



## OFFICE OF PUBLIC ACCOUNTABILITY

Suite 401 DNA Building, 238 Archbishop Flores Street, Hagatna, Guam 96910

Tel (671) 475-0390 · Fax (671) 472-7951 · Hotline: 47AUDIT (472-8348)

www.opaguam.org

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### Guam Memorial Hospital Authority – FY 2022 Financial Highlights

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The Office of Public Accountability has released the Guam Memorial Hospital Authority's (GMHA) Financial Statements (FS), Report on Compliance and Internal Control, Management Letter, and the Auditor's Communication with Those Charged with Governance for fiscal year (FY) 2022. Independent auditors, Ernst & Young LLP (EY), rendered an unmodified (clean) opinion on GMHA's FY 2022 financial statements and report on compliance for major federal programs. EY's Report on Compliance and Internal Control reported four deficiencies in internal control over financial reporting, which are considered material weaknesses. In two separate management letters, EY identified three deficiencies in internal control over financial reporting and four deficiencies in Information Technology (IT).

GMHA ended FY 2022 with a decrease in net position (net loss) of \$1.8 Million (M), from negative \$255.6M in FY 2021 to negative \$257.5M in FY 2022. Total assets grew to \$89.5M in FY 2022, an increase of \$9.3M (or 12%) from FY 2021's \$80.2M, primarily due to increases in patient accounts receivable, net by \$9.8M.

#### **Emphasis of Matter - Dependency on GovGuam**

EY reiterated that GMHA incurred recurring losses and negative cash flows from operations, which heightens GMHA's dependency on GovGuam to support its operations. For FY 2022, GMHA incurred losses from operations amounting to \$61.2M and negative cash flows from operations of \$57.8M. However, GMHA generated a net change in cash of \$298 Thousand (K), which increased the FY 2022 cash balance to \$3.5M from \$3.2M in FY 2021.

#### **Patient Accounts Receivable (AR) and Allowance for Uncollectible Accounts Increased**

GMHA grants credit without collateral to its patients, many of whom are Guam residents and are insured under third-party payor agreements. Gross patient AR increased by \$46.4M (or 18%), going from \$255.9M in FY 2021 to \$302.3M in FY 2022. However, the allowance for uncollectible accounts of \$252.8M in FY 2022 also increased by \$36.6M (or 17%) from FY 2021's total allowance of \$216.2M. This resulted in a net patient AR of \$49.5M or an increase of \$9.8M (or 25%). The top three highest increases in gross patient AR by percentages are: 1) Collection agencies and others by \$12.2M (or 131%); 2) Medicaid Assistance Program by \$11.8M (or 91%); and 3) self-pay patients by \$30.8M (or 71%). Gross patient AR for account referrals to the Department of Revenue and Taxation (DRT) increased by \$3.5M (or 5%), from \$73.6M in FY 2021 to \$77.1M in FY 2022. As of FY 2022, outstanding gross patient AR from GovGuam amounted to \$4.6M. Medicare and Medically Indigent Program (MIP) had a combined decrease in gross patient AR of \$13.4M in FY 2022.

GMHA's mandate to provide healthcare to all patients regardless of one's insurance coverage or ability to pay has resulted in the continual growth of patient receivables. For the last five years, self-pay patients received an average of \$25.6M of care per year, of which GMHA collects an average of 31 cents per dollar billed to self-pay patients. The likelihood of collecting these self-pay accounts, which have an outstanding gross receivable of \$74.3M as of FY 2022, is low.

#### **Liabilities Increased**

Total liabilities increased by \$7.9M (or 2%), from \$360.9M in FY 2021 to \$368.8M in FY 2022. The major factors for the increase are due to increases in Other Post Employment Benefit (OPEB) liability by \$21.3M (or 11%), accounts payable trade by \$8.6M (or 77%), and due to GovGuam by \$4.8M (or 160%). However, these major increases were offset greatly by decreases in net pension liability by \$22.2M (or 16%); due to US Federal Government by \$1.2M (or 42%); and due to Medicare by \$2.5M (or 100%).

### **Gross and Net Patient Service Revenues Increased**

Gross patient service revenues increased by \$43M (or 21%), from \$203.5M in FY 2021 to \$246.5M in FY 2022. The increase was attributable to: 1) a higher patient census, 2) increased patient length of stay and acuity, 3) GMHA's annual 5% rate increase, 4) improved charge capture processes; and 5) implementation of new fees. Of the \$246.5M in total gross patient service revenues, \$75.3M (or 31%) was attributed to Medicare patients; \$67.5M (or 27.4%) to Medicaid patients; \$67.1M (or 27.2%) to third-party insurance payors & other patients; \$33.2M (or 14%) to self-pay patients; and \$3.3M (or 1%) to MIP patients. Gross patient service revenues from all of these payors increased, ranging from \$6M to \$20.2M, except for MIP patients, which decreased by \$9.9M (or 75%).

The \$33.2M in gross patient service revenues from self-pay patients were provided with a provision for bad debts of \$52.2M, which is significantly higher than the gross patient service revenues by \$18.9M in FY 2022. The provision resulted in a net patient service revenue of (\$18.9M) in FY 2022, a decrease of \$21.2M (or 945%) from FY 2021's net patient service revenue of \$2.2M. This decrease correspondingly decreased the total net patient service revenue to \$131.2M in FY 2022. According to GMHA, this was due to the transfer of \$10.1M in Medicare accounts to self-pay. The allowance for uncollectible accounts is calculated based on the AR aging, wherein amounts greater than 360 days are fully reserved. Overall net patient service revenues increased by \$23.3M (or 22%) in FY 2022 from FY 2021's \$107.8M due to increases from Medicaid, Medicare, and other patients.

### **Billings and Collections Increased**

GMHA billed \$253M in claims in FY 2022 compared to \$209.2M in FY 2021, an increase of \$43.8M (or 21%). Collections increased by \$17.5M (or 18%) from \$98.6M in FY 2021 to \$116.1M in FY 2022. Collections from Medicare, Medicaid, and MIP (3Ms) and third-party payors increased by \$9.2M (or 22%) and \$10.4M (or 24%), respectively, while self-pay collections decreased by \$2.1M (or 16%). Increased collections were attributed to the increase in patient billings and patient census. The collection percentage over billing was 46% compared with 47% for FY 2021.

GMHA has worked successfully with the Office of the Attorney General for collection referrals and DRT for garnishments of tax refunds. GMHA collected \$6.3M for FY 2022 and \$8.6M for FY 2021 from accounts referred to DRT. In addition, GMHA offers patients an online payment system and payment plans to suit patients' needs, as well as public assistance for self-pay patients.

### **Operating Expenses Increased due to COVID-19 Response & Contractual Services**

Although total operating revenues increased by \$23.9M (or 22%) in FY 2022, all operating expenses likewise increased by \$15.3M (or 8%) due to increases in expenses in divisions such as: 1) Nursing; 2) professional support; and 3) Medical Staff division to prevent, prepare for, and respond to COVID-19 particularly for contract travel nurses, physicians, and medical supplies, pharmaceuticals, food supplies, electricity, and oxygen.

Contractual services for administrative support, fiscal services, and medical staff collectively increased by \$13.4M (or 79%) in FY 2022. Fiscal services had the highest increase of \$3.9M (or 457%) due to the revenue cycle management consultancy; followed by Administrative support by \$2.7M (or 99%) due to electronic health record implementation, repairs, and demolitions; and Medical staff by \$6.7M (or 51%) due to more physician hiring and increase in salaries.

### **Patient Service Revenues - TakeCare Insurance**

In September 2020, GMHA and TakeCare Insurance Company, Inc. (TakeCare) entered into a Memorandum of Agreement, which resulted in TakeCare making payments of \$3.2M for claims covering January 1, 2012 to April 30, 2017, subject to reconciliation. The agreed-upon procedures were completed in October 2021. As of FY 2022, GMHA's net receivable from TakeCare increased by \$5M (or 72%), from \$6.9M in FY 2021 to \$11.9M in FY 2022, which was primarily due to the decrease in the allowance for doubtful accounts by \$4.6M (or 72%). The final settlement is still ongoing as of the audit report date.

## **Medical Malpractice/Employment and Personnel Claims/Litigation**

GMHA is self-insured for malpractice, which is limited to \$300K per claim by the Government Claims Act. GMHA is a defendant on claims for employment and personnel matters, which are pending review or are expected to go to litigation. Although GMHA intends to pursue an aggressive defense on these claims, some claims may potentially result in material monetary damages to be awarded to claimants or plaintiffs.

GMHA is involved in litigations arising in the course of business. As of September 20, 2023, GMHA's Legal Counsel expressed no opinion as to the likely outcome of the seven pending or threatened litigations, claims, and assessments.

## **Pensions**

For the year ended September 30, 2022, GMHA contributed \$4.4M to the Defined Benefit Plan and recognized supplemental annuity benefits and Cost of Living Allowance of \$1.7M as transfers from GovGuam. Additionally, GMHA contributed \$11.1M to the Defined Contribution Retirement System, of which \$8.7M was contributed to the unfunded liability. As of FY 2022, GMHA reported its proportionate share of net pension liabilities of \$115.6M, comprising 31% of its total liabilities. GMHA recorded payables to the GovGuam Retirement Fund of \$835K, representing statutorily required contributions unremitted as of FY 2022.

## **Other Post Employment Benefits**

The annual General Appropriations Act enacted by the Guam Legislature provides a premium level necessary for funding the OPEB program each year on a "pay-as-you-go" basis. During FY 2022, GMHA recognized transfers from GovGuam of \$3.3M for health care benefits paid by GovGuam's General Fund on behalf of GMHA retirees and OPEB expenses of \$10.4M. As of FY 2022, GMHA's OPEB liability of \$212M comprised 57% of its total liabilities.

## **Measures Undertaken to Minimize Dependency on GovGuam**

GMHA's revenues are impacted by its mission to serve the population regardless of their ability to pay. A large number of self-pay, underinsured, and 3M patients rely on GMHA for their care, and reimbursements from these patients are low. GMHA has undertaken measures to address losses and negative cash flows from operations to minimize its dependency on GovGuam. Among those measures are: 1) pursuing rebasing of the Medicare per discharge cost limit from FY 2014 costs to current costs; 2) initiating cost-cutting measures; 3) transitioning to a new patient accounting system; 4) revenue cycle management consultancy services; 5) collaborating with DRT for tax refund garnishments; and 6) revenue cycle staff training and certification.

## **GMHA Appropriations and COVID-19 Grants**

GMHA's total FY 2022 GovGuam appropriations were reduced by \$7.3M (or 25%), from \$28.8M in FY 2021 to \$21.5M in FY 2022. FY 2021 and FY 2020 appropriations totaling \$1.9M were not received during FY 2022. As of September 30, 2022, GMHA received \$66.6M in COVID-19-related federal cash assistance and support for FY 2020 to 2022. However, GMHA is expecting very little cash support in FY 2023 due to the end of the public health emergency.

## **Revenue Cycle Management**

GMHA staff began managing the revenue cycle under the new revenue cycle director after the consulting contract ended in November 2022. Total consultancy fees paid from July 2021 to August 2022 amounted to \$4.5M.

## **Report on Internal Control and Compliance**

EY noted four material weaknesses in internal control over financial reporting related to Patient Receivables, Liabilities, Non-Operating Revenues-Federal Grants and Unearned Revenues. Specifically:

### **Unbilled Patient Receivables Increased-\$7.6M / AR Suspense Accounts Increased-\$1.2M**

EY and prior auditors' findings relative to patient receivables have remained uncorrected since FY 2015. As of FY 2022, GMHA's **unbilled patient receivables amounted to \$15.1M, which is a \$7.6M (or 102%) increase from FY 2021's unbilled receivables of \$7.5M.** Additionally, its AR suspense accounts increased by \$1.2M (or 129%) from \$.96M in FY 2021 to \$2.2M in FY 2022. Consequently, these conditions will result in the accumulation of uncollectible and/or disputed receivables, and potential inadequate cash flows to meet GMHA's current obligations. To address the

findings, EY recommended follow-up on outstanding patient receivables, review of collection measures and strategies, timely analysis of accounts and making necessary adjustments, improvement of posting of charges to the revenue system, and timely billing within the established period.

**Liabilities-Due to GovGuam & Expenditures Overstated -\$5M**

GMHA recognized \$5M in expenditures and payable to GovGuam for payments made on-behalf of GMHA for travel nurses. However, GovGuam does not recognize a receivable from GMHA, resulting in an overstatement in expenditures and due GovGuam of \$5M in GMHA's books. EY recommended that GMHA ensure arrangements with GovGuam are documented, clearly indicating how the transactions will be accounted for.

**Non-Operating Revenues-Federal Grants Overstated-\$5.2M**

As of FY 2022, GMHA recorded \$5.2M in federal grant award revenues and other receivables, although the federal grant was awarded in October 2022, and the corresponding agreement was signed in February 2023. This resulted in an overstatement by \$5.2M in federal grant revenues and other receivables in GMHA's FS and schedule of expenditures of federal awards. EY recommended that GMHA ensure that grant agreements are executed prior to the recognition of federal grant receivables and revenues.

**Unearned (Deferred) Revenues Overstated-\$12.8M**

As of FY 2022, GMHA recognized an Unearned Revenue of \$14.4M from the Provider Relief Fund (PRF) federal grant received and concluded that revenues related to PRF should be reported in FY 2023. However, during the fiscal year, GMHA has met the eligibility requirement by incurring allowable costs of approximately \$12.8M. EY recommended that GMHA ensures that controls are in place to recognize revenues from voluntary nonexchange transactions in the appropriate period.

**Management Letter**

EY provided three comments in its management letter relative to the 1) financial statement close process, 2) timely recording of purchases and accounts payable, and 3) inventories - a repeat of the prior year's comment.

**Financial Statement Close Process**

The delays in period-end reconciliations and final reporting resulted from the inability of GMHA's enterprise resource planning system not being able to generate historical reports of its subsidiary ledgers. Certain general ledger balances do not agree with general ledger balances. EY recommended that GMHA improve its process with closer coordination with other departments to timely extract subsidiary ledgers for use in its financial statement close process.

**Timely Recording of Purchases and Accounts Payable**

Some prior FY transactions were recorded in the current FY when receiving reports and invoices were received. EY recommended that GMHA enhance its accrual process by timely providing documents or information to enable the accrual of liabilities when goods are received and services are rendered.

**Inventories- Repeat Prior Year Comment**

Inventories issued from the Pharmacy Department were not recorded in a perpetual inventory system. Instead, inventory balances were adjusted based on the results of annual inventory counts. EY recommended that GMHA implement procedures to timely record, analyze, and monitor pharmacy inventory movement and balances.

EY identified four internal control deficiencies in a management letter relative to IT.

For more details on GMHA's operations, see the Management's Discussion and Analysis in the audit report at [www.opaguam.org](http://www.opaguam.org) and [www.gmha.org](http://www.gmha.org).