



## **Guam Memorial Hospital Authority FY 2015 Financial Highlights**

June 27, 2016

### **Third Year of Uncertainty as to GMHA's Ability to Continue Operating**

Fiscal year (FY) 2015 continued to be a challenging year for the Guam Memorial Hospital Authority (GMHA) as independent auditors Deloitte & Touche, LLP, in its unmodified (clean) opinion for FY 2015, emphasized that "GMHA has incurred recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern." This is the third year this opinion emphasis has been made. GMHA closed FY 2015 with a decrease in net position (net loss) of \$3.4 million (M) compared to the \$7M increase in net position in FY 2014.

Leadership at GMHA continues to revolve, which contributes to the agency's inability to follow through on addressing past audit findings and implementing recommendations and actions needed to help improve operations. After only nine months, another administrator resigned in January 2016, shortly after the Chairman and two other board members resigned. A new administrator was subsequently appointed.

### **Expenses Outpaces Revenue**

While Operating Revenues increased by \$4.0M, going from \$80.2M in FY 2014 to \$84.2M in FY 2015, it did not meet the \$5.3M growth in operating expenses from \$104.7M to \$110.0M in FY 2015. The increase in expenses was mainly from the Professional Support department, which increased by \$2.7M, going from \$23.7M in FY 2014 to \$26.4M in FY 2015. This was primarily due to a \$1.7M increase in contractual services. However, the implementation of GASB 68 reduced operating expenses by nearly \$4.0M in FY 2014 and \$8.1M in FY 2015.

### **Continued Dependence on the Government of Guam**

GMHA ended FY 2015 with an operating loss of \$25.8M, and continues to rely heavily on the Government of Guam (GovGuam) subsidies. GMHA has taken several actions to address losses from operations and negative cash flows, which include submitting an application to update or rebase Medicare reimbursement rates, re-negotiating with insurance companies, contracting a collection agency for self-pay receivables, and increasing hospital fees.

Even with GMHA's efforts to improve billing and collection, it is still not enough to cover the combined loss from uncompensated care from self-pay patients and underpayment from the "3M's" (Medicare, Medicaid, and MIP). In FY 2015 alone, the contractual adjustment and provision for bad debt totaled \$67M, which GMHA will not realize. Therefore, an external funding source must be identified to reimburse GMHA for the underpayment of the 3M's and cost of providing uncompensated care for self-pay patients. As such, the Governor's Bill 338-33 seeks to authorize the issuance of limited obligation bonds to provide GMHA additional sources of funding for working capital and capital funding.

### **Structure of GMHA Patient Load**

GMHA patient revenues come from three primary sources: The "3M's", third-party payers or insurance companies, and self-pay. The 3M's constituted 55% (Medicare 23%, Medicaid 22%, and MIP 10%) or \$87.9M (Medicare \$36.8M, Medicaid \$35.7M, and MIP \$15.4M) of the Hospital's \$159M gross billing,

followed by Third Party Payers and Others at 27% or \$42.3M, and Self-Pay at 18% or \$29.2M. However, actual collections from the 3M's amounts to only 48% of gross billings.

#### *Medicare, Medicaid, and MIP*

GMHA has made significant progress toward rebasing Medicare reimbursement rates per the Tax Equity and Fiscal Responsibility Act (TEFRA). GMHA's current base year is 1997, but at the 1992-1994 cost. Given the increasing cost of healthcare due to the increasing age and sickness of its patients, GMHA's new cost baseline should be the costs incurred in FY 2013 figures, instead of the 1992-1994 cost data. However, it is not known when the new rebasing will be implemented. Medicare rate rebasing will impact Medicaid and MIP reimbursement, which mirror Medicare reimbursement methodology.

#### *Third-Party Payers*

In FY 2015, billings for Third-Party Payers were \$44.0M and collections were only \$28.5M or 65%. This is a decline from FY 2014, where billings were \$36.8M and collections were \$24.1M or 66%. There is a disturbing downward trend in payments by insurance providers as these companies have taken advantage of GMHA's weak accounting infrastructure. As an example, the second largest insurance carrier was billed \$12.7M in FY 2015, but only paid \$6.8M or 53% of collections over billings. GMHA successfully renegotiated the insurance rates effective June 1, 2016 and expects to get better collection payments from these providers.

#### *Self-Pay (Uncompensated pay)*

Billings for Self-Pay Patients were \$32.0M in FY 2015 and collections were only \$12.7M. Due to inability to pay by these patients, GMHA only collected \$12.7M or \$0.40 on the dollar. GMHA continues to provide significant provisions for bad debts representing over 67% of billings. The inability to collect from self-pay patients continues to be a major factor in GMHA's continued subsidies.

#### **Income Tax Withholding**

GMHA has not made required payments of withholding taxes for certain quarters of tax years 2010 and 2011. As of September 30, 2015, unpaid income tax withholdings amounted to \$6.7M. In June 2016, GMHA made a payment of \$10.8M to the Department of Administration for income tax withholdings.

#### **Governmental Accounting Statement- Pension Liability**

The implementation of GASB 68 related to Accounting and Financial Reporting for Pensions in FY 2015 resulted in the restatement of GMHA's financial statements for FY 2014, recognizing GMHA's pro rata share of GovGuam's net pension liability. Per the Government of Guam Retirement Fund, GovGuam's pension liability of \$1.3 billion (B) in FY 2014 was reduced to \$1.2B in FY 2015. GMHA's pro rata share decreased by \$8.7M, going from \$116.4M in FY 2014 to \$107.7M in FY 2015. The restatement and change in the pension liability reduced benefits expenses by \$4.0M in FY 2014 and by \$8.1M in FY 2015.

#### **Audit Adjustments and Uncorrected Misstatements**

Seventeen audit adjustments were made that collectively reduced net position by \$10.9M. In addition, there were four uncorrected misstatements identified in FY 2015 that would have increased GMHA expenses by \$449K.

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

GMHA received a clean opinion on its Reports on Compliance and Internal Control. However, the auditors identified two significant deficiencies: 1) measures needed to collect and address long

outstanding and increasing patient receivables; and 2) perpetual inventory needed for GMHA pharmacy records. A variance of \$1.2M between the final inventory count listings and general ledger was noted and subsequently corrected by GMHA. This has been a reported finding for fiscal years 2010 through 2012. In addition, OPA Report Number 15-07 also cited weak internal controls and inventory discrepancies for controlled substances at the GMHA pharmacy.

A separate letter was issued to management citing three control deficiencies related to patient revenue, accounts payable, and fixed assets. For accounts payable, vendor balances and auditor confirmations did not agree requiring subsequent reconciliation by GMHA. For patient revenue, billing were issued between 16 days to as long as 146 days from the date of patient discharge, when the average billing should be between 7 to 14 days.

### **Timeliness of Audit Issuance**

While there has been improvements in the timely issuance of financial audits of most GovGuam agencies, GMHA continues to be one of the last agencies to issue their financial audits. The ever revolving heads and Chief Financial Officers at GMHA is a big contributing factor to the delay. It has been the Office of Public Accountability's goal to have all GovGuam agencies issue their financial audits with clean opinions within six months after the fiscal year end. This would align GovGuam with over 40 states and 3,600 jurisdictions, cities, and counties that issue their audits in this time frame, according to the Government Finance Officers Association.

For a more detailed commentary on GMHA's operations, refer to the Management Discussion and Analysis in the audit report and view the reports in their entirety at [www.opaguam.org](http://www.opaguam.org) or at [www.gmha.org](http://www.gmha.org).