DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

MAY - 9 2008

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 Touro Infirmary (A-06-08-00012)

Attached is an advanced copy of our final report on expenses and revenues presented in congressional testimony by Touro Infirmary (the hospital). We will issue this report to Touro Infirmary within 5 business days. The U.S. House of Representatives Committee on Energy and Commerce requested that we perform this review.

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. Touro Infirmary 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 its financial records.

The hospital's expenses presented in the testimony were generally accurate and supported by its financial records. However, the hospital's revenue as described in the testimony for the first 5 months of 2007 did not include $3.9 million of revenue that it received during this period. The hospital received $2,653,257 in a Medicare Wage Index Stabilization grant during the first 5 months of 2007. The Louisiana Hospital Association removed this amount when compiling the testimony data and referenced the grant amount in an explanatory note. The hospital also received additional insurance and Federal Emergency Management Agency proceeds totaling $20,000 and $1,190,283, respectively.

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.

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-06-08-00012.

Attachment

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

MAY 12 2008

Report Number: A-06-08-00012

Mr. Leslie D. Hirsch
Chief Executive Officer
Touro Infirmary
1401 Foucher Street
New Orleans, Louisiana 70115

Dear Mr. Hirsch:

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 Touro Infirmary." 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 Mark Ables, Audit Manager, at (214) 767-8203 or through e-mail at Mark.Ables@oig.hhs.gov. Please refer to report number A-06-08-00012 in all correspondence.

Sincerely,

Gordon L. Sato

Gordon L. Sato
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
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF EXPENSES AND REVENUES PRESENTED IN CONGRESSIONAL TESTIMONY BY TOURO INFIRMARY

Daniel R. Levinson
Inspector General

May 2008
A-06-08-00012

Office of Inspector General

http://oig.hhs.gov

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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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
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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, 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 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.

Touro Infirmary (the hospital), one of the hospitals whose financial information was presented in the congressional hearing, is a 248-bed, not-for-profit, faith-based community teaching hospital with a fiscal year end of December 31, located in Orleans Parish. The hospital temporarily closed on September 1, 2005, 3 days after Katrina, and reopened on September 28, 2005. According to hospital officials, the hospital was abandoned when the generator and water system failed, food became scarce, and flooding occurred around the building. The hospital also operated a separately licensed 58-bed rehabilitation facility. The hospital's portion of the financial data presented in the hearing is in Appendix A.

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 its financial records.

SUMMARY OF FINDINGS

The hospital's expenses presented in the testimony were generally accurate and supported by its financial records. However, the hospital's revenue as described in the testimony for the first 5 months of 2007 did not include $3.9 million of revenue that it received during this period.

RECOMMENDATIONS

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

TOURO INFIRMARY COMMENTS

In its written comments on our draft report, the hospital agreed with the results of our review. The hospital's comments are included in their entirety as Appendix D.

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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 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, 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 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.

Touro Infirmary

Touro Infirmary (the hospital), one of the hospitals whose financial information was presented in the congressional hearing, is a 248-bed, not-for-profit, faith-based community teaching hospital with a fiscal year (FY) end date of December 31, located in Orleans Parish. The hospital temporarily closed on September 1, 2005, 3 days after Katrina, and reopened on September 28, 2005. According to hospital officials, the hospital was abandoned when the generator and water system failed, food became scarce, and flooding occurred around the building. The hospital also operated a separately licensed 58-bed rehabilitation facility. The hospital's portion of the financial data presented in the hearing is in Appendix A.

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 its 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 through December 2007.

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 for 2005 and 2007 presented in the hospital's testimony to determine whether the increase in these costs was principally due to a substantial growth in wage-related costs for health care professionals;

- obtained 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 $3.9 million of revenue.

EXPENSES

Salary and Contract Labor Expense

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 $29.5 million for the first 5 months of 2005 and $37.1 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 expenses between the amounts shown in the testimony and the amounts supported in the hospital's financial records. We also reclassified amounts from other operating expense to contract labor expense. Specifically, we reclassified contracted labor costs totaling $1.0 million in 2005 and $4.1 million in 2007 (testimony amounts). Our restatement of the expenses is shown in Appendix B. Whereas the hospital's reported amounts represent an increase of $7.6 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 $10.7 million.

Causes of Increase in Costs

Consistent with the hospital's testimony, increases in the hospital's costs of recruiting and retaining doctors and nurses and hiring contract health care professionals were the primary causes of the $10.7 million increase in salary and contract labor costs. Of the $10.7 million increase, $8.7 million was attributed to health care professionals. The factors that led to these changes in wage-related costs were (1) increased hiring of salaried nurses accompanied by a decrease in the number of salaried physicians and non-health-care personnel on staff, (2) additional use of contract labor services for doctors and nurses, 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:

- While the number of salaried nurses hired by the hospital increased by 46 FTE employees, or approximately 12 percent, the number of salaried physicians decreased by 11 FTE employees, or approximately 34 percent. As a result, we estimated a $0.2 million decrease in the overall cost of hiring salaried health care professionals. Additionally, we estimated a $0.5 million decrease in the overall cost of hiring salaried non-health-care personnel.

- The hospital increased its use of contract health care professionals, particularly nurses and physicians. Specifically, the hospital contracted an additional 58 nurses and 33 physicians, for an increase of approximately 79,460 contract labor hours between the first 5 months of 2005 and the first 5 months of 2007. We estimated that approximately $5 million of the $10.7 million increase was due to this increase in contract labor services for health care professionals, accompanied by a $0.2 million decrease in contract labor services for non-health-care professionals.

- The hospital's average hourly wage rates increased from $20.91 to $23.94 for all salaried employees and from $35.41 to $60.64 for contract labor services. The hospital's overall average hourly wage rate increased from $21.52 to $27.61, or approximately 28 percent, between the first 5 months of 2005 and the first 5 months of 2007. We estimated that approximately $6.6 million of the $10.7 million increase was due to an increase in the hospital's average hourly wage rates. Further, we estimated that $3.9 million of the $6.6 million was due to an increase in the average hourly wage rates for health care professionals.

We found that the hospital's patient volume and utilization of services decreased during the testimonial period (Appendix C), even though the number of contract physicians and salaried and contract nurses that the hospital employed increased. Some of the contract physicians may have been hired to replace the 11 salaried physicians who left the area. Hospital officials stated that it was necessary to hire contract physicians because the pool of qualified physicians in specialized areas, such as anesthesiology and radiology, was small and many of these physicians would no longer accept salaried positions. In addition, according to the hospital official's testimony, the hospital doubled the number of contracted physicians in its residency training program by absorbing resident physicians from surrounding hospitals that closed after the hurricane. The official stated that this expansion was necessary to help protect the future of graduate medical education in New Orleans. During our review, hospital officials also told us that the increase in hiring salaried nurses was due to an aggressive recruiting and retention program aimed at strengthening its nursing staff. Hospital officials stated that the new nurses they hired were recent graduates who needed several months of orientation before they would be ready for regular nursing duties. For this reason, the hospital hired contract nurses to provide patient care during that time. The hospital expects to reduce its contract labor costs as salaried nurses complete the orientation.

Utilities Expense

As stated in the testimony, the hospital's utility expense, which included electricity, water, and gas, increased from $1 million to $1.6 million (49 percent) between the first 5 months of 2005 and the first 5 months of 2007. We judgmentally selected for review invoices for the electric and water companies from each period. The sampled invoices accounted for 36 percent of the 2005 and 41 percent of the 2007 utility expenses. Utility expenses increased because of a rise in the fuel adjustment rate on the electricity bill and an increase in water consumption. The invoices we reviewed were properly recorded in the hospital's financial records.

However, we noted water consumption (in gallons) increased 155 percent between May 2005 and May 2007. Working with hospital officials, we found an issue with one of the hospital's water meters. As a result, Touro determined it was overbilled during a 2-year period by the city's sewerage and water board and has estimated a refund due to them of between $275,000 and $425,000.

Insurance Expense

As stated in the testimony, the hospital's insurance expenses increased from $1.6 million to $2.3 million (48 percent) between the first 5 months of 2005 and the first 5 months of 2007. Commercial property insurance accounted for 86 percent of the increase between the 2005 and 2007 insurance expenses. We did not sample any policies from 2005 because there was only one main commercial property insurance policy during that period. We judgmentally selected commercial insurance policies to review that accounted for 54 percent of the 2007 total commercial property insurance expenses. The hospital's property insurance premium expenses increased 183 percent because its insurance broker had to purchase policies from the secondary market to maintain adequate coverage. The invoices we reviewed were properly recorded in the hospital's financial records.

Depreciation and Amortization Expense

As stated in the testimony, the hospital's depreciation expenses increased from $4.5 million to $5.2 million (16 percent) between the first 5 months of 2005 and the first 5 months of 2007. The hospital depreciated property, plant, and equipment, which included all medical equipment, office equipment, furniture, capital leases, and land improvements. The hospital estimated its depreciation expense during the year and reconciled the amount to its financial records at the close of the FY. We verified the testimony amounts against the hospital's financial records. Because of the hospital's depreciation methodology and the minimal increase between the testimonial periods, we did not perform detailed testing.

Bad Debts Expense

As stated in the testimony, hospital bad debts decreased from $4.5 million to $3.8 million (15 percent) between the first 5 months of 2005 and the first 5 months of 2007. We verified the testimony amounts against the hospital's financial records. The hospital did not receive Medicaid Disproportionate Share program payments during the first 5 months of 2005. We verified that $3.8 million of bad debt expense in the 2007 testimony reflected the receipt of $4.0 million in Medicaid Disproportionate Share program payments that the hospital received in February 2007. Because of the decrease in the hospital's stated bad debt expense between the first 5 months of 2005 and the first 5 months of 2007, we did not perform detailed testing.

Other Operating Expenses

As stated in the testimony, the hospital's other operating expenses, which included contracts for computer services, anesthesiology, and radiology in addition to physician labor costs and consulting fees, increased from $8.5 million to $15.8 million (87 percent) between the first 5 months of 2005 and the first 5 months of 2007. We judgmentally selected for review all other operating expenses that increased more than $50,000 between the testimonial periods. We specifically reviewed the three accounts that had the biggest increases, which accounted for 58 percent of the total 2007 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 and contractual services. We reclassified contract labor amounts from other operating expenses to contract labor expenses.

REVENUE

Revenues Included in Testimony

The hospital's financial data presented in the testimony showed that the hospital's total operating revenue increased from $75.0 million to $81.3 million (8.3 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 $71.5 million for the first 5 months of 2005 and $77.6 million for the first 5 months of 2007, for an increase of $6.1 million (8.5 percent). According to hospital officials, this increase can mainly be attributed to the hospital serving Medicare Managed Care patients displaced from local area hospitals closed as a result of the hurricane.

Revenues Received During Testimonial Periods Not Included in Testimony

The hospital received $3,863,540 of revenue in the testimony period for the first 5 months of 2007 that was not included in the hospital's 2007 testimonial revenue. As noted in the testimony, Wage Index Stabilization grant funds were not included. Touro officials did not include additional insurance and Federal Emergency Management Agency proceeds because the presentation format did not provide for inclusion of these funds. The adjusted other operating revenue amount is shown in Appendix B.

The hospital received $2,653,257 in a Medicare Wage Index Stabilization grant during the first 5 months of 2007. This grant from the Department of Health and Human Services was intended to compensate the hospital for its Katrina-related increased labor costs.

The hospital received additional insurance and Federal Emergency Management Agency proceeds totaling $20,000 and $1,190,283, respectively.

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 written off by the hospital as a 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.

Touro Infirmary'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	30.4	24.0	-6.4
Medicare/Medicaid dual eligible	10.4	7.1	-3.3
Medicare Managed Care[1]	4.9	18.9	14.0
Commercial fee-for-service	0.8	0.8	0
Commercial Managed Care	26.2	23.2	-3.0
Medicaid	19.1	18.5	-0.6
Other	5.2	4.0	-1.2
Uninsured/self-pay	3.0	3.5	0.5

RECOMMENDATIONS

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

TOURO INFIRMARY COMMENTS

In its written comments on our draft report, the hospital agreed with the results of our review. The hospital's comments are included in their entirety as Appendix D.

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.

We found that certain costs that were supported by the hospital's financial records and included in its 2005 testimonial amounts were incorrectly reported as wage data in its 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 severance pay without recording the required hours. Understated hours result in overstated average

[1]In 2007, the hospital was serving Medicare Managed Care patients displaced from local area hospitals that closed as a result of the hurricane.

hourly wage rates. 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 within this geographical area 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

APPENDIX A

REVENUES AND EXPENSES AS STATED IN TESTIMONY

	January–May 2005	January–May 2007	Percentage Change
REVENUES			
Total Net Patient Revenue	$71,537,574	$77,604,928	8.48%
Other Operating Revenue	3,543,119	3,715,806	4.87%
Total Operating Revenue	**$75,080,693**	**$81,320,734**	**8.31%**
EXPENSES			
Salaries			
Nursing	10,369,248	12,990,329	25.28%
Physician	1,573,551	1,405,042	-10.71%
Other	16,462,240	17,734,094	7.73%
	28,405,039	32,129,465	13.11%
Contract Labor			
Nursing	828,286	4,209,707	408.24%
Physician	0	0	0%
Other	238,676	758,341	217.73%
	1,066,962	4,968,048	365.63%
Employee Benefits	4,728,789	5,249,354	11.01%
Supplies	13,462,855	14,581,819	8.31%
Utilities	1,078,267	1,605,145	48.86%
Insurance	1,576,019	2,329,817	47.38%
Interest Expense	2,530,047	2,376,107	-6.08%
Depreciation and Amortization	4,532,400	5,234,814	15.50%
Bad Debts	4,512,729	3,829,964	-15.13%
Other Operating Expenses	8,480,163	15,844,273	86.84%
Total Operating Expenses	**$70,373,270**	**$88,148,806**	**25.26%**
Net Gain/Loss From Operations	**$4,707,423**	**($6,828,072)**	**-245.05%**

APPENDIX B

RESTATED REVENUES AND EXPENSES

Shaded items are items we reviewed.	**January–May 2005**	**January–May 2007**[1]	**Percentage Change**
REVENUES			
Total Net Patient Revenue	$71,537,574	$77,604,928	8.48%
Other Operating Revenue	3,543,119	7,579,346[2]	113.92%
Total Operating Revenue	**$75,080,693**	**$85,184,274**	**13.46%**
EXPENSES			
Salaries			
Nursing	9,406,712	11,207,943	19.15%
Physician	2,360,215	1,870,450	-20.75%
Other	16,678,686	19,097,666	14.50%
	28,445,613[3]	32,176,059[3]	13.11%
Contract Labor			
Nursing	749,967	3,924,250	423.26%
Physician	1,093,750	4,682,644[4]	328.13%
Other	241,396	448,851	85.94%
	2,085,113[5]	9,055,745[5]	334.30%
	-	-	
Employee Benefits	4,728,789	5,249,354	11.01%
Supplies	13,462,855	14,581,819	8.31%
Utilities	1,078,267	1,605,145[6]	48.86%
Insurance	1,576,019	2,329,817	47.83%
Interest Expense	2,530,047	2,376,107	-6.08%
Depreciation and Amortization	4,532,400	5,234,814	15.50%
Bad Debts	4,512,729	3,829,964	-15.13%
Other Operating Expenses	7,462,012[7]	11,756,576[7]	57.55%
Total Operating Expenses	**$70,413,844**	**$88,195,400**	**25.25%**
Net Gain/Loss From Operations	**$4,666,849**	**($3,011,126)**	**-164.52%**

[1]Touro Infirmary (the hospital) closed its skilled nursing and inpatient psychiatric hospital based units in September 2005. The expenses and revenue from these units are included in the 2005 data but not in the 2007 data.
[2]Total other operating revenue was increased by $3,863,540 from the Wage Index Stabilization Grant, insurance, and Federal Emergency Management Agency proceeds.
[3]Salary expenses were increased by $40,574 and $46,594 (2005 and 2007, respectively) because of additional costs identified during our review.
[4]The hospital expects this amount to be reduced by at least $500,000 because it negotiated a lower rate with the medical school providing supervision for physicians in the hospital's residency training program.
[5]Contract labor expenses were increased by $1,018,151 and $4,087,697 (2005 and 2007, respectively) because of our reclassification of other operating expenses.
[6]Utilities expense for a 2-year period, which includes January through May 2007, was estimated to be reduced by between $275,000 and $425,000 because of an expected refund of water expenses.
[7]Other operating expenses were decreased by $1,018,151 and $4,087,697 (2005 and 2007, respectively) because of our reclassification of contract labor expenses.

APPENDIX C

PATIENT VOLUME BETWEEN 2005 AND 2007

Type of Service	January–May 2005	January–May 2007	Percentage Change
Inpatient Services			
Patient Days[8]	39,879	34,345	-13.88%
Average Length of Stay (days)[9]	6.7	5.9	-11.94%
Case-Mix Index (CMI)[10]	1.23	1.21	-1.63%
Outpatient Visits	34,896	29,680	-14.95%
Home Health Visits	9,291	7,131	-23.25%
Outpatient Therapy–Rehab Center	8,253	6,827	-17.28%

[8] Patient days for January through May 2005 include 8,127 days for skilled nursing and inpatient psychiatric hospital based units that were closed before January 2007.

[9] Average length of stay includes patients in the skilled nursing facility and inpatient rehabilitation facility and inpatient psychiatric patients.

[10] The CMI measures the severity of illness, the complexity of care, and resource utilization. The CMI represents the acute patient population only. It excludes patients in the skilled nursing and inpatient rehabilitation facilities and inpatient psychiatric patients.

APPENDIX D

Here. For Life. touro™

March 28, 2008

Mr. Mark Ables
Audit Manager
Office of Inspector General
Office Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

Dear Mr. Ables,

Please accept this letter as Touro Infirmary's response to your report number A-06-08-00012:

- Management at Touro Infirmary has completed a review of the report entitled "Review of Expenses and Revenues Presented in Congressional Testimony by Touro Infirmary".
- Management at Touro Infirmary concurs with the findings and recommendations.

Thank you for the opportunity to respond to the findings and recommendations per report number A-06-08-00012.

Sincerely,

Robert A. Ficken
Chief Financial Officer

RAF/dmg