



Guam Memorial Hospital Authority FY 2009 Financial Highlights

March 16, 2010

The Guam Memorial Hospital Authority's (GMHA) fiscal year (FY) 2009 audited financial statement has been reissued to reflect the unfunded pension liability as a prior year audit adjustment. For a third consecutive year, the hospital's financial audit received an unqualified or "clean" opinion by independent auditors Deloitte & Touche, LLP. Most noteworthy is GMHA's long-sought achievement of "Preliminary Accreditation" after 26 years by the Joint Commission of Hospital Accreditation in October 2009. Continuity of key management and the Board, together with strategic direction and priority, were among the factors contributing to this accomplishment.

The hospital closed FY 2009 with a \$10.9 million (M) increase in net assets. If not for government transfers totaling \$12.5M, GMHA would have had a net loss of \$1.6M. Of the \$12.5M transfer, \$10.5M is a one-time cash infusion in bond proceeds used to pay past due contributions to the Government of Guam Retirement Fund (GGRF). Most of the bond payment however was applied to interest and penalties. As a result, GMHA still owes GGRF \$7.2 million, an amount the hospital disputes. Other transfers totaling \$1.6M were on behalf of GMHA's retirees' healthcare payments.

The hospital's compliance report, however, continues to be qualified because of three material weaknesses, one significant deficiency, and questioned costs of \$157 thousand (K). Unresolved questioned costs from FY 2008 totaled \$1.1M.

Operating Revenues, Receivables, and Allowances

Net revenues for patient services rose from \$88.7M in FY 2008 to \$92.5M in FY 2009, an increase of 4.3%, or \$3.8M. Nearly every category of patient services increased from services provided to Medicare and Medicaid patients, services to Medically Indigent Program (MIP) patients through the Pharmaceutical Fund, services to self-pay patients, and other patients. Public Law 29-132 changed how the Pharmaceutical Fund is to be recorded formerly as non-operating transfers to operating revenues for MIP services. While total gross patient revenues increased by \$17.8M, or 14%, from \$124.8M in FY 2008 to \$142.6M, contractual adjustments and provisions for uncollectible accounts also increased by \$14M, or 39%, from \$36M in FY 2008 to \$50M in FY 2009.

The hospital's accounts receivable continues to grow. There were increases in nearly every category, including account referrals to the Department of Revenue & Taxation, Medicaid Assistance Program, and collection agencies and others. Likewise, allowance for uncollectible and bad debts increased by 13%, or \$15.1M, from \$117.6M in FY 2008 to \$132.7M in FY 2009. Net patient receivables increased by 18%, or \$6.2M, from \$34.5M in FY 2008 to \$40.7M in FY 2009.

As management noted, the collection process is flawed. A patient (insured or uninsured) can walk out of the hospital with a substantial bill and if the patient is unable to render a payment, there is nothing that GMHA can do. Without any binding authority, patients have also been known to provide incomplete and/or erroneous demographics.

Dependency on General Fund Appropriations

The hospital continues to depend heavily on the government of Guam for payments of medical services to MIP and Medical Assistance Program clients. In FY 2008, GMHA received \$11.1M in transfers from the Pharmaceutical Fund and \$11.4M in FY 2009. These transfers represent 12% of GMHA's total operating revenues. As footnoted in the audit, management believes that the hospital's continued operation is dependent on continued payment by the government of Guam for services provided under MIP, the collection of long outstanding patient receivables, and continued improvements in operations.

Increasing Trend in Expenses

GMHA's operating expenses have grown faster than its revenues. Although the hospital's operating revenues increased, going from \$67.2M in FY 2006, \$74.8M in FY 2007, \$89.2M in FY 2008, and \$93.5M in FY 2009, it's insufficient to cover operating expenses. GMHA's operating expenses have increased, going from \$75.6M in FY 2006, \$87.4M in FY 2007, \$92.4M in FY 2008, and \$99.3M in FY 2009. As such, GMHA has been operating at a loss and incurred a \$5.8M operating loss in FY 2009. GMHA's biggest expense is personnel costs, which amounted to \$64.6M, or 65% of its \$99.4M operating expenses. The hospital's personnel costs increased by \$4.2M, going from \$60.4M to \$64.6M. As of September 30, 2009, GMHA's total employee count was 1,112.

GMHA continues to operate at a loss and suffer negative cash flows; its revenues continue to be insufficient to pay current expenses and payments to vendors. Because of these cash flow challenges, GMHA is unable to take advantage of discounts offered by suppliers and must pay higher prices for medical, pharmaceutical, and other supplies.

Elimination of the Unfunded Pension Liability and Prior Period Adjustment

In December 2009, the Department of Administration (DOA) redesignated the Defined Benefit Plan from a single-employer plan to a cost-sharing multiple-employer plan pursuant to the Government Accounting Standards Board Statement No. 27. As a multiple-employer retirement plan, the unfunded liability is no longer recorded as a liability, but instead is only footnoted in the financial statements. This resulted in the elimination of \$19.1M in unfunded liability. From this prior period adjustment, the hospital's FY 2008 beginning net assets increased by \$19.1M.

Summary of Audit Findings

The qualified opinion in GHMA's compliance report were for three material weaknesses and one significant deficiency, as well as questioned costs totaling \$157K. A material weakness suggests the likelihood that there may be flaws in the financial statements. A significant deficiency is an internal control deficiency, or combination of deficiencies, relating to the financial reporting. The material weaknesses pertained to (1) the

pharmaceutical department's lack of perpetual inventory, (2) lack of patient receivables policy, and (3) allowable costs principles and procurement. The significant deficiency pertained to sole source procurement and incomplete procurement files.

- **Pharmaceutical Department Inventory, 2009-01:** The Pharmacy's software is not integrated with GMHA's current system and does not reflect an accurate and up-to date listing of inventory on hand. 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. *
- **Patient Receivables, 2009-02:** GMHA has no policy or procedures for determining current and long-term receivables, which may result in potential misstatements of patient receivable balances. *
- **Procurement, Suspension, and Debarment, 2009-03:** Sole-source procurement was used to purchase various hospital pharmaceutical supplies and equipment, and procurement files were incomplete. Questioned costs totaled \$104K.
- **Allowable Cost(s) Principles and Procurement, 2009-04:** GMHA lacked procurement and grant records to substantiate expenditures, supporting documentation for indirect cost, and sole-source procurement. Questioned costs totaled \$53K.*

A separate letter was issued to management citing three control deficiencies relating to the hospital's expenses, cash, and IT system. The auditors also noted the discontinued software maintenance service.

In addition, a separate document to the Board was issued outlining audit strategies, emphasis, required communications, audit differences, and adjustments.

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 or at www.gmha.org.

Note: * Material Weakness.