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Guam Memorial Hospital Authority – FY 2021 Financial Highlights

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The Office of Public Accountability has released the Guam Memorial Hospital Authority's (GMHA) financial statements, reports on internal control and compliance, management letter, and the auditor's communication with those charged with governance for fiscal year (FY) 2021. In FY 2021, independent auditors Deloitte & Touche, LLP rendered an unmodified (clean) opinion on GMHA's financial statements.

Uncertainty as to GMHA's Ability as a Going Concern

For three consecutive years (FY 2019, FY 2020, and FY 2021), the Auditors reiterated the FY 2017's emphasis that GMHA incurred recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern (i.e., meet its obligations). GMHA's *going concern* was removed in FY 2018 as GMHA expected it will be able to pay down its obligations and will not reach the level that led to the previous years' going concern. For the year ended September 30, 2021, GMHA has continued to incur losses from operations amounting to \$69.7 million (M) and negative cash flows from operations of \$57.7M. It ended FY 2021 with a decrease in its net position by \$8.4M (net loss), from a negative \$247.2M in FY 2020 to a negative \$255.6M.

Gross Patient Accounts Receivable 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 payer agreements. During FY 2021, gross patient accounts receivables increased by \$46.2M, from \$209.7M in FY 2020 to \$255.9M in FY 2021. However, the allowance for uncollectible accounts was also increased by \$38.9M, resulting in a net patient accounts receivable of \$39.7M. Of the \$39.7M, more than 50% or \$22.5M were owed by three Payers namely: 1) Payer A- \$9.2M (or 23%); 2) Payer B - \$7.1M (or 18%); 3) Payer C - \$6.2M (or 16%).

Liabilities Increased

Total liabilities amounting to \$360.9M increased by \$16.8M (or 5%), from \$344.1M in FY 2020. The increase was due largely to increases in other post-employment benefits of \$7.7M, net pension liability of \$7.1M, and accounts payable –trade of \$4.2M. The increases were offset by decreases in some liability accounts.

Increases in Gross and Net Patient Revenues, and Decreases in Collections

Overall, gross patient revenues increased by \$25.8M, from \$177.7M in FY 2020 to \$203.5M in FY 2021. The increase was attributable to inpatients' increased length of stay due to increased acuity. Similarly, net patient revenues increased by \$16.6M (or 18%) to \$107.8M due to favorable adjustments of \$14.4M in allowances for uncollectible accounts for third payers due to improved collections. However, the allowance for GMHA's patient/payer mix, the 3M's, (Medicaid, Medicare, MIP), and self-pay patients increased.

Collections decreased by \$5.8M, from \$104.4M in FY 2020 to \$98.6M in FY 2021. The 3M's collections significantly decreased by \$16.3M (or 28%) and a slight decrease of \$650Thousand in Government-Department of Corrections & Others. However, self-pay collections increased by \$7.6M (or 141%) and third-party payers' collections increased by \$3.6M (or 9%). Decreased collections were attributed to the increase in patient admission covered by 3M's wherein GMHA is paid a daily per diem rate of \$1,555 for inpatients.

GMHA continues its partnerships with the Office of the Attorney General for collection referrals and the Department of Revenue and Taxation for garnishments.

GMHA's mandate to provide healthcare to all patients regardless of one's 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 \$22.8M of care per year and the likelihood of collecting these self-pay accounts is low.

GMHA Revenues and Expenses Increased

GMHA's FY 2021 operating revenues increased by \$16.6M (or 18%) due to increases in net patient revenue. Operating expenses likewise increased by \$35.1M (or 24%) due to increases in expenses to prevent, prepare for, and respond to COVID-19. These expenses were for contract travel nurses, physicians, and medical supplies. Nursing expenses increased significantly by \$23.9M (or 55%) mainly due to the costs to hire contract travel nurses urgently needed to help provide medical care to COVID-19 patients. An increase in Professional Support division expenses by \$5.1M was due to increases in supplies and materials including pharmaceutical purchases. Likewise, retiree healthcare costs and other pension benefits increased by \$2.4M.

Personnel costs, the biggest operating expense, increased overall by \$7.6M due to increased costs for salaries (\$3.1M), benefits (\$3.8M), and certification pay for certified allied health professionals and incentive pays for nurses (\$0.9M). GMHA incurred \$3.3M for differential pay for essential GMHA employees supporting the public health emergency per Governor's Executive Order No. 2020-08.

Non-operating revenues increased by \$21.2M due to federal grants totaling \$27.6M which increased by \$19.9M. This mainly includes \$10.3M in federal public assistance for contract travel nurses, \$7.3M in American Rescue Plan funds, and \$1.6M in GovGuam Coronavirus Relief Funds. GMHA's subsidy transfers increased by \$1.3M from the prior year.

Achieving a Successful COVID-19 Response and Recovery

Since March 2020, GMHA has been at the forefront of Guam's response to the health emergency as the designated facility to provide medical service to COVID-19 patients. Despite the challenges that GMHA faced with little data, experience, or specialized guidance on the management of COVID-19 patients, in May 2021, it won two prestigious awards-Hospital of the Year and COVID Management Initiative of the Year on Guam-at the Healthcare Asia Awards 2021. Several achievements during the pandemic include developing numerous COVID-19 protocols, establishing clinical care telemedicine services, creating committees dedicated to clinical management of COVID-19 patients, and distributing communication products for continuous and thorough updates to all Hospital departments.

In January 2021, GMHA sought partnerships with health care providers from abroad to bring telemedicine technology via Rounders that, deliver a life-size physician in real-time care to critical care patients. Physical Rounders allow physicians to assess and treat patients virtually via high-definition television. In February 2021, GMHA began administering monoclonal anti bodies to patients and in September 2021, the Infusion Outpatient Clinic opened to administer monoclonal antibody infusion therapies to COVID-19 patients.

Outlook

COVID-19 will continue to challenge GMHA finances, particularly with declines in patient census and the reliance on GovGuam subsidies by business Privileges Taxes and the General Fund. GMHA will seek federal assistance afforded to health care providers to recover lost revenues as well as improve revenue cycle processes.

In June 2021, consultants from MedHealth solutions began reviewing the hospital's current revenue cycle management processes, with the goal to help optimize GMHA billing systems and increase overall collections. The term of the contract with the consultants is one year with completion in May 2022, when GMHA staff will manage the revenue cycle after proper training and updated policies and procedures.

GMHA will continue collaborating with the Guam Healthcare Task Force to complete the conceptual design for the new hospital facility and medical campus as recommended by the Army Corps of Engineers (ACOE). The ACOE recommended that GMHA immediately begin work to repair the hospital's critical life safety items after an extensive onsite facilities condition assessment. The Guam Healthcare Task Force is exploring land acquisition for the new medical campus. To begin using the Mangilao property as the new medical campus, a resolution is still pending from the dispute/opposition with the original landowners.

Report on Internal Control and Compliance

GMHA had findings relative to Patient Receivables, for six (6) consecutive years since FY 2015. These remain uncorrected as of FY 2021. As of September 30, 2021, findings relative to Patient Receivables are as follows:

- a. Unbilled receivables of \$7.5M increased from \$5.4M in FY 2020. Of the amount, \$5.9M (or 79%) was missing codes for admitting diagnosis, which must be inputted in the Medical Records Department. Of the unbilled receivables, \$1.4M was pending verification of charges with labs, physician notes, or other support.
- b. GMHA has \$0.96M in accounts receivable suspense account, of which \$0.73M pertains to over applications of advances from Medicare. Reconciliation and investigations are ongoing, and items dated prior to FY 2017 were cleared or adjusted.
- c. The number of days from discharge to bill drop ranged from 8-134 days for 40 sampled revenue transactions. The average days for bills to drop is set at seven (7) days.

According to the Auditors, the above findings could result in the accumulation of uncollectible receivables and potential inadequate cash flows to meet current obligations. Further, the lack of timely analysis of receivables and Accounts Receivable suspense accounts may result in disputed receivables. The Auditors recommended for GMHA to continue its efforts to follow-up on outstanding patient receivables and diligently review its existing collection measures and strategies.

To improve GMHA's Revenue Cycle Management processes, the hospital procured in November 2021, an electronic claims scrubbing software, which would reduce rejections, denials, delayed payments, and improve efficiency and cash flows. A revenue integrity department has been established to maintain a charge description master, ensure charge capture, prevent coding errors, and investigate revenue loss and leakage.

Management Letter

In the Auditor's letter to management, they commented that inventory issuances from the Pharmacy department were not recorded in a perpetual inventory system. Instead, inventory balances were adjusted based on annual inventory counts. Currently, there are no formal procedures to verify if pharmacy inventory issuances are recorded in the general ledger. In addition, four IT-related control deficiencies were identified.

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.