



Guam Memorial Hospital Authority FY 2016 Financial Highlights

May 01, 2017

The Guam Memorial Hospital Authority (GMHA) saw fiscal year (FY) 2016 as a catch up year as they received the Section 30 Bond for \$49.9 million (M), which it used to pay past due amounts to vendors and other liabilities. If it were not for this one time influx, GMHA would have continued to end in a deficit. With this infusion, GMHA's going concern status for the last three years was eliminated.

Independent auditors, Deloitte and Touche, LLP, rendered an unmodified (clean) opinion on GMHA's FY 2016 financial statements. GMHA closed FY 2016 with an increase in net position (net income) of \$40.0M compared to the \$3.4M decrease in net position (net loss) in FY 2015.

Continued Dependence on the Government of Guam (GovGuam)

GMHA continues to incur operating losses due in major part to its Patient Payer Mix. In FY 2016, GMHA had an operating loss of \$29.2M (before GovGuam subsidies) compared to \$25.8M in the prior year, a \$3.4M increase or 13.2%. While operating revenues increased by \$14.7M, from \$84.2M in FY 2015 to \$98.9M in FY 2016, operating expenses increased by a greater amount of \$18.1M, from \$110.0M in FY 2015 to \$128.1M in FY 2016.

The increase in operating expenses was primarily due to the effect of the Government Accounting Standards Board pension adjustment of \$15.1M, the increase in supplies and materials of \$2.4M, and the increase in contractual services of \$587 thousand (K). On the other hand, GMHA's personnel count declined by 34, from 1,019 in FY 2015 to 985 in FY 2016, resulting in the net decrease in personnel expense of \$594K.

GMHA has taken actions to address losses from operations and negative cash flows, which includes:

- Raised hospital fees by 5% effective April 2017 and another 5% every subsequent fiscal year;
- After its initial rebasing application was denied, resubmitted another application to update or rebase Medicare reimbursement rates;
- Requested for Tax Equity and Fiscal Responsibility Act (TEFRA) adjustment covering FY 2009 to FY 2012;
- Completed negotiations with Guam insurers; and
- Contracted a collection agency for self-pay receivables.

Structure of GMHA Patient Mix

GMHA patient revenues come from three primary sources: The "3 M's", third-party payers or insurance companies, and self-pay. The 3 M's constituted 59% (Medicare 28%, Medicaid 23%, and MIP 8%) or \$93.6M (Medicare \$44.0M, Medicaid \$36.7M, and MIP \$12.9M) of GMHA's \$156.3M gross billing, followed by Third Party Payers and Others at \$41.7M or 27%, and Self-Pay at \$21.0M or 13%.

Given the nature of GMHA's patient mix, whereby less than 30% of its patients come from third party payors, GMHA will always require government subsidy to fund the 3 M's underpayment and self-pay patients uncompensated care. In FY 2016, GMHA received a total of \$67.5M in transfers from GovGuam which comprised of \$49.9M from the Section 30 Bond Fund, \$7.2M Healthy Futures Fund, \$3.8M GMHA Pharmaceutical Fund, \$851K GMHA Healthcare Trust and Development Fund, and \$5.7M Other General Fund. This compares to just \$19.9M in the prior year.

Rebasing of the Medicare Rate

Rebasing is the process of updating the base year cost per discharge. GMHA's current base year is 1997, but at the 1992-1994 cost. In June 2016, the Center for Medicare & Medicaid Services (CMS) once again denied GMHA's application. GMHA continued its efforts and resubmitted another rebasing application in March 2017 for FY 2014.

Third-Party Payers

In FY 2016, there was a slight improvement in collections. Billings for Third-Party Payers were \$42.8M and collections were \$28.9M or 68% compared to 65% in FY 2015. However, GMHA received only 71% of total billings from its largest insurance carrier and just 55% from the second largest carrier. In June 2016, GMHA negotiated a new Insurance Provider Agreement essentially ending a 10 year old Payer Agreement signed in 2006.

Self-Pay (Uncompensated Pay)

Another issue seriously impacting GMHA is uncompensated care delivered to the self-pay population. These are patients who are underinsured or without insurance coverage. For the past five years, self-pay patients received an average of \$27.0M of care per year, with a provision for bad debts averaging \$16.0M annually or 59%. Billings for self-pay patients were \$34.0M in FY 2016 and collections were only \$14.8M or 43%. GMHA continues to provide significant provisions for bad debts for self-pay representing over 32% of billings. The inability to collect from self-pay patients continues to be a major factor in GMHA's continued subsidies.

Compliance Report and Management Letter

GMHA received a clean opinion on its compliance over financial reporting and over major federal programs. However, the auditors identified two significant deficiencies pertaining to: 1) long outstanding and increasing patient receivables, and 2) differences between inventory records and the general ledger.

In March 2017, GMHA recorded \$220 million in write-offs to correct receivables and to reflect active accounts. However, the write-off has not been reflected in the subsidiary ledgers as of September 30, 2016. Moreover, documentation of Board approval of the \$220 million write off is yet to be provided.

A separate management letter was issued citing seven control deficiencies pertaining to the timeliness of: 1) updating and monitoring of moveable assets, 2) analyzing patient receivables credit, 3) recording and reconciling vendor invoices, 4) reconciling collections with patients accounts, 5) billing and improved posting of charges to the revenue system, 6) monitoring vendor contracts, and 7) implementation of perpetual inventory system.

For a more detailed commentary, refer to the Management Discussion and Analysis in the audit report at www.opaguam.org or at www.gmha.org.