



OFFICE OF THE PUBLIC AUDITOR

**Guam Memorial Hospital Authority  
FY 2008 Financial Highlights**

April 20, 2009

For second year in a row, Guam Memorial Hospital Authority's (GMHA) FY 2008 financial audit received an unqualified or clean opinion. GMHA closed the year with a \$4.2 million (M) increase in net assets compared to the \$5.8M decrease in FY 2007. GMHA had 10 audit findings with \$1.14M questioned costs. Independent auditors, Deloitte & Touché, made seven adjusting entries with a net effect of increasing liabilities by \$18M. Although GMHA received a clean opinion, the number and amount of adjustments indicates that weaknesses still exist in GMHA's accounting infrastructure. Several other factors continue to pose significant challenges to GMHA, most notably the overall increase in operating expenses and collectibility of accounts receivable.

**Effect of P.L. 29-132 on GMHA's Revenues**

In prior years, general fund appropriations were recorded as non-operating revenues transfers from the government of Guam. The passage of P.L. 29-132 dramatically changed the application of how general fund appropriations are to be recorded in payment for the Medically Indigent Program (MIP) and other indigent clients. In FY 2008, GMHA received \$11.8M from the government of Guam. Of this amount, \$11.1M was applied towards payments for services rendered to MIP and other indigent clients. The balance of \$743,000 (K) was recorded as subsidies received from the government of Guam as non-operating revenues. For FY 2007, the government of Guam appropriation of \$12.4M was restated as a result of the new law. Of the \$12.4M, \$10M was applied towards net patient revenues in payment for services rendered for MIP and \$2.4M was recorded as subsidies. As a result of the restatement, FY 2007 revenues were \$74.8M, compared to the previously reported \$65.5M.

Net patient service revenues for FY 2008 were \$88.7M compared to \$74.8M in FY 2007, a net increase of \$14M or 19%. The net increase came from services provided to self-pay patients and a decrease in contractual service adjustments and provisions for uncollectible accounts. Total gross revenues increased by \$4M from \$120.8M to \$124.8M in FY 2008. Contractual adjustments and provisions for uncollectible accounts declined by 22% or \$10M from \$46M in to \$36M in FY 2008.

**Increase in Accounts Receivable**

GMHA's accounts receivable collections continue to be a challenge. In FY 2008, accounts receivable rose by 48% or \$49M from \$103.1M to \$152.1M. Nearly every category of accounts receivable dramatically increased. These include increases in collection agencies and others by more than 3,000% or \$14.6M (from \$465K to \$15.1M); accounts referral to Department of Revenues & Taxation by 30% or \$14.6M (from \$49M to \$63.6M); MIP and Self-Pay by 34% or \$9.9M (from \$29.6M to \$39.5M); Medicare by 53% or \$3.8M (from \$7M to \$10.8M); and local third party payor by 53% or \$5.8M (from \$10.9M to \$16.7M). Likewise, allowance for bad debts increased by 57% or \$42.8M from \$74.8M in FY 2007 to \$117.6M in FY 2008. Overall, net patients account receivable increased by \$6.2 million or 22% from \$28.3M in FY 2007 to \$34.5M in FY 2008.

As of FY 2008, of the \$152.1M in accounts receivable, over \$117.6M is estimated to be uncollectible. This means that for every dollar in patient receivables, GMHA expects to collect only 23 cents in FY 2008, compared to 27 cents on the dollar in FY 2007.

### **Increase in Expenses**

GMHA's operating expenses continue on its upward trend going from \$79.3M in FY 2006, \$90M in FY 2007 to \$93.4M in FY 2008. Of GMHA's \$93.4M operating expenses for FY 2008, 67% or \$62.8M accounted for payroll expenses. GMHA staff increased by 24% or 216 from 897 in FY 2007 to 1,113 in FY 2008. Notable increases were in nursing by \$1M from \$42.2M to \$43.3M; professional support by \$2.3M from \$20.9M to \$23.2M; and administrative support by \$1M from \$10.8M to \$11.8M.

Interest and penalties increased by \$380K from \$1.1M in FY 2007 to \$1.5M in FY 2008.

### **Dependency on General Fund Appropriations**

GMHA continues to depend heavily on the government of Guam for payments of medical service on behalf of MIP and other indigent clients. GMHA's delinquent and unpaid retirement contributions with the Government of Guam Retirement Fund (GGRF) continue to escalate. For FY 2008, GMHA owes GGRF \$17.1M for past due contributions, interest and penalties. After Deloitte's adjustments, GMHA's total unfunded retirement liability increased by \$2.5M from \$16.6M in FY 2007 to \$19.1M in FY 2008.

### **Audit Restatements**

Several restatements made by independent auditor Deloitte dramatically changed the numbers for FY 2007 for uncollectible amounts by \$782K from \$0 to \$782K; depreciation by \$365K from \$4.8M to \$4.4M; deferred revenue by \$6.3 million from \$6.3M to \$0; nursing by \$2.4M from \$39.9M to \$42.2M; medical staff by \$1.7M from \$2.3M to \$679K; administration by \$1.1M from \$2.8M to \$3.9M; professional support by \$249K from \$20.6M to \$20.9M; fiscal services by \$119K from \$6.8M to \$6.9M; administrative support by \$83K from \$10.7M to \$10.8M; and unfunded retirement liability by \$15.5M from \$1.1M to \$16.6M. The increase in the unfunded liability was due to GMHA's previously under estimation of the unfunded retirement liability in previous years.

### **Summary of Audit Findings & Management Letter Comments**

There were 10 audit findings with total questioned costs of \$1.14M. All 10 findings were deemed to be significant deficiencies and all are material weaknesses. This is an increase from prior year's 6 audit findings with no questioned costs.

Of the 10 audit findings identified, two pertained to procurement with total questioned costs of \$1.06M. Of this amount, \$811K was due to sole source procurement; \$84K was due to lack of documentation on a purchase order prepayment; \$79K was due to the purchase of two equipment when the bid only advertised for the procurement of one; and \$61K due to artificial division of procurement where several purchase orders were issued to the same vendor on the same date for medical equipment. Other audit findings include:

- Lack of supervisory review documentation for approving employee time and increments by designated timekeepers and supervisors;

- Lack of perpetual inventory records for the pharmacy department and detailed reconciliations and investigations of differences, which is a repeat finding;
- Lack of management approval of annual and sick leave accrual and actual leave taken;
- Patient revenues tested noted a difference of \$320K between charged amounts billed per patient information module and the general ledger, and no utilization report for related Medicare and Medicaid patients bills of \$724K;
- No existing policy or procedures in determining current and long-term receivables;
- Uncollectible patient receivables recorded in the general ledger did not reflect results of the lag analysis;
- Grant amount of \$79K was not liquidated within the allowed 90 days; and
- Time lapsed between the receipt of Federal Funds and disbursed checks clearance ranged between 3 to 252 days.

During FY 2008, GMHA resolved \$1.7M in questioned costs between FY 2003 through FY 2006.

A separate document to the Board was issued by Deloitte and Touché auditors 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 its entirety at [www.guamopa.org](http://www.guamopa.org).