



**Guam Memorial Hospital Authority
FY 2013 Financial Highlights**

June 30, 2014

Uncertainty as to GMHA’s Ability as a Going Concern

Fiscal year (FY) 2013 was a challenging year for the Guam Memorial Hospital Authority (GMHA) as inadequate cash flow severely jeopardized GMHA’s operations and its ability to provide basic, appropriate patient care. For the first time, Deloitte & Touche, LLP, in its unmodified opinion for FY 2013 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.” As further emphasized, GMHA incurred losses from operations of \$33.8 million (M) and \$17.9M and negative cash flows from operations of \$11.8M and \$4.3M for FY 2013 and 2012, respectively. In addition, GMHA incurred penalties and interest on its unpaid retirement contributions of \$2M and \$2.6M and recorded contractual adjustments and provisions for uncollectible accounts of \$71.9M and \$64.2M for FY 2013 and 2012, respectively.

Over the last five years, GMHA expenditure levels steadily increased from \$99.4M to \$103.6M, experiencing a high of \$105.8M in FY 2010 and FY 2011. In contrast, revenues declined from a high of \$93.5M to a low of \$69.9M. Operating losses over the five fiscal years increased from \$5.8M in FY 2009 to \$33.8M in FY 2013. This brings the average operating loss to \$22.9M or a total of \$114.5M in operating losses over the five fiscal years. The operating losses are unsustainable without significant increases from the General Fund. Subsidies ranged from a low of \$2.6M to a high of \$19.3M for an average \$10M or a total of \$50M in subsidies over the five fiscal years. The \$50M subsidies have been insufficient to cover the \$114.6M cumulative operating losses. GovGuam must provide financial support for GMHA’s services to self-pay and uninsured patients, which represented 13% of GMHA billings. GMHA’s viability continues to depend upon subsidies from GovGuam as the hospital’s services cannot be withheld based on the financial ability of the customer. See table below for details of operating revenues and expenditures and subsidies from the General Fund.

GMHA Revenues and Expenditures

	Operating Revenue	Operating Expenditure	Net Operating Loss	Subsidies from the General Fund
FY 2013	\$ 69,867,610	\$ 103,638,656	\$ (33,771,046)	\$ 9,315,182
FY 2012	\$ 85,620,011	\$ 103,498,644	\$ (17,878,633)	\$ 19,325,842
FY 2011	\$ 69,850,260	\$ 105,785,724	\$ (35,935,464)	\$ 6,399,186
FY 2010	\$ 84,626,368	\$ 105,762,200	\$ (21,135,832)	\$ 2,598,651
FY 2009	\$ 93,539,681	\$ 99,355,376	\$ (5,815,695)	\$ 12,465,994
AVERAGE	\$ 80,706,786	\$ 103,608,120	\$ (22,901,334)	\$ 10,020,971
TOTAL	\$ 403,503,930	\$ 518,040 600	\$ (114,536,670)	\$ 50,104,855

Medicare, Medicaid, and MIP Challenges

Medicare, Medicaid, and MIP continue to be a challenge. Fifty-one percent of patient revenues came from the “3Ms”: Medicare (22%), Medicaid (20%), and the Medically Indigent Program (MIP) at 8%. Although Medicaid and MIP exhausted all FY 2013 appropriations in July 2013, 3Ms’ gross patient revenues nominally increased by \$1.2M from \$70.4M in FY 2012 to \$71.5M in FY 2013. While provisions for uncollectible accounts decreased for services to Medicare and MIP patients, it increased by 42% for services to Medicaid patients from \$14.6M in FY 2012 to \$20.7M in FY 2013.

GMHA continues to experience cash flow shortages that have impacted its ability to meet payroll and make timely vendor payments. The U.S. Department of Treasury began garnishing Medicare remittances due to GMHA’s outstanding \$6M payable to the Health and Human Services distributor “Perry Point”. Through the combined efforts of Guam’s Congresswoman, Governor, the Legislature, and GMHA leaders, Perry Point lifted the garnishment in late September 2013.

Medicaid and MIP do not mirror the Medicare payments to reimburse GMHA a portion of the reimbursement shortfall. When Medicaid and MIP programs exhausted their FY 2013 appropriations in July 2013, Guam’s Department of Public Health and Social Services ceased reimbursing GMHA for patient claims. GMHA management is concerned that FY 2013 funding shortfalls will be repeated during FY 2014.

Health Insurance Rates Not Adjusted Since 2006

GMHA is re-negotiating with commercial health insurers as rates have not been adjusted since 2006. Although, health insurance providers represented 28% of billings (\$41M), 36% of the collections (\$28.7M), came from these payors. From FY 2010 through 2013, the average collection rate from health insurance carriers is 71% of billings, which is considered lower than national average.

GMHA Healthcare Trust and Development Fund

Public Law 32-60 established the GMHA Healthcare Trust and Development Fund, 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. This fund was designed as another revenue stream for the hospital; however, the new gaming law has not delivered the funds that were expected. To date, GMHA has not received the gaming funds and accordingly accrued \$310 thousand (K) in FY 2013.

Operating Expenses Continues to Outpace Operating Revenues

Although revenues declined by 18% from \$85.6M to \$69.9M, operating expenses remained constant at \$103.7M. Over 71% of the expenses, or \$49.7M, was attributed to Nursing, of which 91% or \$45.1M was for personnel costs. Overall, GMHA’s personnel count dropped from 967 to 937, but personnel costs increased by \$2.2M from \$71.1M to \$73.4M. This can be attributed to retro pay from the lifting of the freeze on salary step increases and merit bonus payments.

Dependency on GovGuam

As footnoted in the audit, management believes that the continuation of the hospital’s operations is dependent upon the future payment of medical services by GovGuam, continued compensation by GovGuam for the cost of services provided under Medicaid and MIP, the collection of long

outstanding patient receivables, and improvements in operations. GovGuam made various payments totaling \$16.2M during FY 2013 compared to \$28M in FY 2012, which included the \$12.3M bond proceeds. GMHA is unable to survive without appropriate and adequate support from GovGuam.

Retroactive Pay Due to Hay Study

In October 2011, the Governor issued Executive Order No. 2011-14 which ordered the freezing of salary step increases for employees of line agencies and instrumentalities of the Executive Branch of GovGuam. In May 2013, the Governor issued Executive Order No. 2013-04 lifting the freeze on salary step increase. This resulted in \$3.6M of additional personnel expenses. Of the \$2M in retroactive pay and \$183K in merit bonus payments recorded, only \$513K and \$102K in retroactive and merit bonus payments were paid out.

Report on Compliance and Management Letter

Two recurring deficiencies were identified in the Reports on Compliance and Internal Control. These findings involved: 1) increase in measures needed to collect and address long outstanding and increasing patient receivables; and 2) federal equipment and real property inventory includes fully depreciated equipment not being used and several items that could not be located.

A separate letter was issued to management citing six control deficiencies compared to the 16 in the previous year. These included:

- Two receivable suspense accounts were not reconciled and substantially carried forward from prior years;
- No reports were prepared to account for damaged inventory items held for disposal;
- Book and pharmacy inventories were adjusted without detailed reconciliations and investigations of the differences;
- Fully depreciated assets were not surveyed nor removed from the fixed asset listing; and
- Overpayment of an employee's sick leave lump sum payout.

In addition, four 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.guamopa.org or at www.gmha.org.