receivable account because the transmittal documents received from DRT could not be located.

The current management acknowledges the deficiencies. However, corrective actions have not been taken on nearly all of the prior years' recommendations. See the Management's Discussion and Analysis for further details.