

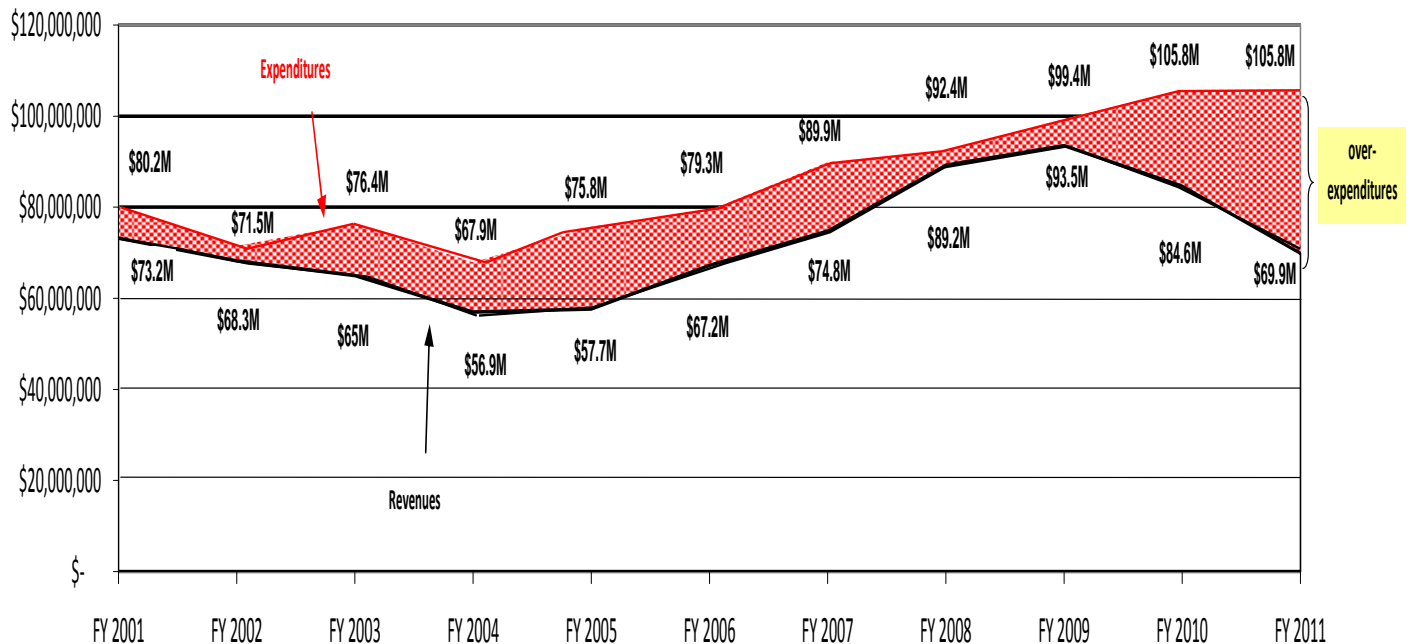


## Guam Memorial Hospital Authority FY 2011 Financial Highlights

March 28, 2012

For fiscal year (FY) ended 2011, the Guam Memorial Hospital Authority (GMHA) had the largest loss in over a decade at \$28.7M. GMHA's viability is dependent upon continued subsidies from the Government of Guam (GovGuam) as the hospital is the only component of GovGuam in which services cannot be withheld due to the financial ability of the customer. Forty-six percent of patient revenues came from the "3M's": 22% from Medicare, 13% from Medicaid, and 11% from the Medically Indigent Program (MIP); however, the reimbursement structure under these programs has resulted in contractual adjustments of \$38.9M, or 57%. The provision for uncollectible accounts for self-pay patients more than doubled, resulting in revenues of just \$7.7M based on billings of \$32.6M, a 76% write-off. Total net patient service revenues declined by 17.2% or \$14.3M from \$83.5M to \$69.1M. Despite the decline in revenues, however, expenditures levels were maintained at \$105.8M. Although cost containment measures were implemented during the year, the full effect of these actions will not be realized until FY 2012. See graph below for the growing gap between operating revenues and operating expenditures.

### GMHA Operating Revenues & Expenditures



Deloitte & Touche, LLP rendered an unqualified or "clean" opinion on the financial statements. However, GMHA received a qualified opinion on the independent auditors' reports on internal control and on compliance due to four material weaknesses. Of the four, two were repeat findings pertaining to patient receivables and the lack of a perpetual inventory in pharmacy. The other two findings involved unbilled patient receivables and procurement, which resulted in questioned costs of \$21.8K. As of September 30, 2011 cumulative unresolved questioned costs amounted to \$2M.

### **Retirement Contributions and Income Tax Withholding Not Remitted Timely**

Due to cash shortfalls, GMHA stopped remitting not only the employer's share, but also employees' share of retirement contributions to the Retirement Fund. Cumulative unpaid retirement contributions, including interest and penalties, now stand at \$15.1M, a 69% increase from FY 2010. Employee income tax withholdings of \$6.4M were unpaid as of September 30, 2011, which incurred interest and penalties of \$585K due to nonpayment of withholding taxes.

### **Dependency on the Government of Guam**

GMHA incurred losses from operations of \$35.9M and negative cash flows from operations of \$16.2M. As footnoted in the audit, management believes that the hospital's continued operation is dependent on continued payment by GovGuam for services provided under MIP, the collection of long outstanding patient receivables, and/or continued improvements in operations. GovGuam made various payments totaling \$30.2M during FY 2011 as follows:

- \$8M from the Pharmaceutical Fund for Medicaid and Charity Care patients;
- \$7.3M MIP;
- \$7.1M from the Federal and Local share for Medicaid payments;
- \$4.3M from the Healthy Futures Fund;
- \$2.2M represents payments on behalf of GMHA retirees for annuities and healthcare premiums; and
- \$1.4M for capital grants and contributions.

The hospital also received \$3M in Federal Grants. Of this amount, \$2.1M was from Compact Impact funding, which is at the discretion of the Governor, and \$380K was related to American Recovery and Reinvestment Act.

### **Billings to Third-Party Payers**

For FY 2011, gross billings to third-party health insurance carriers were 31% or \$45.7M of total gross billings of \$146.8M. GMHA made various contractual adjustments of \$13.9M, representing a 30% adjustment to these billings. Of the total net patient revenues of \$69.1M, billings to health insurance carriers represent \$31.8M or 46%. Receivables from major third-party health insurance providers totaled \$7.2M at year-end.

### **Expenses Outpace Revenues**

Though GMHA continues to incur operating losses, over the span of 10 years, the \$35.9M operating loss reported in FY 2011 is the largest. Revenues have declined by 4.5% from \$73.2M in FY 2001 to \$69.9M in FY 2011. Despite the decline in revenues, GMHA's operating expenses rose by 31.9% from \$80.2M to \$105.8M in the same period. Over 46% of the expenses, or \$49M was attributed to Nursing, of which nearly 90% or \$43.5M was for personnel costs. Overall, GMHA's personnel count dropped from 1,063 in FY 2010 to 999, but personnel costs increased by \$3.7M in FY 2011.

The hospital is licensed for 159 beds. Based on operating costs of \$105.8M in FY 2011, the annual cost per bed is approximately \$665K. This is a 32% or \$161K increase from an annual cost per bed of \$504K in FY 2001 as operating costs were \$80.2M.

### **Collectability of Operating Revenues Decline**

Although, gross patient service revenues slightly increased to \$146.8M, GMHA recorded \$77.7M in contractual adjustments and provisions for uncollectible accounts. The net patient revenues of \$69.1M, were comprised of service patient revenues to: Medicaid patients (\$7.5M); Medicare patients (\$14M); MIP patients (\$8M); Self-pay patients (\$7.7M); and Other patients (\$31.8M).

GMHA's gross patient accounts receivable grew by 20%, or \$37M, from \$182.5M in FY 2010 to \$219.6M in FY 2011. Likewise, allowance for uncollectible accounts increased, but by 28% or \$39.4M, from \$139.1M to \$178.6M. Compared to the 24 cents for every dollar owed by its patients in FY 2010, GMHA reflected that only 19 cents for every dollar appear collectible in FY 2011. This was substantially attributed to receivables from self-pay patients.

As part of the issuance of the \$235M Business Privilege Tax Bonds (Series 2011A) in December 2011, GMHA received \$6.4M garnished from tax refunds for delinquent hospital bills. This amount provided much needed assistance and paid critical vendors, but will be reflected in the FY 2012 financial audit.

### **Report on Compliance and Management Letter**

Four findings were identified in the Report on Compliance and Internal Control, all of which were considered material weaknesses. These findings involved the following, of which the first two listed below were repeat findings:

- **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 increased by \$3.1M or 81% to \$6.9M from the prior year.
- **Procurement and Suspension and Debarment:** In one of five transactions tested, the contract was not awarded to the lowest and most responsive bidder. This resulted in questioned costs of \$22K, which increased cumulative unresolved questioned costs to \$2M.

A separate letter was issued to management citing 10 control deficiencies, which included issues pertaining to the hospital's stale-dated checks, unbilled receivables, fixed assets, inventory, patient revenues, accrued taxes and related liabilities, and accounts payables. 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](http://www.guamopa.org) or at [www.gmha.org](http://www.gmha.org).