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Hagåtña, Guam – The Office of Public Accountability has released the Guam Memorial Hospital Authority’s (GMHA) financial statements, reports on compliance and internal control, management letter, and the auditor’s communication with those charged with governance for fiscal year (FY) 2019.

Uncertainty as to GMHA’s Ability as a Going Concern

In its FY 2019 unmodified (clean) opinion on financial statements, independent auditors Deloitte & Touche, LLP emphasized that GMHA incurred recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern (i.e., meet its obligations). GMHA’s *going concern* was removed in FY 2018 as GMHA expected it would be able to pay down its obligations and not reach the level which led to the going concern of previous years.

Despite increased collections, GMHA’s mandate to provide healthcare to all patients regardless of one’s coverage or ability to pay resulted in the continual growth of patient receivables. For the last five years, self-pay patients averaged \$22.7 million (M) of care per year and the likelihood of collecting is low. GMHA’s provision for bad debts averaged \$16.5M a year.

In October 2018, to reduce the level of uncompensated care, GMHA along with the Department of Public Health and Social Services hired an Eligibility Specialist to assist the uninsured and underinsured apply for and obtain Medicaid or Medically Indigent Program (MIP) coverage.

GMHA Unpaid Withholding Taxes and Unremitted Retirement Contributions

In FY 2019, GMHA’s liabilities for delinquent and unpaid taxes with the Department of Revenue and Taxation (DRT) was \$5.3M and unremitted retirement contributions to the Government of Guam (GovGuam) Retirement Fund was \$747 thousand (K). Past withholding taxes primarily for 2018 were not remitted or not timely remitted due to poor cash flow. In FY 2020, GMHA was committed to paying the principal amount for this obligation. Operational funds were used to pay these taxes and the principal balance was paid in full as of June 2020. Also, the \$747K GovGuam Retirement Fund retirement contributions were remitted as of October 2019.

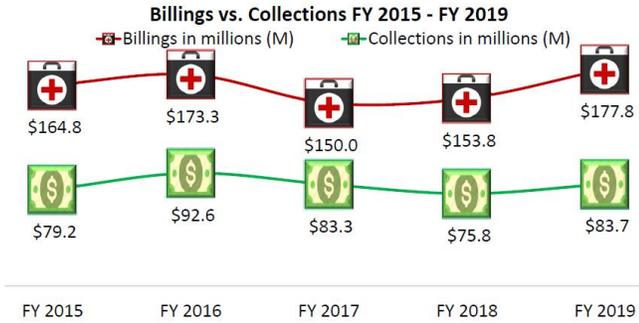
In February 2020, GMHA requested a waiver from the DRT Director for the interest and penalties based on GMHA’s heavy reliance on Government of Guam subsidies and negative operating cash flows. The DRT Director approved the waiver in June 2020, which will allow GMHA to direct this cash to pay critical medical supply vendors.

Centers for Medicare and Medicaid Services (CMS) Approved GMHA Rebasing

In January 2019, CMS rebased GMHA’s discharge rate retroactively to October 01, 2013. In FY 2019, GMHA received \$6.3M for retroactive rate adjustments for FY 2014 to FY 2016. The rebasing narrowed the gap between actual cost per discharge and the total amount per discharge reimbursed. Despite the rebasing, GMHA was still reimbursed less than the cost of discharge. In FY 2019, the cost of discharge was \$15K while the reimbursement was \$11K. As a result, further rebasing should occur to truly close the gap.

Increase in Net Patient Revenues

Net patient revenues increased by \$12.0M to \$99.1M during FY 2019 compared to FY 2018’s \$87.1M. This increase was attributable to growth in both inpatient and outpatient census, the annual 5% rate increase, new fees, and higher Medicare reimbursements due to rebasing.



GMHA’s patient/payer mix consists mainly of the 3M’s (Medicaid, Medicare, and MIP patients), third-party payers, and self-pay patients. Of \$178.9M in FY 2019 patient services, \$61.7M were contractual adjustments based on costs not reimbursed by the 3M’s and third party payers (health insurance companies) and \$18.1M was determined uncollectible from self-pay patients. This means only 55% or \$99.1M was determined collectible. Collections in FY 2019 were \$83.7M.

The 3M’s. Patients covered by 3M’s incurred \$97.2M or 55% of GMHA’s gross patient revenues in FY 2019, but GMHA only collected \$33.4M or 34%. An average of the last five years indicates that GMHA collected reimbursements of only 44¢ for every \$1 billed for 3M patients. Underpayments from the 3M’s are due to reimbursement rates that are below the costs of care.

Third-Party Payers. Patient services billed to health insurance companies was \$51.3M or 29% of GMHA’s grand total billings in FY 2019, but GMHA only collected \$35.2M (or 69%). An average of the last five years indicated that GMHA collected only 71¢ for every \$1 billed to third-party payers. Initially, GMHA bills the insurance companies for the whole patient visit. The amounts not covered by insurance are then billed to the patient.



Self-Pay Patients. Patients who were underinsured or without health insurance coverage were billed \$28.2M of the Hospital’s FY 2019 gross patient revenues, but GMHA collected \$14.6M. An average of the last five years indicates that GMHA collected 41¢ for every \$1 billed to self-pay patients. GMHA’s partnership with the Office of the Attorney General for collection referrals and DRT for garnishments resulted in self-pay accounts increasing by \$7.3M.

Dependency on the Government of Guam

GMHA closed FY 2019 with a net income of \$9.2M due to the \$13.3M increase in transfers from GovGuam and a \$1.6M reduction in legal contingencies. However, its operating expenses exceeded its operating revenues by \$30.5M; operating activities resulted in negative cash flows of \$28.7M; and \$145.5M of patient accounts receivable was determined uncollectible.

Patient accounts receivables (unpaid patient billings) amounted to \$187.6M in FY 2019, a \$47.7M increase from \$140.0M in FY 2018. Unpaid billings were made up of 41% owed by the 3M’s, 23% by third-party payers, and 36% self-pay patients. However, GMHA estimated that \$145.5M (or 78%) was uncollectible. This allowance for uncollectible accounts continues to be three times more than net patient accounts receivable of \$42.1M. The allowance is most prominent for 3M receivables because 3M’s reimburse at rates less than costs. In addition, finance charges and interest are not accrued for past due accounts.

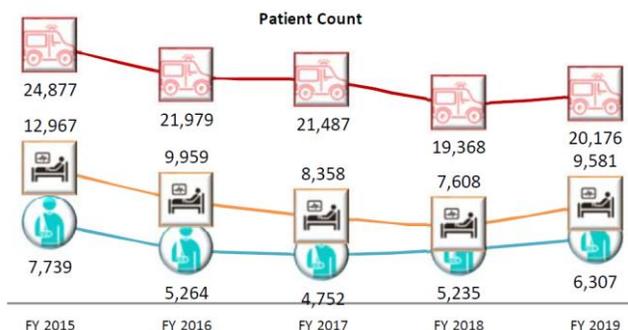
GMHA management believed that the continuation of GMHA’s operations is dependent upon the future payment of medical services underwritten by GovGuam, continued compensation by GovGuam for the cost of services provided under Medicaid and MIP, collection of long outstanding patient receivables, and/or improvements in operations.

Increase in Operating Expenses and Patients

FY 2019 operating expenses increased by \$7.1M primarily due to increases in fringe benefits of \$6.3M from changes in pension expense, contractual services of \$3.9M, and supplies and materials of \$3.5M. The increases

were offset by a \$10.0M decrease in retiree healthcare costs from other post-employment benefits expense.

Overall patient census increased by 12% to 36,064 in FY 2019 from 32,211 in FY 2018. Since the closure of the Guam Regional Medical City (GRMC) Maternal Child Health Unit, GMHA saw census increasing since October 2018. However, total patient count is a 21% decrease from 46K in FY 2015, the highest patient census since GRMC opened in July 2015.



Responding to Coronavirus (COVID-19)

In March 2020, the Governor of Guam issued Executive Order No. 2020-03 and declared a state of emergency for Guam in response to the COVID-19. GMHA was designated as Guam’s only COVID-19 care facility. Activities were implemented to screen and test patients and employees, keep all employees safe by emphasizing infection control protocols, and procure supplies and equipment with a focus on personal protective equipment.

GMHA determined that the COVID-19 pandemic may negatively impact its business, results of operations, and financial position. However, due to uncertainty surrounding the duration, GMHA is unable to reasonably estimate its ultimate financial impact.

Pursuing Accreditation

Although GMHA lost accreditation with The Joint Commission in 2018, GMHA management agreed and decided to explore reclaiming accreditation. This also includes looking at other accrediting organizations primarily based on CMS conditions of participation which are more aligned with GMHA’s framework. GMHA management seeks accreditation to validate its dedication and compliance with standards devoted to quality management, patient and employee safety, and continual improvement.

In November 2019, the U.S. Army Corps of Engineers conducted a facility condition assessment of the hospital building. In its final report, the cost for immediate repairs was estimated at \$21.0M to support the reaccreditation of the facility and eliminate hazards to life, health, and safety. These repair consist of roof replacement, exterior building repairs, HVAC repairs, life safety repairs, and fire sprinkler repairs. The report recommended GMHA to construct a new multi-story hospital of equivalent size on a suitable site on the island, with an estimated cost of \$743.0M, including \$21.0M to support reaccreditation.

Compliance Report and Management Letter

Deloitte identified a repeat material weakness concerning GMHA’s patient receivables. There was an accumulation of uncollectible receivables and the potential for inadequate cash flows to meet current obligations. This included the untimely analysis of receivables and the collections in the receivable suspense accounts that were not recorded against specific receivable balances.

A separate letter was issued to management citing seven control deficiencies related to collections, patient receivable credit balances, patient fees, patient revenue, professional service contracts, fixed assets, and payables.

In addition, four IT-related control deficiencies were identified.

For more details on GMHA’s operations, see the Management’s Discussion and Analysis in the audit report at www.opaguam.org and www.gmha.org.