



SEP 16 2008

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

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

SUBJECT: Review of Profitability Analysis of New Orleans Hospitals (A-07-07-02733)

The attached final report provides the results of our analysis of the profitability trend for the five New Orleans hospital groups (testifying hospitals) that testified at a U.S. House of Representatives hearing on August 1, 2007.

In that hearing, officials of the testifying hospitals 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.

In September 2007, the U.S. House of Representatives Committee on Energy and Commerce requested that the Office of Inspector General (OIG) perform a profitability analysis of the testifying hospitals.

This report, the first of two OIG reports, responds to this congressional request. To conduct our profitability analysis, we examined the patient-related care margin, total margin, Medicare program margin, and Medicaid program margin for the testifying hospitals—both individually and collectively—during an audit period of fiscal years (FY) 2002 through 2006. Using this timeframe enabled us to gain an understanding of the financial situation of the testifying hospitals by examining profitability trends for several years before the hurricane, for the year of the hurricane (FY 2005), and for the year after the hurricane.

Our objective was to demonstrate the profitability trend for the five New Orleans hospital groups that testified at the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, hearing on August 1, 2007.

Each of the individual testifying hospitals had a significantly different profitability trend over the audit period. The following is a review of the testifying hospitals' cumulative results.

- Patient-related care margin:
 - For FYs 2002 and 2003, the testifying hospitals had cumulative positive patient-related care margins.
 - For FYs 2004 through 2006, the testifying hospitals had cumulative negative patient-related care margins.
- Total margin:
 - For FYs 2002 and 2003, the testifying hospitals had cumulative positive total margins.
 - For FYs 2004 and 2005, the testifying hospitals had cumulative negative total margins.
 - For FY 2006, the testifying hospitals had a cumulative positive total margin and received additional funding from Business Interruption insurance payments and additional Federal funding for hurricane damage.
- Medicare program margin:
 - For FY 2002, the testifying hospitals had a cumulative positive Medicare program margin.
 - For FYs 2003 through 2006, the testifying hospitals had cumulative negative Medicare program margins.
- Medicaid program margin:
 - For FYs 2002 through 2006, the testifying hospitals had cumulative negative Medicaid program margins.

As this is an informational report, we have no recommendations.

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, this report 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 Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov. Please refer to report number A-07-07-02733 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PROFITABILITY
ANALYSIS OF NEW ORLEANS
HOSPITALS**



Daniel R. Levinson
Inspector General

September 2008
A-07-07-02733

Office of Inspector General

<http://oig.hhs.gov>

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THIS REPORT IS AVAILABLE TO THE PUBLIC
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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 (testifying hospitals) 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.

In September 2007, the U.S. House of Representatives Committee on Energy and Commerce requested that the Office of Inspector General (OIG) perform a profitability analysis of the testifying hospitals.

This report, the first of two OIG reports, responds to this congressional request. To conduct our profitability analysis, we examined the patient-related care margin, total margin, Medicare program margin, and Medicaid program margin for the testifying hospitals—both individually and collectively—during an audit period of fiscal years (FY) 2002 through 2006. Using this timeframe enabled us to gain an understanding of the financial situation of the testifying hospitals by examining profitability trends for several years before the hurricane, for the year of the hurricane (FY 2005), and for the year after the hurricane. The second report will compare the testifying hospitals to other hospitals in the New Orleans area, hospitals in a demographically similar city, and hospitals in a geographically similar city.

OBJECTIVE

Our objective was to demonstrate the profitability trend for the five New Orleans hospital groups that testified at the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, hearing on August 1, 2007.

SUMMARY OF HOSPITAL FINANCIAL ANALYSIS

Each of the individual testifying hospitals had a different profitability trend over the audit period.

The following is a review of the testifying hospitals' cumulative results broken down into four measures of profitability: patient-related care margin, total margin, Medicare program margin, and Medicaid program margin.

- Patient-related care margin (profitability from patient care alone):
 - For FYs 2002 and 2003, the testifying hospitals had cumulative positive patient-related care margins.

- For FYs 2004 through 2006, the testifying hospitals had cumulative negative patient-related care margins.
- Total margin (profitability from all sources of income):
 - For FYs 2002 and 2003, the testifying hospitals had cumulative positive total margins.
 - For FYs 2004 and 2005, the testifying hospitals had cumulative negative total margins.
 - For FY 2006, the testifying hospitals had a cumulative positive total margin, which included additional funding from Business Interruption insurance payments and additional Federal funding for hurricane damage.
- Medicare program margin (based on payments from Medicare):
 - For FY 2002, the testifying hospitals had a cumulative positive Medicare program margin.
 - For FYs 2003 through 2006, the testifying hospitals had cumulative negative Medicare program margins.
- Medicaid program margin (based on payments from Medicaid):
 - For FYs 2002 through 2006, the testifying hospitals had cumulative negative Medicaid program margins.

RECOMMENDATION

As this is an informational report, we have no recommendations.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

After receiving our draft report, the Centers for Medicare & Medicaid Services elected not to comment.

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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 (testifying hospitals) 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.

In September 2007, the U.S. House of Representatives Committee on Energy and Commerce requested that the Office of Inspector General (OIG) perform a profitability analysis.

This report, the first of two OIG reports, responds to this congressional request. The second report compares the testifying hospitals to other hospitals in New Orleans, hospitals in a demographically similar city, and hospitals in a geographically similar city.¹

Testifying Hospitals

Officials from the testifying hospitals—East Jefferson General Hospital, Ochsner Health System,² Touro Infirmary, Tulane University Hospital, and West Jefferson Medical Center—testified that they were incurring extraordinary financial losses because of the weakening of the region’s economy, which was still severely stressed during our audit period as a result of the disaster. According to the hospitals’ testimony of August 1, 2007, the testifying hospitals provide 95 percent of the hospital-based services in the New Orleans metropolitan area.

The testifying hospitals presented a financial picture comparing the period of January through May 2005 to the period of January through May 2007. To gain an understanding of the financial situation of the testifying hospitals, we expanded the timeframe to encompass the period of the fiscal year (FY) ending 2002 through the FY ending 2006.³

¹“Review of Profitability Analysis of New Orleans Hospitals Compared With Peer Hospitals” (A-07-07-02734).

²Ochsner Health System included five facilities in the testimony. The Ochsner Foundation Medicare cost report included expenses related both to the Ochsner Foundation and to the Ochsner Clinic, which was included separately in the testimony. (However, on the cost report the Clinic’s revenues and expenditures were categorized and reported as a nonreimbursable cost center.) The combination of two Ochsner facilities in the Medicare cost reports meant that although the testimony dealt with nine hospitals, the cost reports—and, consequently, our analysis—contained only eight.

³In this report, all year references are to FYs determined by the cost report period ending between January 1 and December 31 of the particular year.

Hospital Financial Data

Typically, hospitals' revenues are derived from (a) payments made for services to patients who do not have health insurance (private-pay), (b) health insurance companies (third-party health insurance), (c) Federal funds (including payments for Medicare and Medicaid), and (d) State Medicaid funds.

Pursuant to Title XVIII of the Social Security Act, the Medicare program provides health insurance for people age 65 and over and those who are disabled or have permanent kidney disease. The Centers for Medicare & Medicaid Services (CMS) administers the program.

Pursuant to Title XIX of the Social Security Act, the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State governments jointly fund and administer the Medicaid program. At the Federal level, CMS administers the program, as it administers the Medicare program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

Federal reimbursement for ongoing operations is based on cost reports, which contain financial data for all revenue, not just Medicare and Medicaid. Federal regulations require providers to submit, on an annual basis, cost report data based on the provider's financial and statistical records. This information must be accurate and in sufficient detail to support payments made for services provided to beneficiaries. The data in the cost reports feed into the Healthcare Cost Report Information System (HCRIS). Hospitals attest that the data are accurate and complete when they submit their cost reports.

Each hospital (or other Medicare service provider) is required to file a Medicare cost report each year. After acceptance of the cost report, the fiscal intermediary (FI) performs a tentative settlement to ensure that the provider is reimbursed expeditiously.⁴ The FI may perform a detailed audit after the tentative settlement. If the FI does not perform a detailed audit, the FI determines final settlement by performing a limited desk audit. After auditing the cost report, the FI issues a notice of program reimbursement. As the final settlement document, this notice shows whether payment is owed to the provider or to the Medicare program. The final settlement incorporates any audit adjustments that the FI may have made to the filed Medicare cost report.

Determination of Profitability and Financial Ratio Analysis

Profitability ratios serve as a measure of a hospital's ability to achieve an excess of revenues over expenditures or, in other words, to provide a return. For hospitals, the ability to provide a return is important to secure the resources necessary to update property, plant, and equipment; implement strategic plans; or make investments. Losses, on the other hand, threaten liquidity, drain other investments, and may threaten the long-term viability of the organization. The

⁴Medicare FIs are private insurance companies that serve as the Federal Government's agents in the administration of the Medicare program, including the payment of claims.

profitability ratios reported here are the patient-related care margin, total margin, Medicare program margin, and Medicaid program margin.

Patient-Related Care Margin

The patient-related care margin measures revenues and expenses related to the day-to-day operations of the facility. In other words, it measures the profitability from patient care operations alone. The revenues and expenses are for all payer types, and the data are obtained from Worksheet G-3 of the Medicare cost report.

We calculated the patient-related care margin using the following formula:

Patient-Related Care Margin =

$$\frac{\text{Total net patient-related care revenues} - \text{Total patient-related care expenses}}{\text{Total net patient-related care revenues}}$$

Total Margin

The total margin measures profitability from all sources of income. The data are obtained from Worksheet G-3 of the Medicare cost report.

We calculated the total margin using the following formula:

$$\text{Total Margin} = \frac{\text{Total revenues}^5 - \text{Total expenses}^6}{\text{Total revenues}}$$

Medicare Program Margin

The Medicare program margin has its basis in payments received from Medicare.⁷ The expenses relate to the expenditures for program services as determined from the Medicare cost report.

We calculated the Medicare program margin using the following formula:

$$\text{Medicare Program Margin} = \frac{\text{Total Medicare payments} - \text{Total Medicare expenses}}{\text{Total Medicare payments}}$$

⁵We included any special Katrina-related payments received after Hurricane Katrina.

⁶Total expenses are patient-related care expenses and all other expenses.

⁷The payments are for all inpatient acute-care and outpatient services. The payments also include payments for any subunits of the hospital, such as a rehabilitation unit, psychiatric unit, and skilled nursing facility, in addition to payments received for items such as disproportionate share and graduate medical education. Medicare Part C (Medicare Advantage) payments are not included.

Medicaid Program Margin

The Medicaid program margin has its basis in payments received from Medicaid.⁸ The expenses relate to the expenditures for program services as determined from the Medicaid cost report.

We calculated the Medicaid program margin using the following formula:

$$\text{Medicaid Program Margin} = \frac{\text{Total Medicaid payments} - \text{Total Medicaid expenses}}{\text{Total Medicaid payments}}$$

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to demonstrate the profitability trend for the five New Orleans hospital groups that testified at the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Oversight and Investigations hearing, on August 1, 2007.

Scope

We reviewed the testifying hospitals' financial records for their FYs 2002 through 2006. Using this timeframe enabled us to gain an understanding of the financial situation of the hospitals by examining profitability trends for several years before the hurricane, the year of the hurricane (FY 2005), and the year after the hurricane. We used the testifying hospitals' latest available Medicare and Medicaid cost reports, as of September 30, 2007, as the basis of our review.

We did not review internal controls because our objective did not require us to do so.

We performed our fieldwork from November through December 2007.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations;
- obtained FYs 2002 through 2006 HCRIS cost report data and used them to determine the testifying hospitals' revenues and expenses;
- obtained FYs 2002 through 2006 HCRIS cost report data and used them to determine the testifying hospitals' Medicare program payments and expenses;

⁸Louisiana had not audited the Medicaid data after FY 2002 for the testifying hospitals. Discussions with the testifying hospitals revealed that the Medicaid data on the Medicare cost report were not always accurate or reliable. Therefore, we obtained the Medicaid cost reports from the State.

- obtained FYs 2002 through 2006 Medicaid cost report data from the States and used the data to determine the testifying hospitals' Medicaid program payments and expenses;
- used hard copies of Medicare cost reports if HCRIS data were unavailable;
- used audited financial statements for periods with apparent errors in the HCRIS data;
- reconciled specific HCRIS data to the appropriate cost report Worksheet;
- identified additional Federal funding sources;
- calculated a patient-related care margin for hospitals using patient-related care data reported by the testifying hospitals in their Medicare cost reports;
- calculated a total margin for hospitals using total expense and revenue data as reported by the testifying hospitals in their Medicare cost reports;
- calculated a Medicare program margin for testifying hospitals using total program payments in relation to program services expenses as reported by the testifying hospitals in their Medicare cost reports;
- calculated a Medicaid program margin for testifying hospitals using total program payments in relation to program services expenses as reported by the testifying hospitals in their Medicaid cost reports; and
- calculated each of these four margins on a cumulative basis, by summing the revenues, payments, and expenses by FY for all the testifying hospitals, and then by applying these sums to the formulas (explained in "Background") for each of these four margins.

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.

SUMMARY FINANCIAL ANALYSES OF THE TESTIFYING HOSPITALS

Each of the individual testifying hospitals had a different profitability trend over the audit period. Margin analysis of the individual testifying hospital results appears in Appendix A.

The following is a review of the testifying hospitals' cumulative results.

- Patient-related care margin:
 - For FYs 2002 and 2003, the testifying hospitals had cumulative positive patient-related care margins.

- For FYs 2004 through 2006, the testifying hospitals had cumulative negative patient-related care margins.
- Total margin:
 - For FYs 2002 and 2003, the testifying hospitals had cumulative positive total margins.
 - For FYs 2004 and 2005, the testifying hospitals had cumulative negative total margins.
 - For FY 2006, the testifying hospitals had a cumulative positive total margin, which included additional funding from Business Interruption insurance payments and additional Federal funding for hurricane damage.⁹
- Medicare program margin:
 - For FY 2002, the testifying hospitals had a cumulative positive Medicare program margin.
 - For FYs 2003 through 2006, the testifying hospitals had cumulative negative Medicare program margins.
- Medicaid program margin:
 - For FYs 2002 through 2006, the testifying hospitals had cumulative negative Medicaid program margins.

A yearly comparison of the profitability margins for each individual facility appears in Appendix B.

PROFITABILITY RATIOS

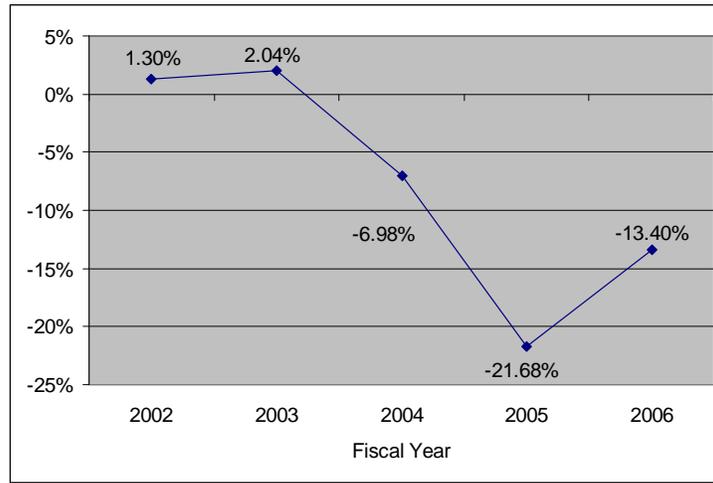
Patient-Related Care Margin

The patient-related care margin measures revenues and expenses related to the day-to-day patient care operations of the facility. The testifying hospitals experienced a cumulative positive patient-related care margin before FY 2004. From FY 2004 forward, the testifying hospitals had a negative cumulative patient-related care margin. See Graph 1.

⁹In the aftermath of the hurricane and under the provisions of section 6201 of the Deficit Reduction Act of 2005, during FY 2006 the testifying hospitals received additional Federal funding of approximately \$39.5 million in the form of uncompensated care payments. In addition, several of the testifying hospitals received Business Interruption and Physical Damage insurance payments totaling approximately \$212.9 million and Federal Emergency Management Agency (FEMA) payments totaling approximately \$12.2 million.

Cumulative Trend

Graph 1: Cumulative Patient-Related Care Margins, FYs 2002–2006



Individual Performance

- Five of the eight testifying hospitals¹⁰ had positive patient-related care margins for FY 2002.
- Three of the eight testifying hospitals had positive patient-related care margins for FY 2003.
- Two of the eight testifying hospitals had positive patient-related care margins for FY 2004.
- None of the eight testifying hospitals had positive patient-related care margins for FY 2005, the year of Hurricane Katrina.
- None of the seven testifying hospitals¹¹ had a positive patient-related care margin for FY 2006.

¹⁰Five testifying hospital groups represented nine hospitals. However, one of those groups, Ochsner Health System, combined two of its hospitals on a single cost report. Thus, our report includes analyses of eight hospitals.

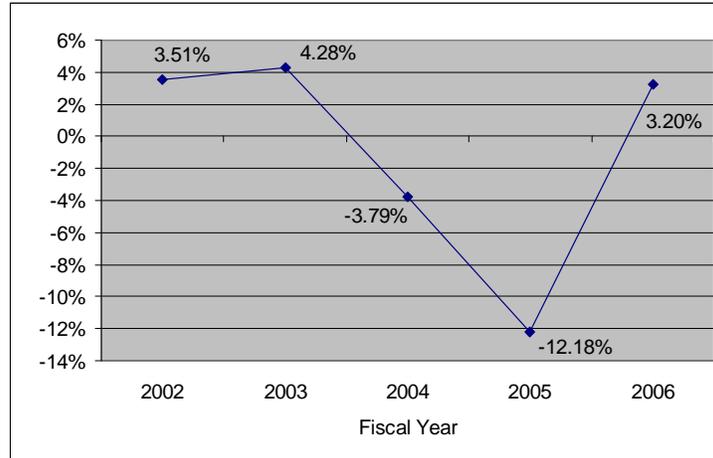
¹¹The 2006 HCRIS data for one testifying hospital were incomplete, and therefore we did not use these data in our analysis.

Total Margin

The testifying hospitals experienced cumulative positive total margins before FY 2004. For FY 2004 and FY 2005, the testifying hospitals had cumulative negative total margins. For FY 2006, the testifying hospitals had a cumulative positive total margin, which included additional funding from Business Interruption insurance payments and additional Federal funding.

Cumulative Trend

Graph 2: Cumulative Total Margins, FYs 2002–2006



Individual Performance

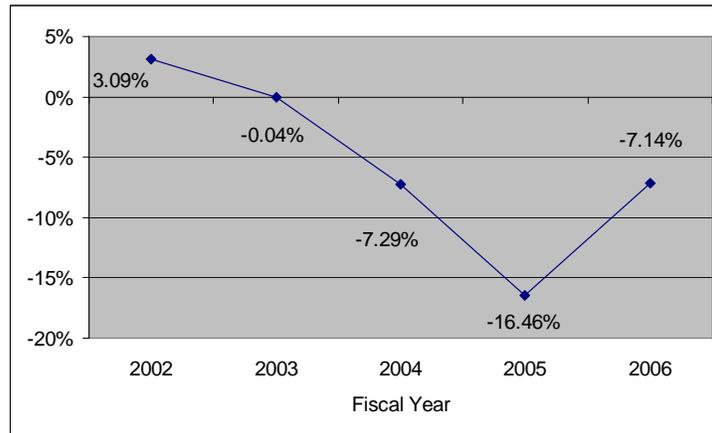
- Six of the eight testifying hospitals had positive total margins for FY 2002.
- Five of the eight testifying hospitals had positive total margins for FY 2003.
- Three of the eight testifying hospitals had positive total margins for FY 2004.
- One of the eight testifying hospitals had a positive total margin for FY 2005.
- Four of the seven testifying hospitals had positive total margins for FY 2006.

Medicare Program Margin

The Medicare program margin has its basis in payments received from Medicare.¹² The expenses relate to the expenditures for Medicare program services as determined from the Medicare cost report. The testifying hospitals experienced a cumulative positive Medicare program margin for FY 2002. For FY 2003 through FY 2006, the testifying hospitals had cumulative negative Medicare program margins.

Cumulative Trend

Graph 3: Cumulative Medicare Program Margins, FYs 2002–2006



Individual Performance

- Five of the eight testifying hospitals had positive Medicare program margins for FY 2002.
- Six of the eight testifying hospitals had positive Medicare program margins for FY 2003.
- Three of the eight testifying hospitals had positive Medicare program margins for FY 2004.
- One of the eight testifying hospitals had a positive Medicare program margin for FY 2005.
- Two of the seven testifying hospitals had positive Medicare program margins for FY 2006.

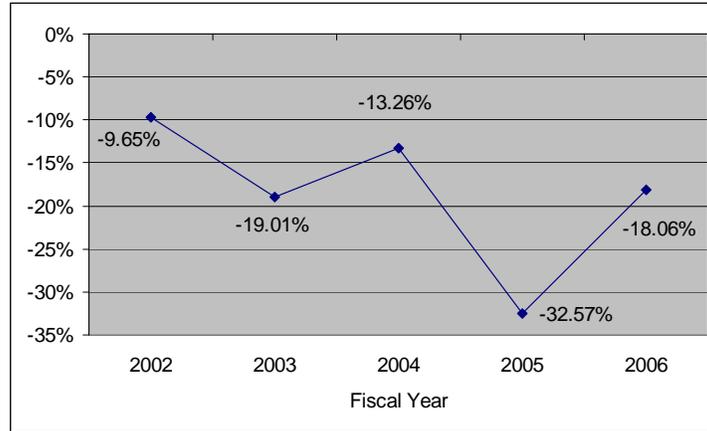
¹²The overall national Medicare margin for Medicare acute Inpatient Prospective Payment System hospitals, per the Medicare Payment Advisory Commission analysis, was 2.4 percent in 2002, -1.3 percent in 2003, -3.0 percent in 2004, -3.0 percent in 2005, and -4.8 percent in 2006.

Medicaid Program Margin

The Medicaid program margin has its basis in payments received from Medicaid. The expenses relate to the expenditures for Medicaid program services as determined from the Medicaid cost report. The testifying hospitals experienced cumulative negative Medicaid program margins for FY 2002 through FY 2006.

Cumulative Trend

Graph 4: Cumulative Medicaid Program Margins, FYs 2002–2006



Individual Performance

- Two of the eight testifying hospitals had positive Medicaid program margins for FY 2002.
- None of the eight testifying hospitals had positive Medicaid program margins for FY 2003.
- Two of the eight testifying hospitals had positive Medicaid program margins for FY 2004.
- One of the eight testifying hospitals had a positive Medicaid program margin for FY 2005.
- None of the seven testifying hospitals had positive Medicaid program margins for FY 2006.

The individual testifying hospital results for the Medicaid program margin analysis appear in Appendix A.

RECOMMENDATION

As this is an informational report, we have no recommendations.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

After receiving our draft report, CMS elected not to comment.

OTHER MATTER

In the aftermath of Hurricane Katrina, the testifying hospitals received additional funding of approximately \$473.7 million, of which \$264.6 million is included in this analysis.¹³

The remaining \$209.1 million was paid in 2007 or consisted of FEMA loans, which were not included in this analysis and can be forgiven in 2009. These funds came from the combination of several different sources:

- Medicaid Disproportionate Share Hospital program payments of \$69.4 million in 2007,
- Wage Index grants of \$29.2 million in 2007,
- FEMA payments of \$6.5 million in 2007,
- FEMA disaster loans of \$91.7 million¹⁴ that are not included in our analysis, and
- Business Interruption insurance payments of \$12.3 million in 2007.

¹³Included in the analysis are uncompensated care payments totaling approximately \$39.5 million, Business Interruption and Physical Damage insurance payments totaling approximately \$212.9 million, and FEMA payments of approximately \$12.2 million.

¹⁴The loan amount was enough to cover the total margin loss in 2005 for East Jefferson General Hospital.

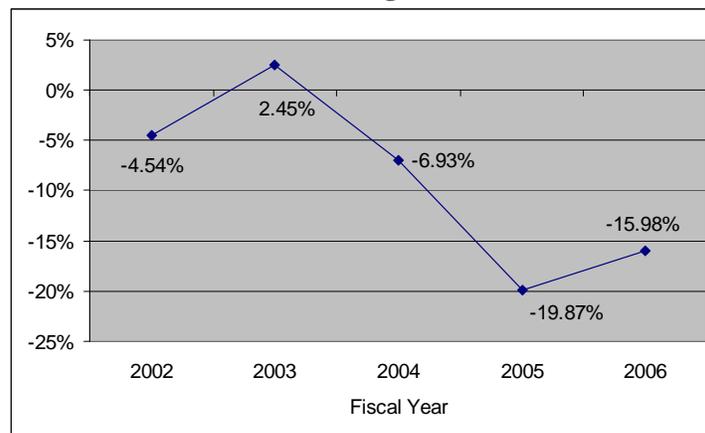
APPENDIXES

INDIVIDUAL TESTIFYING HOSPITAL ANALYSES

East Jefferson General Hospital

For fiscal years (FY) 2002 through 2006, East Jefferson General Hospital¹ (East Jefferson) reported a total of \$1.43 billion in patient-related care expenditures and \$1.35 billion in patient-related care revenues. The patient-related care margin for East Jefferson ranged from -19.87 percent to 2.45 percent during this period. The FY 2006 ratios do not reflect the receipt of a Federal Emergency Management Agency (FEMA) Community Disaster Loan for \$61 million in FY 2006. While this is a loan and while the FY 2006 expenses include accrued interest, this loan can be forgiven in 2009 (Graph A1.1).

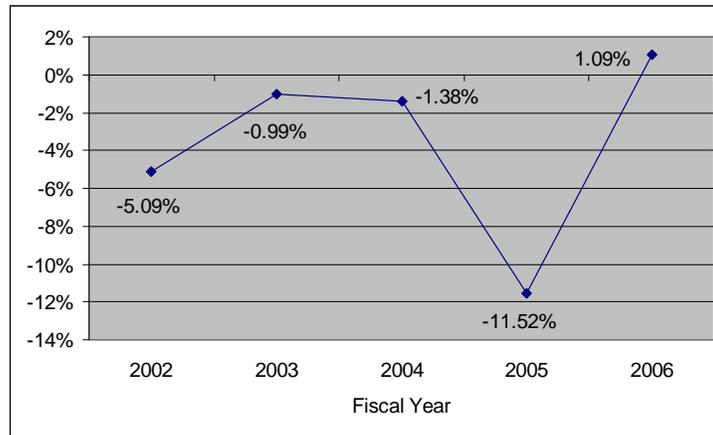
Graph A1.1: Patient-Related Care Margin—East Jefferson General Hospital



¹East Jefferson is a community hospital located in Jefferson Parish. As a result of Hurricane Katrina, the facility incurred some physical damage, but it was one of only three hospitals in the New Orleans metropolitan area to remain open during and after the storm.

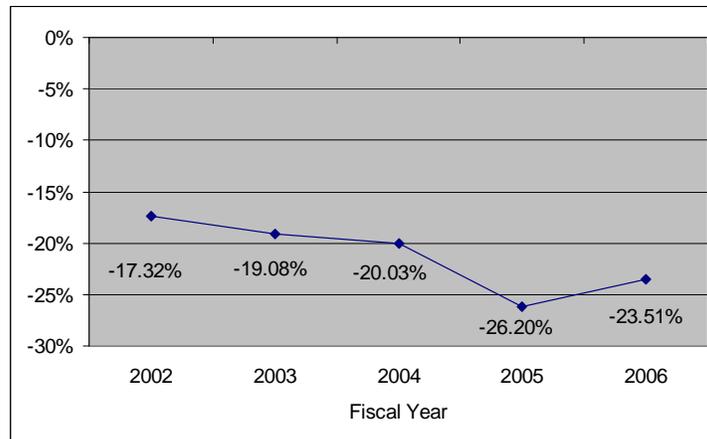
Including other income and expenses in addition to the patient-related care totals, the total margin for the hospital ranged from -11.52 percent to 1.09 percent (Graph A1.2).

Graph A1.2: Total Margin—East Jefferson General Hospital



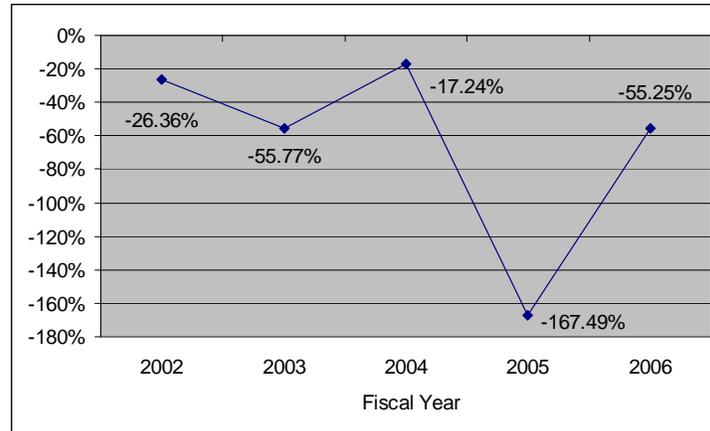
For the review period, East Jefferson reported Medicare program costs totaling \$457.7 million and received payments of \$377.5 million. These figures resulted in a Medicare program margin ranging from -26.20 percent to -17.32 percent (Graph A1.3).

Graph A1.3: Medicare Program Margin—East Jefferson General Hospital



For the review period, East Jefferson reported Medicaid program costs totaling \$93.2 million and received payments of \$56.5 million. These figures resulted in a Medicaid program margin ranging from -167.49 percent to -17.24 percent (Graph A1.4).

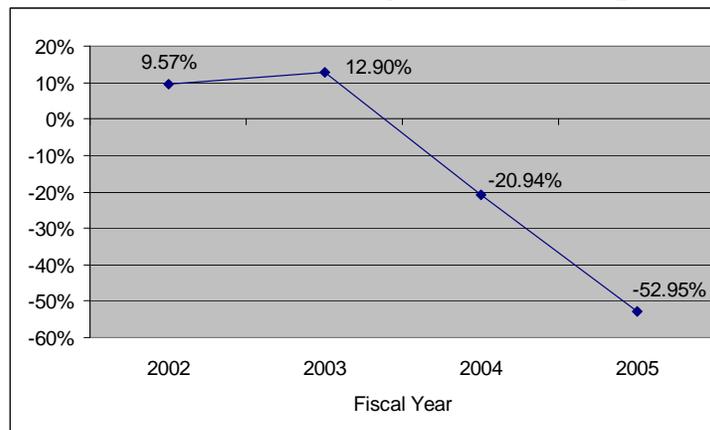
Graph A1.4: Medicaid Program Margin—East Jefferson General Hospital



Ochsner Baptist Medical Center

For FYs 2002 through 2005, Ochsner Baptist Medical Center² (Ochsner Baptist) reported a total of \$1.03 billion in patient-related care expenditures and \$959.7 million in patient-related care revenues.³ The patient-related care margin for Ochsner Baptist ranged from -52.95 percent to 12.90 percent during this period (Graph A2.1).

Graph A2.1: Patient-Related Care Margin—Ochsner Baptist Medical Center

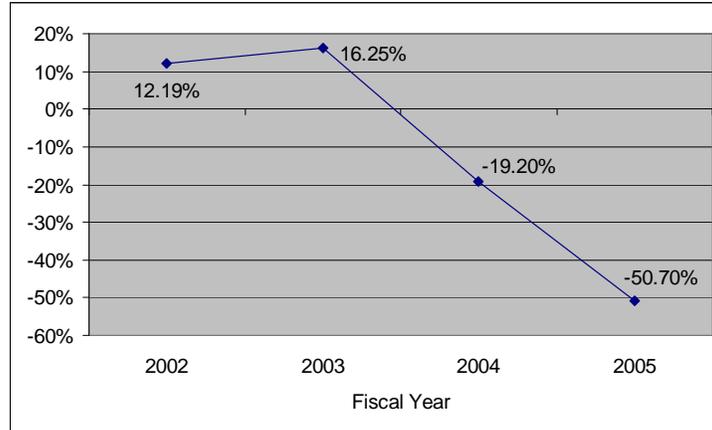


²Previously known as Memorial Medical Center. In October 2006, Ochsner purchased this community hospital from Tenet Healthcare Corporation.

³Because the 2006 Healthcare Cost Report Information System (HCRIS) data were incomplete, we did not use it in our analysis of Ochsner Baptist.

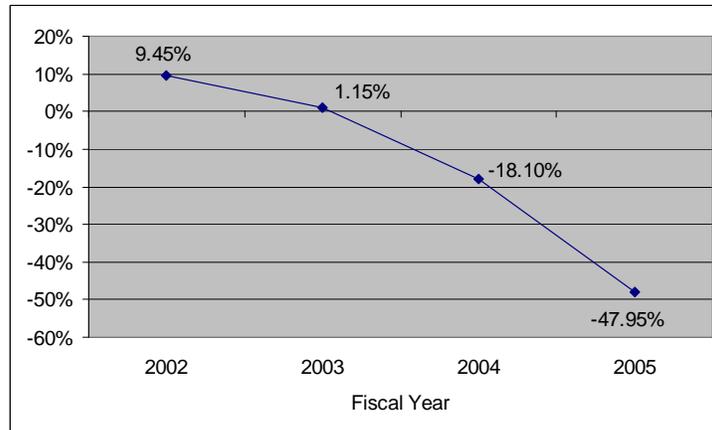
Including other income and expenses in addition to the patient-related care totals, the total margin for Ochsner Baptist ranged from -50.70 percent to 16.25 percent (Graph A2.2).

Graph A2.2: Total Margin—Ochsner Baptist Medical Center



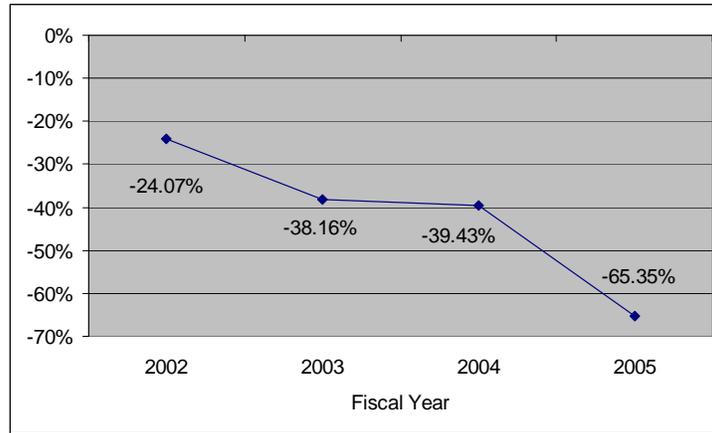
For the review period, Ochsner Baptist reported Medicare program costs totaling \$291.4 million and received payments of \$274.2 million. These figures resulted in a Medicare program margin ranging from -47.95 percent to 9.45 percent (Graph A2.3).

Graph A2.3: Medicare Program Margin—Ochsner Baptist Medical Center



For the review period, Ochsner Baptist reported Medicaid program costs totaling \$84.5 million and received payments of \$61.4 million. These figures resulted in a Medicaid program margin ranging from -65.35 percent to -24.07 percent (Graph A2.4).

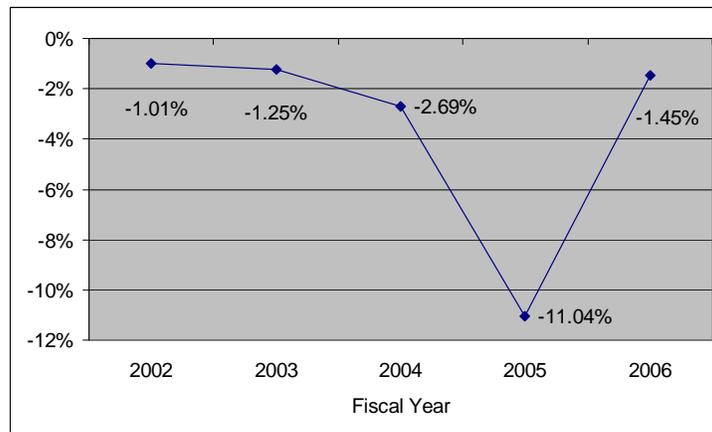
Graph A2.4: Medicaid Program Margin—Ochsner Baptist Medical Center



Ochsner Foundation

For FYs 2002 through 2006, the Ochsner Foundation⁴ reported a total of \$1.92 billion in patient-related care expenditures and \$1.85 billion in patient-related care revenues. The patient-related care margin for the Ochsner Foundation ranged from -11.04 percent to -1.01 percent during this period (Graph A3.1).

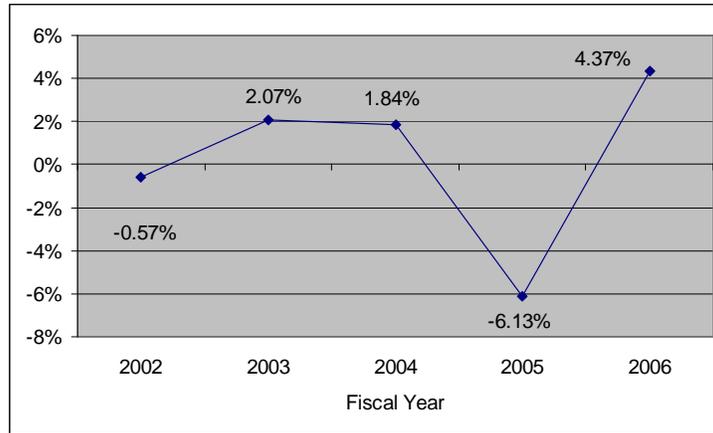
Graph A3.1: Patient-Related Care Margin—Ochsner Foundation



⁴The Ochsner Foundation was one of only three hospitals in the New Orleans metropolitan area to remain open during and after Hurricane Katrina.

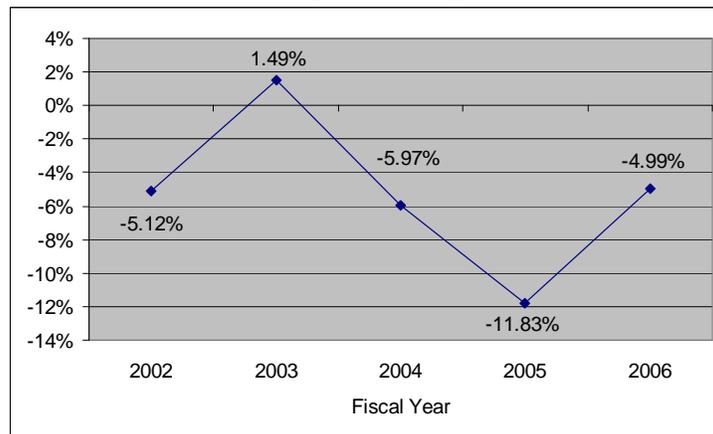
Including other income (such as investment income, rental income, and cafeteria proceeds) and expenses in addition to the patient-related care totals, the total margin for the Ochsner Foundation ranged from -6.13 percent to 4.37 percent (Graph A3.2).

Graph A3.2: Total Margin—Ochsner Foundation



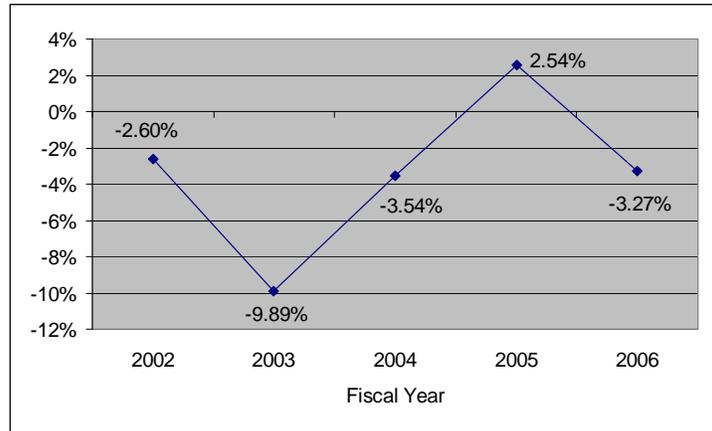
For the review period, the Ochsner Foundation reported Medicare program costs totaling \$362.2 million and received payments of \$343.6 million. These figures resulted in a Medicare program margin ranging from -11.83 percent to 1.49 percent (Graph A3.3).

Graph A3.3: Medicare Program Margin—Ochsner Foundation



For the review period, the Ochsner Foundation reported Medicaid program costs totaling \$152.0 million and received payments of \$146.9 million. These figures resulted in a Medicaid program margin ranging from -9.89 percent to 2.54 percent (Graph A3.4).

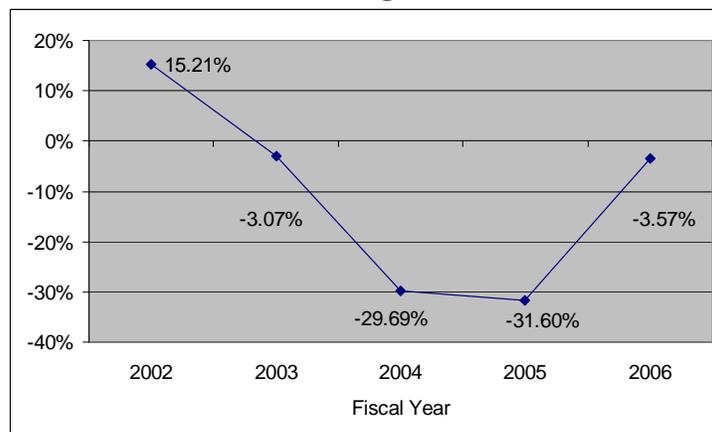
Graph A3.4: Medicaid Program Margin—Ochsner Foundation



Ochsner Kenner Medical Center

For FYs 2002 through 2006, Ochsner Kenner Medical Center⁵ (Ochsner Kenner) reported a total of \$316.6 million in patient-related care expenditures and \$293.1 million in patient-related care revenues. The patient-related care margin for Ochsner Kenner ranged from -31.60 percent to 15.21 percent during this period (Graph A4.1).

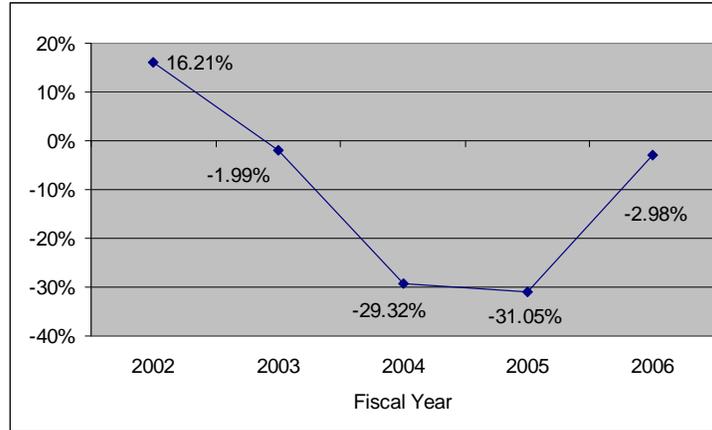
Graph A4.1: Patient-Related Care Margin—Ochsner Kenner Medical Center



⁵Previously known as Kenner Regional Medical Center. In October 2006, Ochsner purchased this community hospital from Tenet Healthcare Corporation.

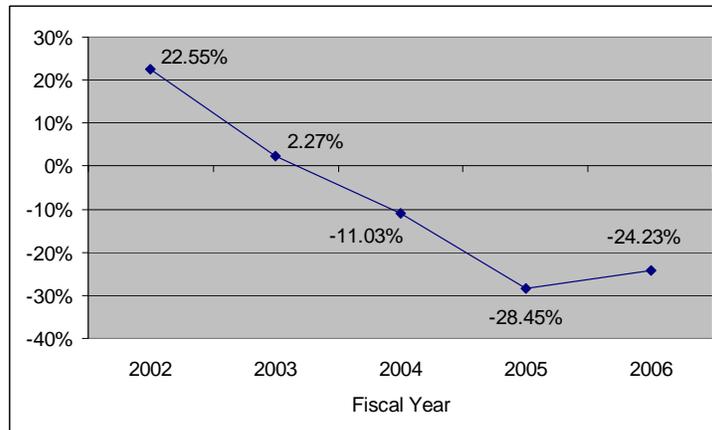
Including other income and expenses in addition to the patient-related care totals, the total margin for Ochsner Kenner ranged from -31.05 percent to 16.21 percent (Graph A4.2).

Graph A4.2: Total Margin—Ochsner Kenner Medical Center



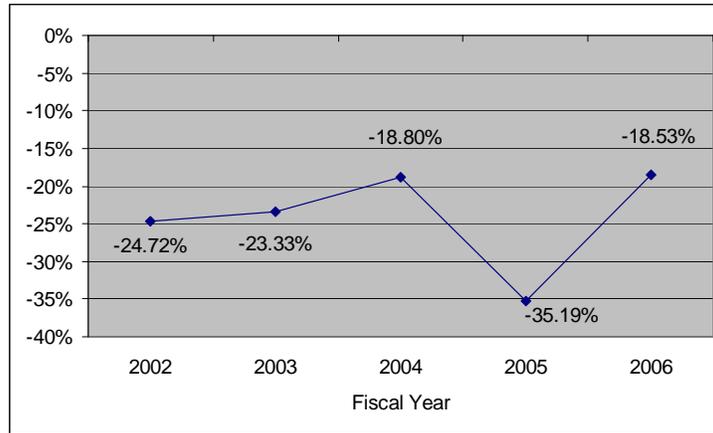
For the review period, Ochsner Kenner reported Medicare program costs totaling \$92.8 million and received payments of \$91.6 million. These figures resulted in a Medicare program margin ranging from -28.45 percent to 22.55 percent (Graph A4.3).

Graph A4.3: Medicare Program Margin—Ochsner Kenner Medical Center



For the review period, Ochsner Kenner reported Medicaid program costs totaling \$43.5 million and received payments of \$35.1 million. These figures resulted in a Medicaid program margin ranging from -35.19 percent to -18.53 percent (Graph A4.4).

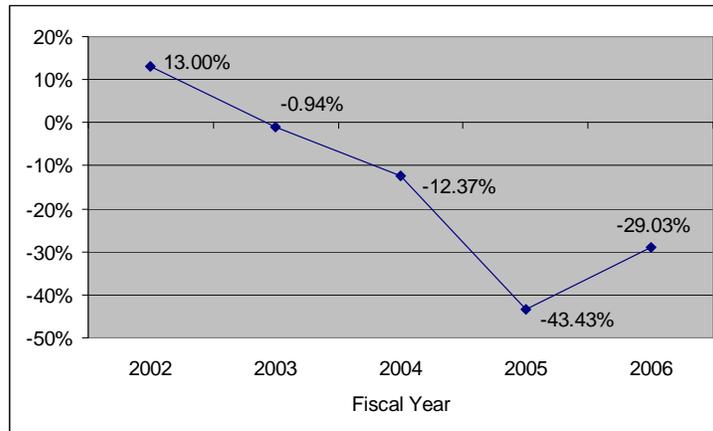
Graph A4.4: Medicaid Program Margin—Ochsner Kenner Medical Center



Ochsner West Bank Medical Center

For FYs 2002 through 2006, Ochsner West Bank Medical Center⁶ (Ochsner West Bank) reported a total of \$406.5 million in patient-related care expenditures and \$368.6 million in patient-related care revenues. The patient-related care margin for Ochsner West Bank ranged from -43.43 percent to 13.00 percent during this period (Graph A5.1).

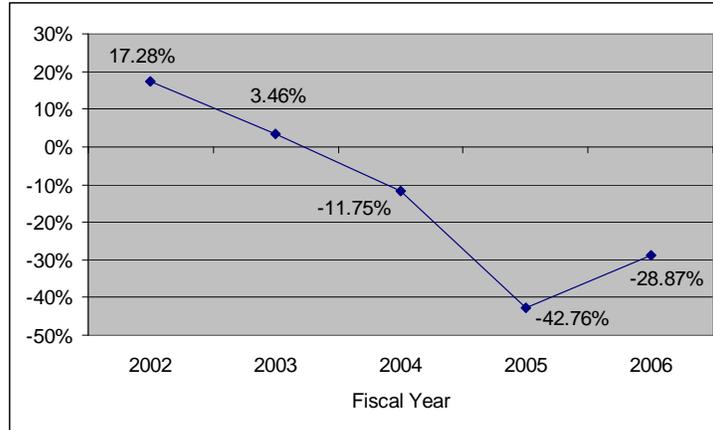
Graph A5.1: Patient-Related Care Margin—Ochsner West Bank Medical Center



⁶Previously known as Meadowcrest Hospital. In October 2006, Ochsner purchased this community hospital from Tenet Healthcare Corporation.

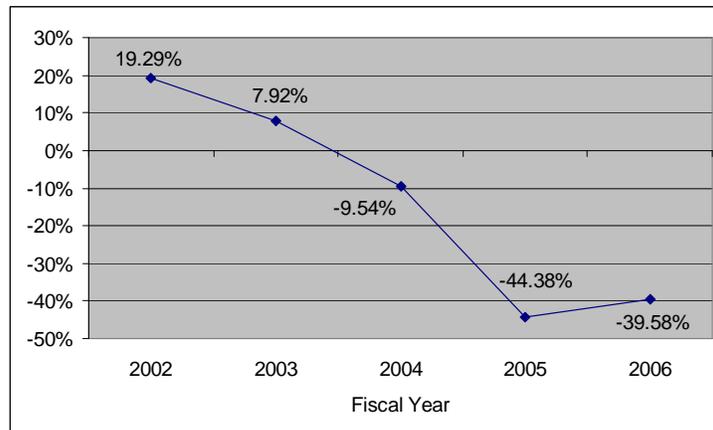
Including other income and expenses in addition to the patient-related care totals, the total margin for Ochsner West Bank ranged from -42.76 percent to 17.28 percent (Graph A5.2).

Graph A5.2: Total Margin—Ochsner West Bank Medical Center



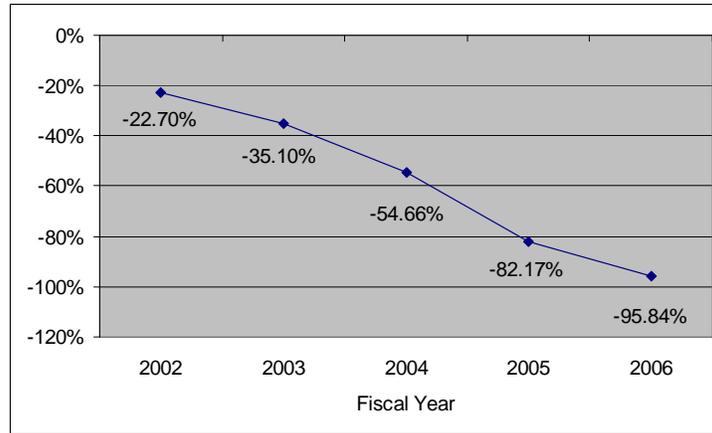
For the review period, Ochsner West Bank reported Medicare program costs totaling \$79.9 million and received payments of \$76.0 million. These figures resulted in a Medicare program margin ranging from -44.38 percent to 19.29 percent (Graph A5.3).

Graph A5.3: Medicare Program Margin—Ochsner West Bank Medical Center



For the review period, Ochsner West Bank reported Medicaid program costs totaling \$83.3 million and received payments of \$54.3 million. These figures resulted in a Medicaid program margin ranging from -95.84 percent to -22.70 percent (Graph A5.4).

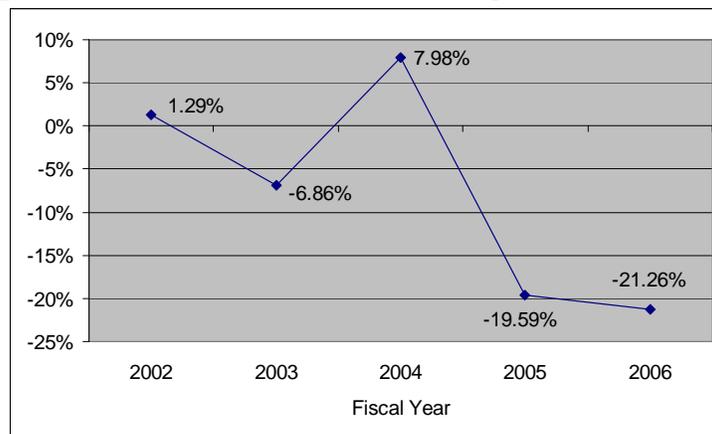
Graph A5.4: Medicaid Program Margin—Ochsner West Bank Medical Center



Touro Infirmary

For FYs 2002 through 2006, Touro Infirmary (Touro)⁷ reported a total of \$773.7 million in patient-related care expenditures and \$720.2 million in patient-related care revenues.⁸ The patient-related care margin for Touro ranged from -21.26 percent to 7.98 percent during this period (Graph A6.1).

Graph A6.1: Patient-Related Care Margin—Touro Infirmary

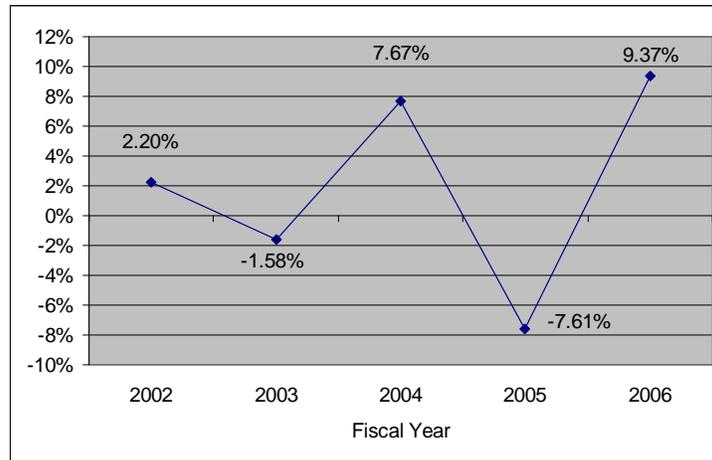


⁷Touro temporarily closed on September 1, 2005, and reopened on September 28, 2005. Touro was the first hospital to reopen in Orleans Parish after the hurricane and was the only adult acute-care hospital in operation in New Orleans for 5 months following the storm.

⁸For FYs 2002 and 2005, we developed patient-related care and total margin calculations using figures from the audited financial statements because of an apparent error in HCRIS data.

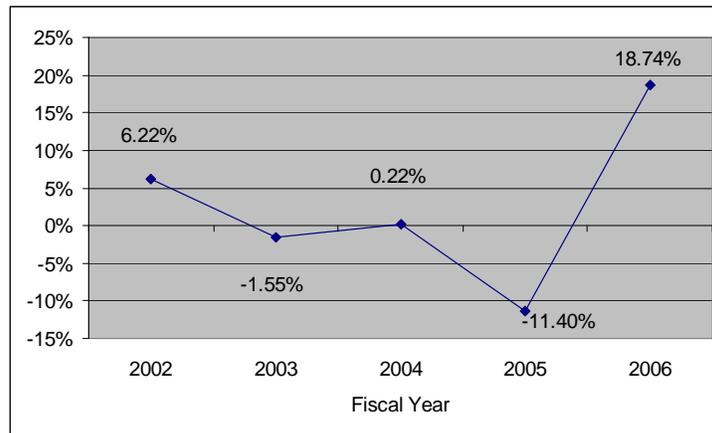
Including other income and expenses in addition to the patient-related care totals, the total margin for the hospital ranged from -7.61 percent to 9.37 percent (Graph A6.2).

Graph A6.2: Total Margin—Touro Infirmary



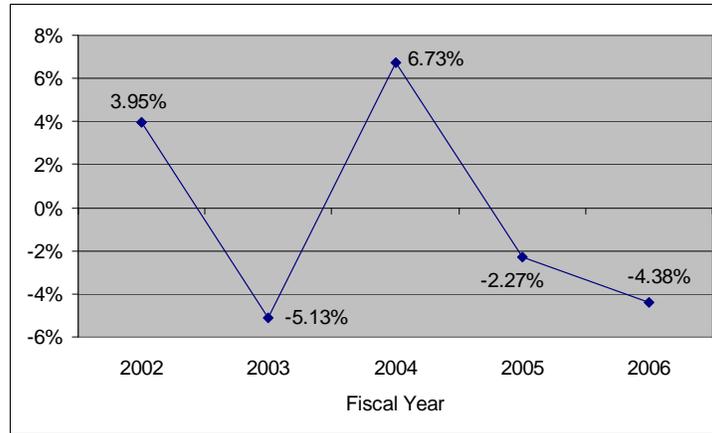
For the review period, Touro reported Medicare program costs totaling \$218.9 million and received payments of \$227.6 million. These figures resulted in a Medicare program margin ranging from -11.40 percent to 18.74 percent (Graph A6.3).

Graph A6.3: Medicare Program Margin—Touro Infirmary



For the review period, Touro reported Medicaid program costs totaling \$147.5 million and received payments of \$147.7 million. These figures resulted in a Medicaid program margin ranging from -5.13 percent to 6.73 percent (Graph A6.4).

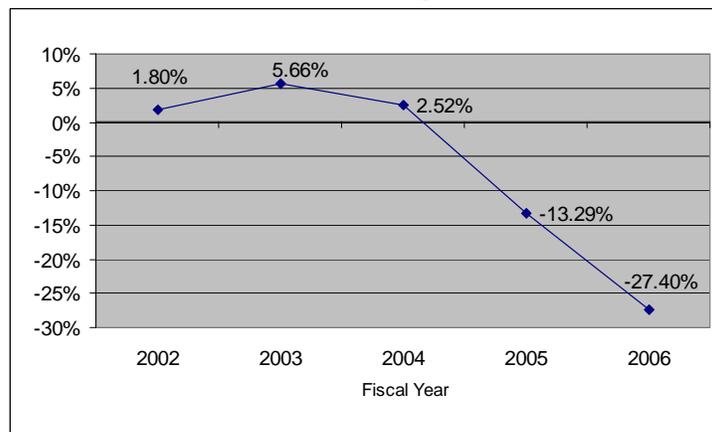
Graph A6.4: Medicaid Program Margin—Touro Infirmary



Tulane University Hospital

For FYs 2002 through 2006, Tulane University Hospital (Tulane)⁹ reported a total of \$1.26 billion in patient-related care expenditures and \$1.21 billion in patient-related care revenues. The patient-related care margin for Tulane ranged from -27.40 percent to 5.66 percent during this period (Graph A7.1).

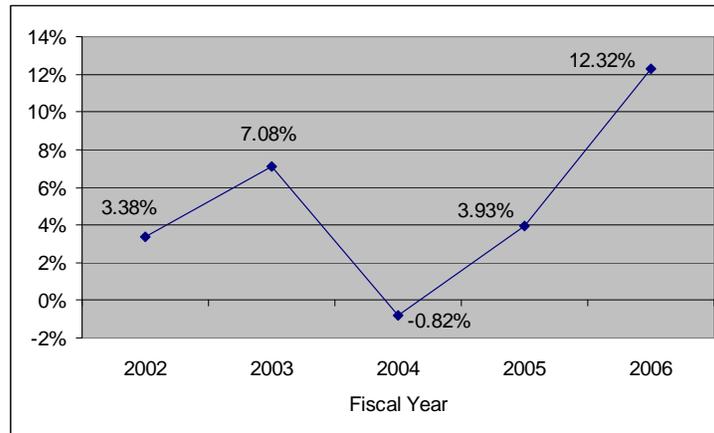
Graph A7.1: Patient-Related Care Margin—Tulane University Hospital



Including other income and expenses in addition to the patient-related care totals, the total margin for Tulane ranged from -0.82 percent to 12.32 percent (Graph A7.2).

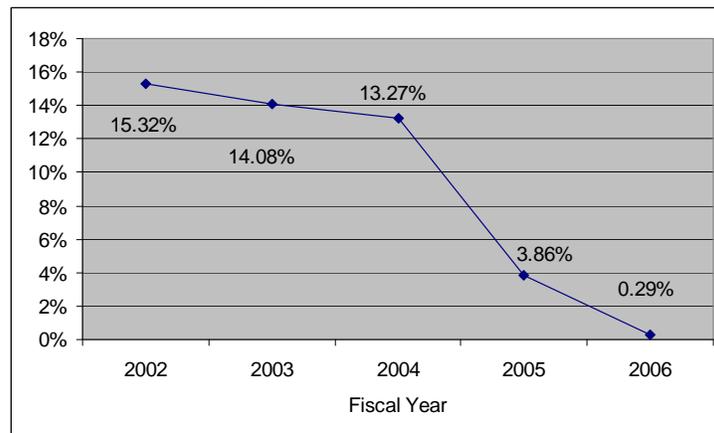
⁹Tulane’s downtown campus was completely evacuated because of the flooding following Hurricane Katrina. On February 15, 2006, after being closed for almost 6 months, Tulane reopened its emergency room, several operating rooms, some of its beds, an adult and pediatric intensive care unit, a pharmacy, and several cardiology laboratories.

Graph A7.2: Total Margin—Tulane University Hospital



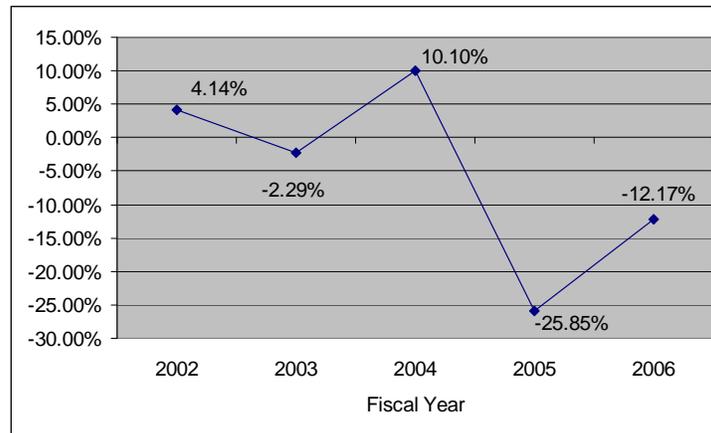
For the review period, Tulane reported Medicare program costs totaling \$249.5 million and received payments of \$278.8 million. These figures resulted in a Medicare program margin ranging from 0.29 percent to 15.32 percent (Graph A7.3).

Graph A7.3: Medicare Program Margin—Tulane University Hospital



For the review period, Tulane reported Medicaid program costs totaling \$217.3 million and received payments of \$207.6 million. These figures resulted in a Medicaid program margin ranging from -25.85 percent to 10.10 percent (Graph A7.4).

Graph A7.4: Medicaid Program Margin—Tulane University Hospital



West Jefferson Medical Center

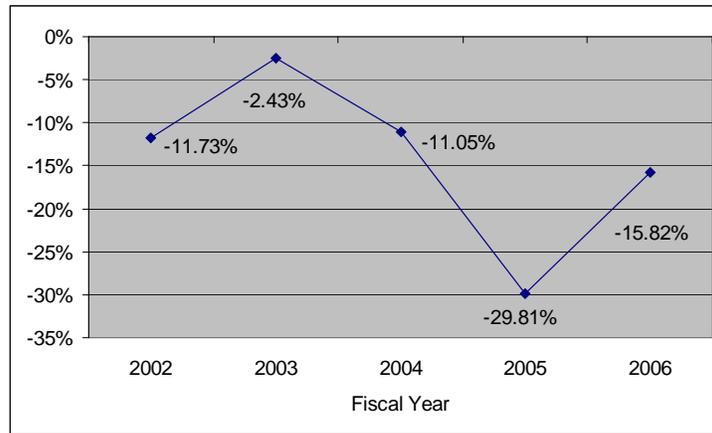
For FYs 2002 through 2006, West Jefferson Medical Center (West Jefferson)¹⁰ reported a total of \$964.9 million in patient-related care expenditures and \$846.9 million in patient-related care revenues.¹¹ The patient-related care margin for West Jefferson ranged from -29.81 percent to -2.43 percent during this period. The FY 2006 ratios do not reflect the receipt of a FEMA

¹⁰West Jefferson is a community hospital located 10 miles from downtown New Orleans. It was one of only three hospitals in the New Orleans metropolitan area to remain open during and after Hurricane Katrina.

¹¹For FY 2003, we calculated patient-related care and total margins using figures from the audited financial statements because of an apparent error in the HCRIS data.

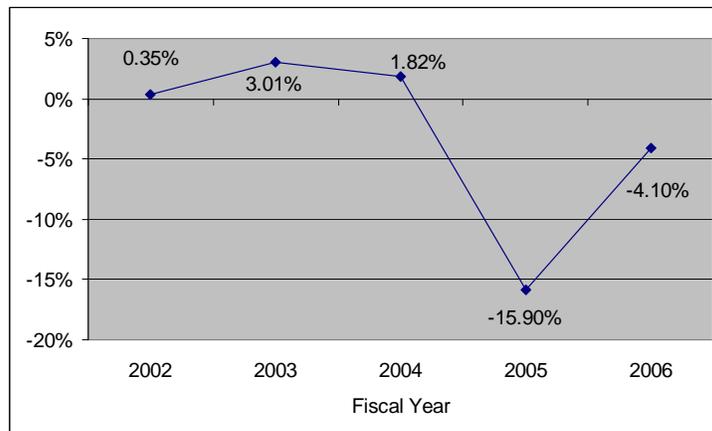
Community Disaster Loan for \$30.7 million in FY 2006. While this is a loan and the FY 2006 expenses include accrued interest, this loan can be forgiven in 2009 (Graph A8.1).

Graph A8.1: Patient-Related Care Margin—West Jefferson Medical Center



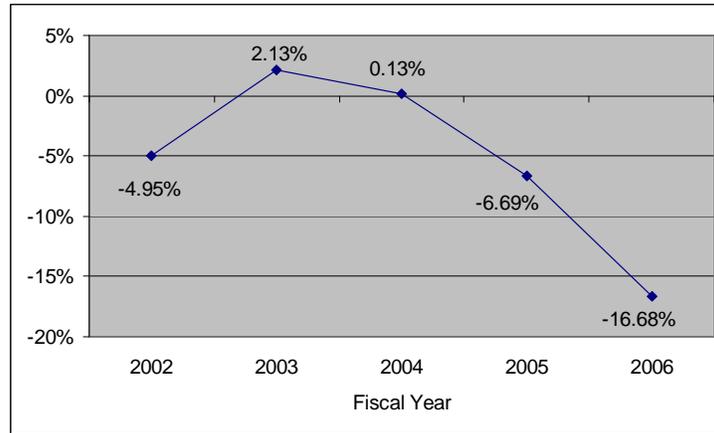
Including other income and expenses in addition to the patient-related care totals, the total margin for the hospital ranged from -15.90 percent to 3.01 percent (Graph A8.2).

Graph A8.2: Total Margin—West Jefferson Medical Center



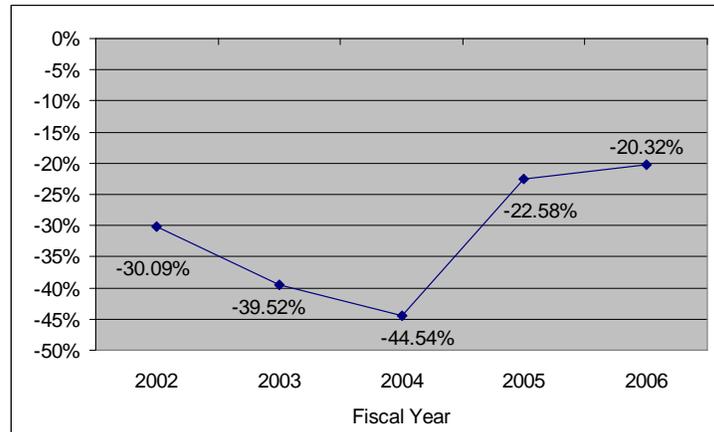
For the review period, West Jefferson reported Medicare program costs totaling \$227.2 million and received payments of \$215.6 million. These figures resulted in a Medicare program margin ranging from -16.68 percent to 2.13 percent (Graph A8.3).

Graph A8.3: Medicare Program Margin—West Jefferson Medical Center



For the review period, West Jefferson reported Medicaid program costs totaling \$154.7 million and received payments of \$116.3 million. These figures resulted in a Medicaid program margin ranging from -44.54 percent to -20.32 percent (Graph A8.4).

Graph A8.4: Medicaid Program Margin—West Jefferson Medical Center



INDIVIDUAL TESTIFYING HOSPITAL MARGIN SUMMARIES

The patient-related care margin and total margin tables below present yearly profitability margins in percentages and the profit/loss in dollars for each individual facility.

Patient-Related Care Margin

Facility	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
East Jefferson	-4.54% (\$11,637,653)	2.45% \$6,607,704	-6.93 (\$18,125,091)	-19.87% (\$49,339,097)	-15.98% (\$43,941,295)
Ochsner Baptist	9.57% \$25,836,518	12.90% \$33,378,047	-20.94% (\$66,708,164)	-52.95% (\$59,546,625)	N/A
Ochsner Foundation	-1.01% (\$3,227,280)	-1.25% (\$4,527,173)	-2.69% (\$10,156,444)	-11.04% (\$40,065,970)	-1.45% (\$6,276,304)
Ochsner Kenner	15.21% \$10,572,161	-3.07% (\$2,476,511)	-29.69% (\$13,998,788)	-31.60% (\$16,014,774)	-3.57% (\$1,614,730)
Ochsner West Bank	13.00% \$10,264,817	-0.94% (\$1,063,422)	-12.37% (\$9,177,904)	-43.43% (\$24,930,120)	-29.03% (\$12,916,671)
Touro	1.29% \$1,818,019	-6.86% (\$9,344,500)	7.98% \$12,534,733	-19.59% (\$26,022,730)	-21.26% (\$32,497,754)
Tulane	1.80% \$4,535,307	5.66% \$15,631,108	2.52% \$6,917,902	-13.29% (\$30,012,380)	-27.40% (\$49,137,596)
West Jefferson	-11.73% (\$18,168,416)	-2.43% (\$4,146,485)	-11.05% (\$18,137,425)	-29.81% (\$44,809,658)	-15.82% (\$32,718,237)
Cumulative	1.30%	2.04%	-6.98%	-21.68%	-13.40%

Total Margin

Facility	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
East Jefferson	-5.09% (\$14,079,417)	-0.99% (\$2,817,650)	-1.38 (\$3,796,776)	-11.52% (\$30,750,014)	1.09% \$3,498,773
Ochsner Baptist	12.19% \$33,950,495	16.25% \$43,716,429	-19.20% (\$62,040,694)	-50.70% (\$57,868,266)	N/A
Ochsner Foundation	-0.57% (\$1,814,052)	2.07% \$7,752,140	1.84% \$7,260,167	-6.13% (\$23,264,742)	4.37% \$20,065,880
Ochsner Kenner	16.21% \$11,405,742	-1.99% (\$1,618,970)	-29.32% (\$13,862,865)	-31.05% (\$15,804,579)	-2.98% (\$1,353,265)
Ochsner West Bank	17.28% \$14,355,100	3.46% \$4,107,326	-11.75% (\$8,764,272)	-42.76% (\$24,662,272)	-28.87% (\$12,861,381)
Touro	2.20 \$3,277,722	-1.58% (\$2,260,072)	7.67% \$13,258,040	-7.61 (\$11,658,988)	9.37% \$18,939,555
Tulane	3.38% \$8,641,117	7.08% \$19,857,453	-0.82% (\$2,301,535)	3.93% \$11,214,759	12.32% \$32,106,959
West Jefferson	0.35% \$604,808	3.01 \$5,577,104	1.82% \$3,526,279	-15.90% (\$28,044,286)	-4.10% (\$9,887,352)
Cumulative	3.51%	4.28%	-3.79%	-12.18%	3.20%

The Medicare program margin and Medicaid program margin tables below present yearly profitability margins in percentages and the difference between total program payments and total program expenses.

Medicare Program Margin

Facility	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
East Jefferson	-17.32% (\$12,399,476)	-19.08% (\$14,435,253)	-20.03% (\$16,732,411)	-26.20% (\$20,488,580)	-23.51% (\$16,112,675)
Ochsner Baptist	9.45% \$8,030,904	1.15% \$934,289	-18.10% (\$15,544,987)	-47.95% (\$10,598,871)	N/A
Ochsner Foundation	-5.12% (\$2,737,810)	1.49% \$979,250	-5.97% (\$4,304,425)	-11.83% (\$8,549,904)	-4.99% (\$3,988,335)
Ochsner Kenner	22.55% \$5,748,348	2.27% \$629,584	-11.03% (\$1,879,838)	-28.45% (\$3,573,788)	-24.23% (\$2,128,809)
Ochsner West Bank	19.29% \$3,422,668	7.92% \$1,883,747	-9.54% (\$1,563,943)	-44.38% (\$4,598,956)	-39.58% (\$3,042,153)
Touro	6.22% \$2,723,786	-1.55% (\$670,876)	0.22% \$100,244	-11.40% (\$4,262,607)	18.74% \$10,875,787
Tulane	15.32% \$9,287,808	14.08% \$9,580,601	13.27% \$8,555,340	3.86% \$1,798,135	0.29% \$113,783
West Jefferson	-4.95% (\$1,866,295)	2.13% \$921,016	0.13% \$58,141	-6.69% (\$2,912,142)	-16.68% (\$7,737,837)
Cumulative	3.09%	-0.04%	-7.29%	-16.46%	-7.14%

Medicaid Program Margin

Facility	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
East Jefferson	-26.36% (\$2,327,177)	-55.77% (\$5,582,973)	-17.24% (\$2,125,639)	-167.49% (\$18,819,813)	-55.25% (\$7,791,408)
Ochsner Baptist	-24.07% (\$2,948,215)	-38.16% (\$4,099,155)	-39.43% (\$9,974,622)	-65.35% (\$6,077,238)	N/A
Ochsner Foundation	-2.60% (\$1,160,540)	-9.89% (\$2,878,110)	-3.54% (\$936,957)	2.54% \$615,415	-3.27% (\$733,324)
Ochsner Kenner	-24.72% (\$1,520,312)	-23.33% (\$2,301,794)	-18.80% (\$1,439,818)	-35.19% (\$2,277,768)	-18.53% (\$911,592)
Ochsner West Bank	-22.70% (\$2,342,098)	-35.10% (\$5,597,097)	-54.66% (\$6,176,531)	-82.17% (\$7,358,753)	-95.84% (\$7,473,044)
Touro	3.95% \$987,379	-5.13% (\$847,167)	6.73% \$2,496,532	-2.27% (\$657,683)	-4.38% (\$1,757,564)
Tulane	4.14% \$1,291,706	-2.29% (\$1,130,141)	10.10% \$4,718,956	-25.85% (\$9,082,535)	-12.17% (\$5,492,537)
West Jefferson	-30.09% (\$7,862,436)	-39.52% (\$9,723,467)	-44.54% (\$12,529,846)	-22.58% (\$7,176,040)	-20.32% (\$1,148,206)
Cumulative	-9.65%	-19.01%	-13.26%	-32.57%	-18.06%