



APR 21 2008

Washington, D.C. 20201

TO: Kerry Weems
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Review of Expenses and Revenues Presented in Congressional Testimony by
West Jefferson Medical Center (A-01-07-00521)

The attached final report provides the results of our review of expenses and revenues presented in congressional testimony by West Jefferson Medical Center (the hospital).

On August 1, 2007, the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, held a hearing on post-Katrina health care in the New Orleans region. In this hearing, officials of five hospital groups in the New Orleans region testified that their hospitals experienced significant post-Katrina operating losses, largely because of the increased costs of providing hospital care since the August 2005 hurricane. The testifying hospitals requested additional Federal financial assistance, including additional grant funds from the Department of Health and Human Services, to use for the recovery of the health care delivery system in the New Orleans area.

The Committee on Energy and Commerce requested that we analyze the hospitals' financial information to review the more significant operating loss items cited by the testifying hospitals. West Jefferson Medical Center was one of the hospitals whose financial information was presented in the congressional hearing.

Our objective was to determine whether the amounts of selected expenses and revenues that the hospital presented in the testimony were accurate and supported by the hospital's financial records.

The hospital's expenses presented in the testimony were generally accurate and supported by the hospital's financial records. However, the hospital's revenue as described in the testimony for the first 5 months of 2007 did not include a \$1.1 million Medicare Wage Stabilization grant that it received during this period. The Louisiana Hospital Association removed this amount when compiling the testimony data and referenced the grant amount in an explanatory note.

This is an informational report, and we have no recommendations.

In its written comments on our draft report, the hospital agreed with the results of our review. However, the hospital requested that we clarify some of the statements in our report. We revised our report to reflect the hospital's comments.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after this report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Services Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov. Please refer to report number A-01-07-00521 in all correspondence.

Attachment



APR 21 2008

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Report Number: A-01-07-00521

Ms. Nancy R. Cassagne
Chief Executive Officer
West Jefferson Medical Center
1101 Medical Center Boulevard
Marrero, Louisiana 70072

Dear Ms. Cassagne:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Expenses and Revenues Presented in Congressional Testimony by West Jefferson Medical Center." We will forward a copy of this report to the HHS action official noted on the following page.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after this report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact David Lamir, Audit Manager, at (617) 565-2704 or through e-mail at David.Lamir@oig.hhs.gov. Please refer to report number A-01-07-00521 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "Michael J. Armstrong".

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

Ms. Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF EXPENSES AND
REVENUES PRESENTED IN
CONGRESSIONAL TESTIMONY BY
WEST JEFFERSON
MEDICAL CENTER**



Daniel R. Levinson
Inspector General

April 2008
A-01-07-00521

Office of Inspector General

<http://oig.hhs.gov>

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

On August 1, 2007, the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, held a hearing on post-Katrina health care in the New Orleans region. In this hearing, officials of five hospital groups in the New Orleans region testified that their hospitals experienced significant post-Katrina operating losses, largely because of the increased costs of providing hospital care since the August 2005 hurricane. The officials supported their testimony with a summary of financial data compiled by the Louisiana Hospital Association (LHA), comparing pre-Katrina (January through May 2005) and post-Katrina (January through May 2007) expenses and revenues for the five hospital groups. The testifying hospitals requested additional Federal financial assistance, including additional grant funds from the Department of Health and Human Services, to use for the recovery of the health care delivery system in the New Orleans area.

In a September 27, 2007, letter, the Committee on Energy and Commerce requested that we analyze the hospitals' financial information to review the more significant operating loss items cited by the testifying hospitals.

West Jefferson Medical Center (the hospital), one of the hospitals whose financial information was presented in the congressional hearing, is an acute care hospital in Marrero, Louisiana, with 323 staffed beds (451 licensed beds). The not-for-profit hospital is located 10 miles from downtown New Orleans and, according to its testimony, did not incur extensive physical damage from the storm.

OBJECTIVE

Our objective was to determine whether the amounts of selected expenses and revenues that the hospital presented in the testimony were accurate and supported by the hospital's financial records.

SUMMARY OF FINDINGS

The hospital's expenses presented in the testimony were generally accurate and supported by the hospital's financial records. However, the hospital's revenue as described in the testimony for the first 5 months of 2007 did not include a \$1.1 million Medicare Wage Stabilization grant that it received during this period. The LHA removed this amount when compiling the testimony data and referenced the grant amount in an explanatory note.

RECOMMENDATION

This is an informational report, and we have no recommendations.

WEST JEFFERSON MEDICAL CENTER COMMENTS

In its written comments on our draft report, the hospital agreed with the results of our review. However, the hospital requested that we modify our report to clarify that (1) the hospital has 323 staffed beds and is licensed for 451 beds, (2) the LHA removed the Medicare Wage Stabilization grant funds amount when compiling the testimony data and referenced the grant amount in an explanatory note, and (3) gross patient revenue does not include any deductions that may be recorded under contractual arrangements with payers or any deductions that may be written off by the hospital as bad debt.

The hospital's comments are included in their entirety as Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

We revised our report to reflect the hospital's comments.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Congressional Request.....	1
West Jefferson Medical Center.....	1
OBJECTIVE, SCOPE, and METHODOLOGY	1
Objective.....	1
Scope.....	2
Methodology	2
RESULTS OF REVIEW	3
EXPENSES	3
Salary and Contract Labor Expenses	3
Utilities Expense	4
Insurance Expense	4
Depreciation and Amortization Expense	5
Bad Debts Expense	5
Other Operating Expenses	5
REVENUE	6
Net Revenues Included in Testimony	6
Revenues Received During Testimonial Periods Not Included in Testimony	6
Analysis of Gross Revenue by Payer Type	6
RECOMMENDATION	7
WEST JEFFERSON MEDICAL CENTER COMMENTS	7
OFFICE OF INSPECTOR GENERAL RESPONSE	7
OTHER MATTERS	7
APPENDIXES	
A – REVENUES AND EXPENSES AS STATED IN TESTIMONY	
B – RESTATED REVENUES AND EXPENSES	
C – PATIENT VOLUME BETWEEN 2005 AND 2007	
D – WEST JEFFERSON MEDICAL CENTER COMMENTS	

INTRODUCTION

BACKGROUND

Congressional Request

On August 1, 2007, the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, held a hearing on post-Katrina health care in the New Orleans region. In this hearing, officials of five hospital groups in the New Orleans region testified that their hospitals experienced significant post-Katrina operating losses, largely because of the increased costs of providing hospital care since the August 2005 hurricane. The officials supported their testimony with a summary of financial data compiled by the Louisiana Hospital Association (LHA), comparing pre-Katrina (January through May 2005) and post-Katrina (January through May 2007) expenses and revenues for the five hospital groups. The testifying hospitals requested additional Federal financial assistance, including additional grant funds from the Department of Health and Human Services, to use for the recovery of the health care delivery system in the New Orleans area.

In a September 27, 2007, letter, the Committee on Energy and Commerce requested that we analyze the hospitals' financial information to review the more significant operating loss items cited by the testifying hospitals.

West Jefferson Medical Center

West Jefferson Medical Center (the hospital), one of the hospitals whose financial information was presented in the congressional hearing, is an acute care hospital in Marrero, Louisiana, with 323 staffed beds (451 licensed beds). The not-for-profit hospital is located 10 miles from downtown New Orleans and, according to its testimony, did not incur extensive physical damage from the storm. The hospital's portion of the financial data presented in the hearing is in Appendix A. The financial data also include the revenue and expenses for its hospital-based inpatient rehabilitation facility, inpatient psychiatric facility, home health agency, skilled nursing facility, and clinics.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the amounts of selected expenses and revenues that the hospital presented in the testimony were accurate and supported by the hospital's financial records.

Scope

Our review included the 5-month periods of January 1 to May 31 in 2005 and 2007.

We limited our review of the hospital's internal control structure to those controls applicable to the selected expenses and revenues examined because our objective did not require an understanding of all internal controls.

We performed our fieldwork at the hospital from October 2007 through January 2008.

Methodology

To accomplish our objective, we:

- reviewed the hospital's audited financial statements and records;
- obtained an understanding of the hospital's procedures for accumulating and reporting financial data;
- reconciled the reported revenues and expenses in the hospital's testimony to the financial records;
- judgmentally chose expenses in selected areas (salary and contract labor, utilities, insurance, depreciation and amortization, bad debts, and other operating expenses) for testing to determine supportability;
- identified the wage-related costs for health care professionals (e.g., physicians and nurses), administrative personnel (e.g., management and clerical staff), and other hospital personnel (e.g., maintenance and service staff);
- compared the types of wage-related costs presented in the hospital's testimony for 2005 with those presented for 2007 to determine whether the increase in these costs was principally due to a substantial growth in wage-related costs for health care professionals;
- reviewed full-time equivalent (FTE) employee counts and wage-related hours to determine the average hourly wage rate for the testimonial periods;
- reconciled wage data from selected cost centers to detailed support, such as payroll registers and accounts payable invoices;
- interviewed hospital staff regarding the nature of services that employees and contracted labor provided to the hospital;
- reviewed the hospital's monthly patient statistics reports to determine the changes in patient volume and utilization of services between the testimonial periods; and

- reviewed support for additional revenue received by the hospital after August 2005.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

RESULTS OF REVIEW

The hospital's expenses presented in the testimony were generally accurate and supported by its financial records. However, the hospital's revenue presented in the testimony for the post-Katrina period (January through May 2007) did not include a \$1.1 million Medicare Wage Stabilization grant that it received during this period.¹

EXPENSES

Salary and Contract Labor Expenses

As stated in the testimony, salary expense was the largest expense item and contract labor expense had the largest percentage of increase of all expense items for the first 5 months of 2005 and the first 5 months of 2007. The hospital official testified that higher labor costs were a major contributing factor to the financial losses incurred by hospitals in the New Orleans area.

Amount of Increase

The salary and contract labor expenses (totaling \$33.8 million for the first 5 months of 2005 and \$42.3 million for the first 5 months of 2007) that the hospital presented in its testimony were generally accurate and supported by its financial records. We found minor differences in the hospital's salary expense between the amounts shown in the testimony and the amounts supported in the hospital's financial records. We also reclassified minor amounts from other operating expenses to salary and contract labor expenses. Our restatement of the expenses is shown in Appendix B. Whereas the hospital's reported amounts represent an increase of \$8.5 million in salary and contract labor costs between the first 5 months of 2005 and the first 5 months of 2007, our restated costs show an increase of approximately \$8.8 million.

Causes of Increase in Costs

According to the hospital official's testimony, the hospital hired additional health care professionals and non-health-care personnel because of increased patient volume. The patient volume increased because a large number of patient beds at surrounding hospitals closed after the storm and therefore were no longer available to service patients. The testifying official also stated that the hospital had to hire contract workers to replace employees who left the area and had to boost employee recruitment and retention packages to keep employees in the area.

¹The LHA removed this amount when compiling the testimony data and referenced the grant amount in an explanatory note.

Consistent with the hospital's testimony, increases in the hospital's costs of recruiting and retaining doctors, nurses, and other medical professionals and hiring contract nurses were the primary causes of the \$8.8 million increase in salary and contract labor costs. Of the \$8.8 million increase, \$8.4 million was attributed to health care professionals. The factors that led to this increase in wage-related costs were (1) increased hiring of salaried health care professionals, (2) additional use of contract labor services for health care professionals, and (3) increased average hourly wage rates for all salaried employees and contract labor services. Specifically, between the first 5 months of 2005 and the first 5 months of 2007:

- The number of salaried health care professionals hired by the hospital increased by 61 FTE employees, or approximately 6 percent. As a result, we estimated that approximately \$2.7 million of the \$8.8 million increase was due to an increase in the hiring of physicians, nurses, and other health care professionals.
- The hospital increased its use of contract health care professionals, particularly nurses. For example, the hospital contracted 36 additional nurses, for an increase of approximately 32,000 contract labor hours between the first 5 months of 2005 and the first 5 months of 2007. We estimated that approximately \$2.2 million of the \$8.8 million increase was due to an increase in contract health care professionals.
- The hospital's average hourly wage rates increased from \$21.83 to \$24.47 for all salaried employees and from \$58.03 to \$66.56 for contract labor services. The hospital's overall average hourly wage rate increased from \$23.98 to \$26.96, or approximately 12.5 percent, between the first 5 months of 2005 and the first 5 months of 2007. We estimated that approximately \$3.9 million of the \$8.8 million increase was due to increases in the hospital's average hourly wage rates. Further, we estimated that approximately \$3.5 million of the \$3.9 million was due to increases in the average hourly wage rate for health care professionals.

Also in agreement with the hospital official's testimony, the hospital's patient volume and utilization of services increased after the hurricane (Appendix C).

Utilities Expense

As stated in the testimony, the hospital's utility expense, which included electricity, water, and gas, increased from \$1.3 million to \$1.5 million (18 percent) between the first 5 months of 2005 and the first 5 months of 2007. We judgmentally selected for review invoices for the electric company from each period. The sampled invoices accounted for 14 percent of the 2005 and 30 percent of the 2007 utility expenses. The invoices we reviewed were properly recorded in the hospital's financial records. The main cause of the increase was a rise in the fuel adjustment rate on the electricity bill.

Insurance Expense

As stated in the testimony, the hospital's insurance expense, which included insurance premiums for buildings, equipment, and malpractice, increased from approximately \$722,000 to

\$1.3 million (77 percent) between the first 5 months of 2005 and the first 5 months of 2007. We judgmentally selected for review insurance policy invoices from each period. The sampled invoices accounted for 85 percent of the 2005 and 93 percent of the 2007 insurance expenses. The invoices we reviewed were properly recorded in the hospital's financial records. The main cause of the increase was a rise in premiums.

Depreciation and Amortization Expense

As stated in the testimony, the hospital's depreciation and amortization expense (a noncash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence) increased from \$6.1 million to \$7.1 million (17 percent) between the first 5 months of 2005 and the first 5 months of 2007. The hospital depreciated property, plant, and equipment, which included laboratories, anesthesia machines, and operating room equipment. We judgmentally selected for review depreciation and amortization expenses from each period. The sampled expenses accounted for 11 percent of the 2005 and 22 percent of the 2007 total depreciation and amortization expense for each period. The expenses we reviewed were properly recorded in the hospital's financial records.

Bad Debts Expense

As stated in the testimony, the hospital did not include any bad debt expense for 2005 or 2007. Hospital officials stated that they offset the hospital's bad debt expense in its net patient revenue. The hospital offset bad debts totaling \$18,154,832 for the first 5 months of 2005 and \$14,973,305 for the first 5 months of 2007. The 2007 amount included a reduction of \$3.2 million due to Medicaid disproportionate share payments that the hospital received in 2007. We judgmentally selected bad debt deductions from net patient revenue accounts totaling 42 percent for 2005 and 64 percent for 2007. The bad debts we reviewed were properly recorded in the hospital's financial records.

Other Operating Expenses

As stated in the testimony, the hospital's other operating expenses, which included professional fees (emergency room physicians and anesthesiologists), purchased services (environmental workers), and maintenance contracts, increased from \$17.1 million to \$22.4 million (31 percent) between the first 5 months of 2005 and the first 5 months of 2007. We restated the hospital's other operating expenses to \$16.9 million and \$22.0 million (30 percent). We reclassified minor amounts from other operating expenses to salary and contract labor expenses. We judgmentally selected for review other operating expenses from each period. The sampled items accounted for 13 percent of both the 2005 and the 2007 total other operating expenses. The expenses we reviewed were properly recorded in the hospital's financial records. The main cause of the increase was a rise in professional fees.

REVENUE

Net Revenues Included in Testimony

The hospital's financial data presented in the testimony showed that the hospital's total net operating revenue increased from \$84.4 million to \$100.1 million (18.7 percent) between the first 5 months of 2005 and the first 5 months of 2007. Approximately 95 percent of the net operating income was from net patient revenue, i.e., payments from government and private medical insurance and self-pay patients. Net patient revenue included in the testimony totaled \$80 million for the first 5 months of 2005 and \$95 million for the first 5 months of 2007, for an increase of \$15 million (18.9 percent). According to hospital officials, this increase can mainly be attributed to an increase in patient volume and utilization of services.

Revenues Received During Testimonial Periods Not Included in Testimony

The hospital received a Medicare Wage Index Stabilization grant totaling \$3,690,337. The hospital had applied \$1,141,591 of the Medicare Wage Stabilization grant funds to expenses by May 2007; the remaining \$2,548,746 was applied to expenses after May 2007. This grant from the Department of Health and Human Services was intended to compensate the hospital for its Katrina-related increased labor costs related to its Medicare patients. This amount was not included in the hospital's 2007 testimonial revenue.² The adjusted revenue amount is shown in Appendix B.

Analysis of Gross Revenue by Payer Type

Gross patient revenue reflects total financial charges for patient care services and not actual payments received or any deductions that may be recorded under contractual arrangements with payers or any deductions that may be written off by the hospital as bad debt. A hospital analysis of its gross revenue by payer type indicated that, consistent with its testimony, services provided to uninsured/self-pay patients increased between 2005 and 2007.

²The hospital included the \$1,141,591 in Medicare Wage Stabilization grant funds that it had applied to expenses by May 2007 in its original submission to the LHA, the organization that compiled the testimony data. The LHA removed this amount when compiling the testimony data and referenced the grant amount in an explanatory note.

West Jefferson Medical Center’s Analysis of Its Gross Revenue by Payer Type

Payer	Percent of Total Revenue 01/01/05-05/31/05	Percent of Total Revenue 01/01/07-05/31/07	Percentage Change
Medicare fee-for-service	19.92	17.34	-2.58
Medicare/Medicaid dual eligible	11.01	9.16	-1.85
Medicare Managed Care ³	9.78	14.55	4.77
Commercial fee-for-service	1.11	1.68	0.57
Commercial Managed Care	30.88	28.80	-2.08
Medicaid	15.26	14.33	-0.93
Other	4.00	3.70	-0.30
Uninsured/self-pay	8.04	10.44	2.40

RECOMMENDATION

This is an informational report, and we have no recommendations.

WEST JEFFERSON MEDICAL CENTER COMMENTS

In its written comments on our draft report, the hospital agreed with the results of our review. However, the hospital requested that we modify our report to clarify that (1) the hospital is staffed for 323 beds and licensed for 451 beds, (2) the LHA removed the Medicare Wage Stabilization grant funds amount when compiling the testimony data and referenced the grant amount in an explanatory note, and (3) gross patient revenue does not include any deductions that may be recorded under contractual arrangements with payers or any deductions that may be written off by the hospital as bad debt.

The hospital’s comments are included in their entirety as Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

We revised our report to reflect the hospital’s comments.

OTHER MATTERS

Among the testifying hospitals’ proposed solutions to address spiraling wage-related costs was for the Centers for Medicare & Medicaid Services (CMS) to adjust the Medicare hospital wage index values for these areas to reflect current wage data rather than retrospective wage data. CMS uses the hospital wage index to adjust prospectively set Medicare payment rates for regional variation in labor costs.

³The hospital was awarded two Medicare managed care contracts between the testimonial periods.

We found that certain costs that were supported by the hospital's financial records and included in its 2005 testimonial amounts were incorrectly reported to CMS as wage data in its fiscal year (FY) 2005 Medicare cost report. Although the hospital incurred these costs, they did not meet Medicare requirements for inclusion in the cost report as wage data costs. For example, the hospital included costs for physician services as wage data in its FY 2005 cost report without supporting these services as hospital-related. To claim such services as hospital-related services under Medicare Part A, hospitals must distinguish them from medical and surgical services provided by a physician to an individual patient, which are reimbursed under Medicare Part B. Because CMS uses wage data collected 4 years earlier to calculate wage indexes for a given year, overstated costs in the hospital's FY 2005 cost report will result in Medicare overpayments to all hospitals that use this wage index in FY 2009.

Because this matter was not part of the objective of this review, we will issue a separate report to the hospital on the matter and its potential impact on Medicare payments to the hospital.

APPENDIXES

REVENUES AND EXPENSES AS STATED IN TESTIMONY

	January – May 2005	January – May 2007	Percentage Change
REVENUES			
Total Net Patient Revenue	\$79,971,384	\$95,092,655	18.91%
Other Operating Revenue	<u>4,416,782</u>	<u>5,032,251</u>	13.93%
Total Operating Revenue	\$84,388,166	\$100,124,906	18.65%
EXPENSES			
Salaries			
Nursing	14,340,145	18,244,365	27.23%
Physician	1,979,920	2,154,676	8.83%
Other	<u>16,488,559</u>	<u>18,758,431</u>	13.77%
	32,808,624	39,157,472	19.35%
Contract Labor			
Nursing	811,421	2,999,766	269.69%
Physician	138,166	160,807	16.39%
Other	<u>31,581</u>	<u>4,575</u>	-85.51%
	981,168	3,165,148	222.59%
Employee Benefits	7,283,575	9,942,468	36.51%
Supplies	13,379,859	18,120,679	35.43%
Utilities	1,309,417	1,543,356	17.87%
Insurance	721,919	1,279,940	77.30%
Interest Expense	2,659,058	3,875,708	45.75%
Depreciation and Amortization	6,075,579	7,105,540	16.95%
Bad Debts	0	0	0.00%
Other Operating Expenses	<u>17,051,659</u>	<u>22,395,480</u>	31.34%
Total Operating Expenses	\$82,270,858	\$106,585,791	29.55%
NET GAIN/LOSS FROM OPERATIONS	<u>\$2,117,308</u>	<u>(\$6,460,885)</u>	-405.15%

RESTATED REVENUES AND EXPENSES

<i>Shaded items are items we reviewed.</i>	January – May 2005	January – May 2007	Percentage Change
REVENUES			
Total Net Patient Revenue	\$79,971,384	\$95,092,655	18.91%
Other Operating Revenue	4,416,782	6,173,842 ¹	39.78%
Total Operating Revenue	\$84,388,166	\$101,266,497	20.00%
EXPENSES			
Salaries			
Nursing	14,340,145	18,244,365	27.23%
Physician	1,979,920	2,154,676	8.83%
Other	16,545,609	18,825,951	13.78%
	32,865,674 ²	39,224,992 ²	19.35%
Contract Labor			
Nursing	792,463	2,934,335	270.28%
Physician	301,432	545,573	80.99%
Other	50,391	70,006	38.93%
	1,144,286 ³	3,549,914 ³	210.23%
Employee Benefits	7,283,575	9,942,468	36.51%
Supplies	13,379,859	18,120,679	35.43%
Utilities	1,309,417	1,543,356	17.87%
Insurance	721,919	1,279,940	77.30%
Interest Expense ⁴	2,659,058	3,875,708	45.75%
Depreciation and Amortization	6,075,579	7,105,540	16.95%
Bad Debts	0	0	0.00%
Other Operating Expenses	16,913,293 ⁵	22,048,169 ⁵	30.36%
Total Operating Expenses	\$82,352,660	\$106,690,766	29.55%
NET GAIN/LOSS FROM OPERATIONS	<u>\$2,035,506</u>	<u>(\$5,424,269)</u>	-366.48%

¹Other operating revenue was increased by \$1,141,591 from the Medicare Wage Index Stabilization grant.

²Salary expenses were increased by \$57,050 in 2005 and \$67,520 in 2007 because of an increase for accruals due to payroll cut-off periods and a decrease due to reclassification to other operating expenses.

³Total contract labor expenses were increased by \$163,118 in 2005 and \$384,766 in 2007 because of reclassification from other operating expenses and a reduction in the 2005 testimonial amount due to unsupported contract labor expenses.

⁴The hospital received a Community Disaster loan of \$30,712,500 from the Federal Emergency Management Agency in February 2006. The loan proceeds are being claimed as a liability, and interest expense is accruing on this debt. Recent congressional action permits forgiveness of this loan after 3 years.

⁵Other operating expenses were decreased by \$138,366 in 2005 and \$347,311 in 2007 because of our reclassification of salary expense and contract labor expense.

PATIENT VOLUME BETWEEN 2005 AND 2007

Type of Service	January–May 2005	January–May 2007	Change
Inpatient Services			
Patient Days	38,282	40,711	6.35%
Average Length of Stay (days)	7.74	8.25	6.59%
Case-Mix Index ⁶	1.19	1.34	12.61%
Outpatient Visits	33,398	36,478	9.22%
Home Health Visits	3,555	4,647	30.72%
Hospice Days	2,792	3,154	12.97%

⁶The case-mix index measures the severity of illness, the complexity of care, and resource utilization.



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Chief Executive Officer

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Charlotte Roussel

March 14, 2008

Mr. Michael Armstrong
Regional Inspector General For Audit Services
Department of Health & Human Services
Office of Inspector General
Office of Audit Services
Region 1
John F. Kennedy Federal Building
Boston, MA 02203

Ref: Report Number A-01-07-00521 West Jefferson Medical Center

Dear Mr. Armstrong:

We have reviewed the draft report referenced above and concur with the presentation of the results of the review. We have the following comments and clarifications:

- 1) Page i, and page 1, under the description of West Jefferson Medical Center, please add clarifying language that the Medical Center is licensed for 451 beds and has 323 staffed beds.
- 2) Page i under "Summary of Findings" and page 6 under "Revenues Received During Testimony Periods Not Included in Testimony" indicates that \$1.1 million of Medicare Wage Stabilization grant funds were not included in the Medical Center's testimony revenue. While the statement is accurate, we believe strongly that the report should include a clarifying footnote that the Medical Center included this amount in its original submission to the Louisiana Hospital Association (the "LHA"), the organization which compiled the testimony data, that the LHA removed this amount during compilation of the testimony data and referenced the grant amount in an explanatory note.
- 3) Page 6 under "Analysis of Gross Revenue by Payer Type" notes that gross patient revenue does not include "...any deductions that may be written off by the hospital as a bad debt." Please clarify to read that gross patient revenue does not include "...any deductions that may be recorded under contractual arrangements with payers or any deductions that may be written off by the hospital as bad debt."

Ref: Report Number A-01-07-00521
West Jefferson Medical Center
March 14, 2008
Page 2

The Medical Center will address the Medicare hospital wage data comments under "Other Matters" when we receive the separate report referred to in this section.

We would like to take this opportunity to express our thanks to the Region 1 staff for their cooperation and guidance during the review process.

Please contact me at 504.349.1277 should you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Ron Bailey". The signature is written in a cursive, flowing style.

Ron Bailey
Sr. Director of Finance

cc: Nancy Cassagne, CEO
Review File