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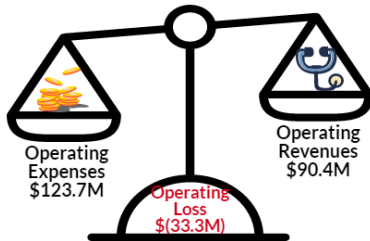
Guam Memorial Hospital Authority – FY 2018 Financial Highlights

GMHA Collected 49¢ for Every \$1 Billed in FY 2018

June 10, 2019

Hagåtña, Guam – The Office of Public Accountability (OPA) has released the Guam Memorial Hospital Authority’s (GMHA) financial statements, reports on internal control and on compliance, management letter, and the auditor’s communication with those charged with governance for fiscal year (FY) 2018. Independent auditors, Deloitte & Touche, LLP (Deloitte), rendered a clean opinion on the financial statements and compliance for major federal programs. However, GMHA did not qualify as a “low-risk auditee”. In the FY 2017 financial audit, Deloitte raised substantial doubt about GMHA’s ability to continue as a *going concern* (i.e., meet its obligations). However, doubt about GMHA’s *going concern* was removed in the FY 2018 audit because “GMHA expects it will be able to pay down its obligations and will not reach the level which lead to the going concern of previous years”.

GMHA’s FY 2017 financial statements were restated in order to quantify the net obligation of other post-employment benefits, according to the implementation of Governmental Accounting Standards Board Statement No. 75. The restatement resulted in a decrease in net position (net loss) of \$14.4 million (M) for FY 2017, which might appear as a bigger loss from the previously reported net loss of \$1.9M. However, this is due to the restatement of FY 2017’s retiree healthcare costs and other pension benefits from \$4.9M to the restated \$17.4M. FY 2018’s retiree healthcare costs and other pension benefits decreased to \$16.3M.

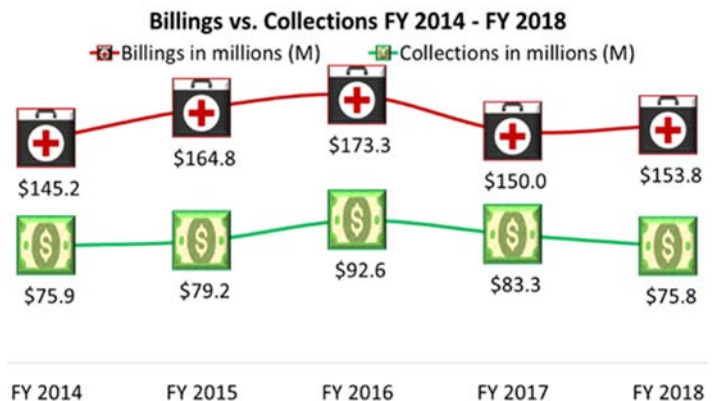


Dependency on the Government of Guam

GMHA closed FY 2018 with a net loss of \$3.3M. In FY 2018, GMHA’s operating expenses exceeded its operating revenues by \$33.3M; operating activities resulted in negative cash flows of \$19.0M; and \$106.3M of patient accounts receivable was determined uncollectible. In addition, GMHA’s deficiency on delinquent and unpaid retirement contributions, interest, and penalties to the Government of Guam Retirement Fund was \$1.2M as of FY 2018.

Although GMHA has been increasing its fee rates by 5% every year since 2015, GMHA’s rates are still outdated because most of the rates were established in the early 1990s. Legislative approval is required for any fee increase that exceeds the 5% threshold.

Of \$149.9M in FY 2018 patient services, \$43.4M were contractual adjustments based on costs not reimbursed by the 3M’s and third-party payers (health insurance companies) and \$19.4M was determined uncollectible from self-pay patients. This means, only 58% (or \$87.1M) were determined collectible, of which only \$75.8M was collected as of FY 2018. While it appears that the majority of what was determined collectible was collected, the \$75.8M collected was only 49% of FY 2018’s grand total billings of \$153.8M, before any adjustments.

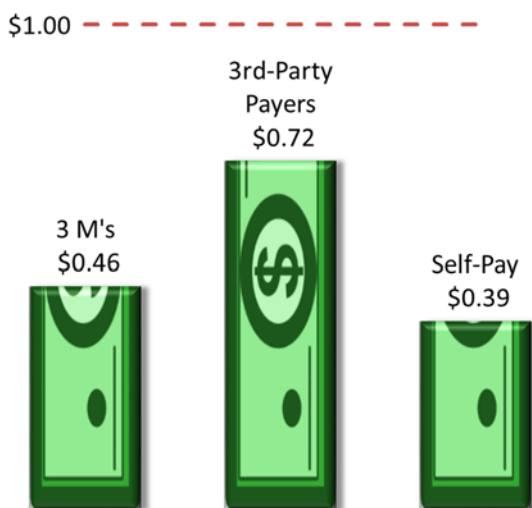


For Every \$1 Billed in FY 2018, 49¢ was Collected

Essentially, GMHA collected only 49¢ for every \$1 billed to patients in FY 2018. GMHA's patient/payer mix consists mainly of the 3M's [Medicaid, Medicare, and Medically Indigent Program (MIP) patients], third-party payers, and self-pay patients.

The 3 M's. Patients covered by 3M's racked up 52% (or \$80.2M) of the Hospital's grand total billings in FY 2018, but GMHA collected only \$35.9M (or 45%). An average of the last five years indicates that GMHA collected reimbursements of only 46¢ for every \$1 billed to 3M patients. In FY 2018, the actual cost per discharge was \$14,282, but Medicare reimbursed only 76% (or \$10,856). This reimbursement rate is the result of Medicare rebasing that was approved by the Centers for Medicare and Medicaid Services (CMS) in January 2019. GMHA received \$10.7M in retroactive rate adjustments. Medicaid and MIP closely mirror Medicare payment methodology.

Third-Party Payers. Patient services billed to health insurance companies racked up 29% (or \$44.9M) of the Hospital's grand total billings in FY 2018, but GMHA collected only \$32.3M (or 72%). An average of the last five years indicates that GMHA collected only 72¢ for every \$1 billed to third-party payers. Initially, GMHA bills the insurance companies for the whole patient encounter. The amounts not covered by insurance are then billed to the patient.



Self-Pay Patients. Patients who were underinsured or without health insurance coverage racked up 18% (or \$28.0M) of the Hospital's grand total billings in FY 2018, but GMHA collected only \$7.3M (or 26%). An average of the last five years indicates that GMHA collected only 39¢ for every \$1 billed to self-pay patients. GMHA continues to refer patient accounts receivable to the Department of Revenue and Taxation (DRT) and the Office of the Attorney General. From the accounts referred to DRT, GMHA collected \$1.5M in FY 2018.

Uncollectible Accounts 3x More Than Collectible Accounts. As of FY 2018, patient accounts receivable (unpaid patient billings) amounted to \$140.0M. Unpaid billings were made up of 41% owed by the 3 M's, 23% by third-party payers, and 37% by self-pay patients. However, based on GMHA's assessment of historical trends and collection on current accounts, GMHA estimated that \$106.3M (or 76%) was uncollectible. This \$106.3M allowance for uncollectible accounts includes \$19.4M deemed uncollectible from FY 2018 patient services to self-pay patients. This allowance for uncollectible accounts is three times more than net patient accounts receivable of \$33.7M. In addition, finance charges and interest are not accrued for past due accounts.

The Hospital provides healthcare to all patients regardless of one's coverage or ability to pay, and without collateral. With only 49¢ collected for every \$1 billed to all patients; the Medicare reimbursement rate at only 76% of the costs of delivering care; and 76% of patient accounts receivable estimated to be uncollectible, GMHA is in constant need of government subsidy.

Increased Government Subsidies and Decreased Operating Expenses

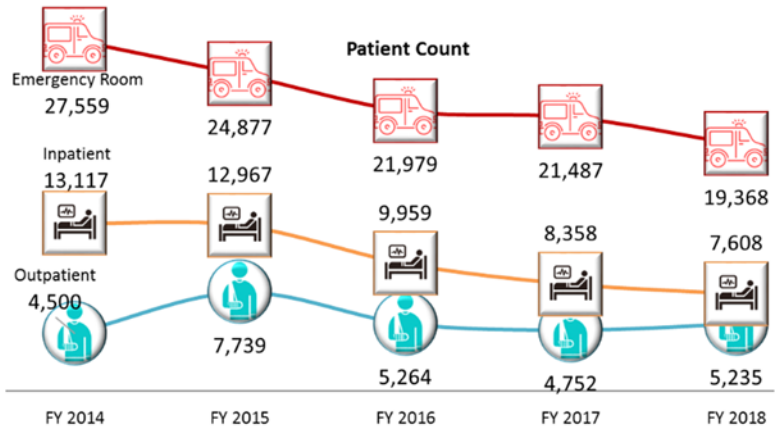
In FY 2018, GMHA received \$4.5M more in capital grants and contributions – \$3.0M more from the Government of Guam (GovGuam) and \$1.5M more from federal grants. These funds are restricted for acquiring, improving, replacing, or expanding capital assets.

In FY 2018, operating expenses decreased by \$8.6M mainly because of decreases in the personnel costs of Professional Support and Fiscal Services; retiree healthcare costs and other pension benefits; and

depreciation. Despite decrease in operating expenses, GMHA's operating revenues were still not enough to cover total operating expenses.

Decline in Patients

GMHA experienced a reduction in patient count since the opening of the Guam Regional Medical City in July 2015. Total patient count decreased by 29% from 46 thousand (K) in FY 2015 to 32K in FY 2018.



GMHA's Accreditation Questioned

Effective July 2018, GMHA was denied accreditation from The Joint Commission (TJC). In its quality report, TJC listed 40 areas in which GMHA required improvement. According to GMHA management, "although TJC accreditation is an added validation and value to GMHA's delivery and provision of quality and safe patient care, TJC accreditation does not have a direct impact to GMHA's financial ability to receive federal funds such as Medicare and Medicaid".

An April 2018 inspection of GMHA, conducted by CMS, identified the following areas as noncompliant: governing body, quality assurance and performance improvement, nursing services, radiologic services, physical environment, discharge planning, and anesthesia services. In August 2018, CMS informed GMHA that it would not immediately lose Medicare funding because GMHA's corrective plan is credible, but a surprise visit would confirm if GMHA was following the plan. Disqualification by CMS would have a direct impact on GMHA's ability to receive reimbursement for services to Medicare and Medicaid patients, which accounted for \$72.6M of FY 2018's gross billings to patients.

In August 2018, Public Law 34-115 appropriated \$6.8M from the General Fund Tax Amnesty Program for GMHA's FY 2018 operations, to include correcting the deficiencies identified by CMS.

Compliance Report and Management Letter

Deloitte identified a material weakness that has been a repeat finding concerning GMHA's patient receivables. Particularly, the accumulation of uncollectible billings and potential for inadequate cash flows to meet current obligations, as well as the untimely analysis of collections in suspense accounts not recorded against specific receivable balances. Deloitte identified five deficiencies and other matters in GMHA's internal control over financial reporting; and four deficiencies concerning GMHA's internal control over its information technology environment.

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.