



Guam Memorial Hospital Authority FY 2014 Financial Highlights

June 30, 2015

Uncertainty as to GMHA's Ability to Continue Operating

Fiscal year (FY) 2014 continued to be a challenging year for the Guam Memorial Hospital Authority (GMHA) as independent auditors Deloitte & Touche, LLP, in its unmodified opinion for FY 2014 emphasized that "GMHA has incurred recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern." This is the second year this emphasis has been made. GMHA closed FY 2014 with an increase in net position (net income) of \$3 million (M) compared to the \$14.3M decrease in net position in FY 2013. This net increase was largely due to the increase in subsidies from the Government of Guam (GovGuam).

Over the past 12 years, GMHA has had six Administrators and seven Chief Financial Officer (CFO)s. The ever revolving heads have contributed to GMHA's inability to follow through on addressing past audit findings and implementing recommendations and actions needed to help improve operations. GMHA again lost another CFO in October 2014, followed by the resignation of the Administrator in March 2015. A new CFO was appointed effective November 2014, and a new Administrator was appointed effective May 2015.

Increase in Expenses Outpaces Increase in Revenue

While Operating Revenues increased by \$10.3M, going from \$69.9M in FY 2013 to \$80.2M in FY 2014, it is still not increasing fast enough to meet the continually increasing operating expenses, which increased by \$5M, going from \$103.6M to \$108.6M in FY 2014. The increase in expenses was mainly from the Nursing department, which increased by \$3.5M, going from \$49.7M in FY 2013 to \$53.2M in FY 2014. This was primarily due to the increase in salaries and wages from the new competitive wage schedule.

Continued Dependency on GovGuam

GMHA ended FY 2014 with an operating loss of (\$28.5M), and they continue to rely heavily on the GovGuam subsidies. Transfers from GovGuam more than doubled, going from \$9.3M in FY 2013 to \$21.5M in FY 2014, an increase of \$12.2M. The \$21.5M is the highest subsidy from the GovGuam General Fund since 2009. GMHA will continue to rely on the subsidy from GovGuam until actions and measures are implemented to address losses and negative cash flows from operations.

Structure of GMHA Patient Load

Third-Party Payers

In FY 2014, billings for Third-Party Payers were \$145.2M and collections were \$75.9M or 52% of collections over billings. This is a decline from FY 2013, where billings were \$148.7M and collections were \$79.4M or 53% of collections over billings. GMHA plans to complete negotiations with Guam insurance companies to implement new insurance rates, as rates were last updated in 2006. Unlike other hospitals, insured patients make up only 29% of total patient revenue.

Medicare, Medicaid, and MIP

Fifty-two percent of patient revenues came from the "3Ms": Medicare (22%), Medicaid (22%), and the Medically Indigent Program (MIP) (8%). GMHA has submitted an application to rebase Medicare

reimbursement rates per the Tax Equity and Fiscal Responsibility Act (TEFRA). GMHA for many years have made attempts to the Center for Medicare and Medicaid Services (CMS) to change its reimbursement rate to the Hospital. CMS initiated an audit of GMHA's 2013 Cost Report. The audit is expected to be completed in July 2015, and GMHA believes the results will validate their concern that the hospital is being under-reimbursed.

Self-Pay

Billings for Self Pay were \$22.7M in FY 2014 and collections were only \$8.8M or 39%. GMHA plans to put more resources in its billings and collections department to increase cash collections by 10%. The GMHA Board approved to raise hospital fees by 5% effective April 2015 and another 5% at the start of every subsequent fiscal year.

Governmental Accounting Statement- Pension Liability

The Government Accounting Standards Board (GASB) has issued several statements to be implemented in the next few years. The implementation of GASB Statement No. 68 related to Accounting and Financial Reporting for Pensions will result in significant changes in the financial statements as GMHA will be required to report its pro rata share of \$118.8M of GovGuam's pension liability of \$1.3 billion as of FY 2013.

Additional Appropriations from Limited Gaming Tax

Public Law 32-60 established the GMHA Healthcare Trust and Development Fund, of which 60% of funds collected from gaming tax is to be allocated to GMHA for subsidizing the establishment and operation of an urgent healthcare center within the GMHA facility. GMHA accrued \$310K in FY 2013, and received \$957K in appropriations in FY 2014.

Audit Adjustments and Uncorrected Misstatements

Twelve audit adjustments and reclassifications were made that have a cumulative net position effect of \$8.5M. In addition, there was one uncorrected misstatement identified in FY 2014 that would have decreased GMHA expenses by \$64K.

Compliance Report and Management Letter

GMHA received a qualified opinion on its Reports on Compliance and Internal Control. Auditors identified one new deficiency that resulted in \$224K questioned costs and two recurring deficiencies. They included the following: 1) increase in measures needed to collect and address long outstanding and increasing patient receivables; 2) better controls needed to monitor compliance with allowable costs/cost principles requirements for its 2013 Compact Impact Grant; and 3) federal equipment and real property inventory includes fully depreciated equipment not being used.

A separate letter was issued to management citing seven control deficiencies related to the following: bank reconciliations, receivable suspense accounts, pharmacy inventories, fixed assets, nonpayroll expenditures, payroll expenditures, and travel.

In addition, three IT-related control deficiencies were identified.

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 their entirety at www.opaguam.org or at www.gmha.org.