DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

SEP 1 6 2008

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

FROM: Daniel R. Levinson
Inspector General

SUBJECT: Review of Profitability Analysis of New Orleans Hospitals Compared With Peer Hospitals (A-07-07-02734)

The attached final report provides the results of our analysis of the impact of Hurricane Katrina on 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 second of two OIG reports, responds to this congressional request. To gain a more detailed understanding of the testifying hospitals' financial situation, in this report we compared profitability trends and characteristics of the testifying hospitals with similar data from three sets of peer hospitals: (1) other hospitals in the New Orleans area, (2) hospitals in a demographically similar city (Cleveland, Ohio), and (3) hospitals in a geographically similar city (Mobile, Alabama).

Our objective was to analyze the impact of Hurricane Katrina on New Orleans hospitals that testified to the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, by comparing these hospitals' profitability trends with similar data from three sets of peer hospitals during the same timeframes.

The testifying hospitals experienced profitability trends that (1) differed from those of the peer hospitals and (2) reflected both the adverse financial impact of Hurricane Katrina and subsequent financial improvements after the testifying hospitals received Business Interruption insurance payments and additional Federal funding because of their hurricane damage. Specifically, the testifying hospitals experienced negative margins during both the fiscal year (FY) before the hurricane (FY 2004) and the FY in which the hurricane occurred (FY 2005). For the FY after the hurricane, the testifying hospitals experienced both positive and negative margins, but the negative margins were trending upward in comparison to those of the previous year. The margins for the peer hospitals during this time period were much more variable, though with generally less fluctuation from 1 FY to the next.

Specifically:

- The testifying hospitals had decreasing patient-related care, total, and Medicare program margins over time, with an increase in the last year of our analysis. The Medicaid program margin remained generally constant throughout the review period.

- The other New Orleans area hospitals had a relatively constant patient-related care margin throughout the review period, with a slight decrease in FY 2006. The total margin was also constant throughout the review period, with a slight increase in FY 2004. The Medicare and Medicaid program margins had opposite trends throughout the review period, with the Medicare program margin decreasing and the Medicaid program margin increasing.

- The Cleveland and Mobile hospitals had increasing patient-related care and total margins throughout the review period. They both had a decreasing Medicare program margin. The Medicaid program margin was constant for Cleveland but was decreasing for Mobile.

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-07-07-02734 in all correspondence.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF PROFITABILITY ANALYSIS OF NEW ORLEANS HOSPITALS COMPARED WITH PEER HOSPITALS

Daniel R. Levinson
Inspector General

September 2008
A-07-07-02734

Office of Inspector General

http://oig.hhs.gov

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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 (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 House Committee on Energy and Commerce requested that the Office of Inspector General (OIG) ". . . perform a profitability analysis comparing the five hospitals' financials against other peer hospitals, to the extent feasible and appropriate."

This report, the second of two OIG reports, responds to this congressional request. Our first report presented the trends in profitability for the testifying hospitals by examining the patient-related care margin, total margin, Medicare program margin, and Medicaid program margin—both individually and collectively—during an audit period of fiscal year (FY) 2002 through 2006. To gain an understanding of the testifying hospitals' financial situation, in this report we compared profitability trends and characteristics of the testifying hospitals with similar data from three sets of peer hospitals: (1) other hospitals in the New Orleans area, (2) hospitals in a demographically similar city (Cleveland, Ohio), and (3) hospitals in a geographically similar city (Mobile, Alabama). Both the other New Orleans area hospitals and the Mobile hospitals received additional Federal funding after the hurricane.

OBJECTIVE

Our objective was to analyze the impact of Hurricane Katrina on New Orleans hospitals that testified to the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, by comparing these hospitals' profitability trends with similar data from three sets of peer hospitals during the same timeframes.

SUMMARY OF FINDINGS

The testifying hospitals experienced profitability trends that (1) differed from those of the peer hospitals and (2) reflected both the adverse financial impact of Hurricane Katrina and subsequent financial improvements after the testifying hospitals received Business Interruption insurance payments and additional Federal funding because of their hurricane damage. Specifically, the testifying hospitals experienced negative margins during both the FY before the hurricane (FY 2004) and the FY in which the hurricane occurred (FY 2005). For the FY after the hurricane, the testifying hospitals experienced both positive and negative margins, but the negative margins were trending upward compared with those of the previous year. The margins

for the peer hospitals during this time period were much more variable, though with generally less fluctuation from 1 FY to the next.

The following table summarizes the trends, by type of margin, for the peer and testifying hospitals during the time period of our review.

Profitability Trends for FYs 2002 Through 2006

	Patient-Related Care Margin	Total Margin	Medicare Margin	Medicaid Margin
Cleveland, OH, Hospitals	Increasing	Increasing	Decreasing	Constant
Mobile, AL, Hospitals	Increasing	Increasing	Decreasing	Decreasing
Other New Orleans Hospitals	Constant, with slight decrease in FY 2006	Constant, with slight increase in FY 2004	Decreasing	Increasing
Testifying Hospitals	Decreasing, with increase in FY 2006	Decreasing, with increase in FY 2006	Decreasing, with increase in FY 2006	Constant

Specifically:

- The testifying hospitals had decreasing patient-related care, total, and Medicare program margins over time, with an increase in the last year of our analysis. The Medicaid program margin remained generally constant throughout the review period.

- The other New Orleans area hospitals had a relatively constant patient-related care margin throughout the review period, with a slight decrease in FY 2006. The total margin was also constant throughout the review period, with a slight increase in FY 2004. The Medicare and Medicaid program margins had opposite trends throughout the review period, with the Medicare program margin decreasing and the Medicaid program margin increasing.

- The Cleveland and Mobile hospitals had increasing patient-related care and total margins throughout the review period. They both had decreasing Medicare program margins. The Medicaid program margin was constant for Cleveland but was decreasing for Mobile.

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 comparing the five hospitals' financials against other peer hospitals, to the extent feasible and appropriate."

This report, the second of two OIG reports, responds to this congressional request. The first report demonstrated the trends in profitability for the testifying hospitals.[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 hospitals provide 95 percent of the hospital-based services in the New Orleans metropolitan area.

The testifying hospitals presented a financial picture, comparing pre-Katrina (January through May 2005) and post-Katrina (January through May 2007) expenses and revenues. To gain an understanding of the financial situation of the hospitals, we expanded the timeframe to encompass the period of fiscal years (FY) 2002 through 2006.[3]

[1] "Review of Profitability Analysis of New Orleans Hospitals" (A-07-07-02733).

[2] Ochsner Health System's testimony included five facilities.

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

Peer Hospitals

We compared profitability trends and characteristics of the testifying hospitals with similar data from three sets of peer hospitals: (1) other hospitals in the New Orleans area (eight acute-care hospitals), (2) hospitals in a demographically similar city (six acute-care hospitals in Cleveland, Ohio), and (3) hospitals in a geographically similar city (five acute-care hospitals in Mobile, Alabama).

For the city whose demographic characteristics were similar to those of New Orleans, we selected Cleveland using these criteria: (1) total population, (2) average income level of population, (3) percentage of people (of similar racial/ethnic composition) below the poverty line, (4) demographic makeup of the city, and (5) number of acute-care hospitals in the area.

For the city whose geographic characteristics—physical and cultural—were similar to those of New Orleans, we selected Mobile using these criteria: (1) susceptibility to hurricanes or similar storms, (2) past history of hurricanes or similar storms, (3) number of acute-care hospitals in the area, and (4) demographic makeup of the city.

Hospital Financial Data

To perform comparisons of these hospitals, we analyzed the hospitals' financial data. Typically, hospitals' revenues are derived from (1) payments made for services to patients who do not have health insurance (private-pay), (2) health insurance companies (third-party health insurance), (3) Federal funds (including payments for Medicare and Medicaid), and (4) 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 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:

$$\text{Patient-Related Care Margin} = \frac{\text{Total net patient-related care revenues} - \text{Total patient-related care expenses}}{\text{Total net patient-related care revenues}}$$

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.

[4]Medicare 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.

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:

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

Medicaid Program Margin

The Medicaid program margin has its basis in payments received from Medicaid. The expenses relate to the expenditures for program services as determined from the Medicare cost report and/or 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 analyze the impact of Hurricane Katrina on New Orleans hospitals that testified to the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, by comparing these hospitals' profitability trends with similar data from three sets of peer hospitals during the same timeframes.

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

[6]Total expenses are operating expenses and all other expenses.

[7]The 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.

Scope

We reviewed the testifying and peer hospitals' financial records for 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 hospitals' latest available Medicare 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 hospitals' revenues and expenses,
- obtained FYs 2002 through 2006 HCRIS cost report data and used them to identify the hospitals' Medicare and Medicaid payments and expenses,
- obtained hard copies of Medicaid cost reports for the Cleveland and testifying hospitals,
- used audited financial statements for periods with apparent errors in the HCRIS data,
- identified additional Federal funding sources,
- calculated a patient-related care margin for hospitals based on patient-related care data reported by the hospitals in their Medicare cost reports,
- calculated a total margin for hospitals based on total expense and revenue data reported by the hospitals in their Medicare cost reports,
- calculated a Medicare program margin for hospitals based on total program payments in relation to program services expenses as reported by the hospitals in their Medicare cost reports, and
- calculated a Medicaid program margin for hospitals based on total program payments in relation to program services expenses as reported by the hospitals in their Medicare cost reports and/or their Medicaid cost reports.

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 OF FINDINGS

The testifying hospitals experienced profitability trends that (1) differed from those of the peer hospitals and (2) reflected both the adverse financial impact of Hurricane Katrina and subsequent financial improvements after the testifying hospitals received Business Interruption insurance payments and additional Federal funding because of their hurricane damage. Specifically, the testifying hospitals experienced negative margins during both the FY before the hurricane and the FY in which the hurricane occurred. For the FY after the hurricane, the testifying hospitals experienced both positive and negative margins, but the negative margins were trending upward compared with those of the previous year. The margins for the peer hospitals during this time period were much more variable, though with generally less fluctuation from 1 FY to the next.

The following table summarizes the trends, by type of margin, for the peer and testifying hospitals during the time period of our review.

Profitability Trends for FYs 2002 Through 2006

	Patient-Related Care Margin	Total Margin	Medicare Margin	Medicaid Margin
Cleveland, OH, Hospitals	Increasing	Increasing	Decreasing	Constant
Mobile, AL, Hospitals	Increasing	Increasing	Decreasing	Decreasing
Other New Orleans Hospitals	Constant, with slight decrease in FY 2006	Constant, with slight increase in FY 2004	Decreasing	Increasing
Testifying Hospitals	Decreasing, with increase in FY 2006	Decreasing, with increase in FY 2006	Decreasing, with increase in FY 2006	Constant

Specifically:

- The testifying hospitals had decreasing patient-related care, total, and Medicare program margins over time, with an increase in the last year of our analysis. The Medicaid program margin remained generally constant throughout the review period.

- The other New Orleans area hospitals had a relatively constant patient-related care margin throughout the review period, with a slight decrease in FY 2006. The total margin was also constant throughout the review period, with a slight increase in FY 2004. The Medicare and Medicaid program margins had opposite trends throughout the review period, with the Medicare program margin decreasing and the Medicaid program margin increasing.

- The Cleveland and Mobile hospitals had increasing patient-related care and total margins throughout the review period. They both had a decreasing Medicare program margin. The Medicaid program margin was constant for Cleveland but was decreasing for Mobile.

COMPARISON OF TESTIFYING HOSPITALS WITH PEER HOSPITALS

Hospital Financial Analysis

We compared the testifying hospitals with peer hospitals in (1) the New Orleans area; (2) Cleveland, Ohio (a demographically similar city); and (3) Mobile, Alabama (a geographically similar city). We compared these hospitals on the basis of the patient-related care margin, total margin, Medicare program margin, and Medicaid program margin for FYs 2002 through 2006.

Patient-Related Care Margin

- FYs 2002 and 2003–The patient-related care margins were relatively constant and unfluctuating between the 2 FYs for all the hospitals. The testifying and other New Orleans area hospitals had small positive patient-related care margins, while the Cleveland and Mobile hospitals had negative patient-related care margins.

- FY 2004–The testifying hospitals were similar to the Cleveland and Mobile peer hospitals in that each group had a negative patient-related care margin. The other New Orleans area hospitals showed a positive patient-related care margin.

- FY 2005–All peer hospitals (Cleveland, Mobile, and other New Orleans) had similar negative patient-related care margins. The testifying hospitals had a material negative patient-related care margin.

- FY 2006–All hospital groups were similar, with negative patient-related care margins.

Total Margin

- FY 2002–All peer hospitals (Cleveland, Mobile, and other New Orleans) were relatively constant, with total margins that were either slightly positive or slightly negative. The testifying hospitals had a positive total margin.

- FY 2003–The three groups of peer hospitals had different total margins: one had a positive total margin and two had negative total margins. The testifying hospitals had a positive total margin.

- FY 2004–The three groups of peer hospitals had different total margins: two had positive total margins and one had a negative total margin. The testifying hospitals had a negative total margin.

- FY 2005–The three groups of peer hospitals had different total margins: two had positive total margins and one had a negative total margin. The testifying hospitals had a negative total margin.

- FY 2006–The three groups of peer hospitals had different total margins: two had positive total margins and one had a slightly negative total margin. The testifying hospitals had a positive total margin, mainly because of their receipt of additional Federal funding and the inclusion of payments from Business Interruption insurance.

Medicare Program Margin

- FY 2002–All hospital groups had positive Medicare program margins.

- FYs 2003 through 2006–The three groups of peer hospitals had different Medicare program margins: two had positive Medicare program margins and one had a negative Medicare program margin. The testifying hospitals had a negative Medicare program margin.

Medicaid Program Margin

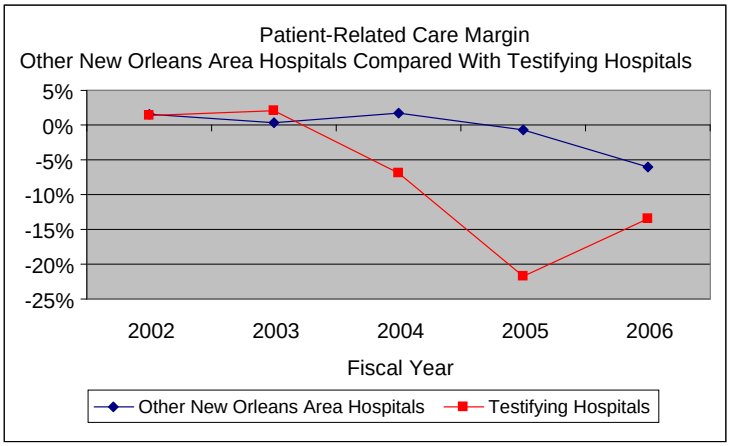
- FYs 2002 through 2006–The three groups of peer hospitals had different Medicaid program margins: two had negative Medicaid program margins and one had a positive Medicaid program margin. The testifying hospitals had a negative Medicaid program margin.

Testifying Hospitals Compared With Other New Orleans Area Hospitals

Patient-Related Care Margin

The testifying hospitals and the other New Orleans area hospitals experienced similar, positive patient-related care margins before FY 2004. For FY 2004, the year before Hurricane Katrina, the other New Orleans area hospitals had a positive patient-related care margin, while the testifying hospitals had a negative patient-related care margin. In FY 2005, the patient-related care margins decreased for both groups. In FY 2006, both had negative but similar patient-related care margins. See Graph 1.

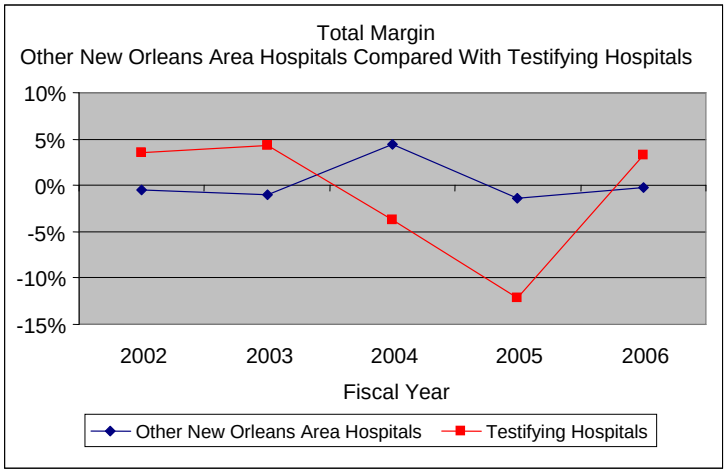
Graph 1



Total Margin

The total margins for FYs 2002 and 2003 were constant but not similar. The testifying hospitals had a positive total margin and the other New Orleans area hospitals had a slightly negative total margin. For FY 2004, the other New Orleans area hospitals had a positive total margin, while the testifying hospitals had a negative total margin. For FY 2005, both groups had negative total margins. In FY 2006, the other New Orleans area hospitals had a negative total margin, while the testifying hospitals had a positive total margin. See Graph 2.

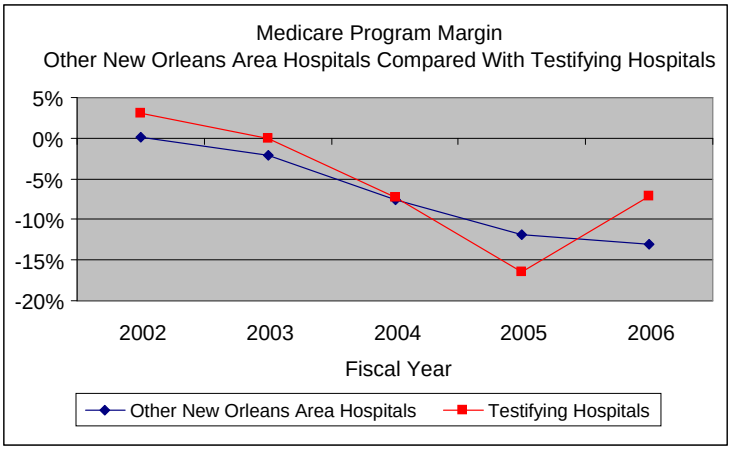
Graph 2



Medicare Program Margin

In FY 2002, both the other New Orleans area hospitals and the testifying hospitals had positive Medicare program margins. However, the Medicare program margins for both hospital groups decreased to negative program margins for FYs 2003 through 2006. See Graph 3.

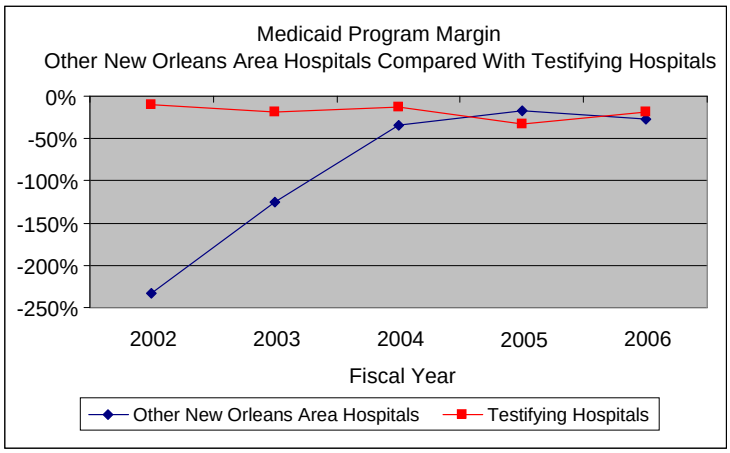
Graph 3



Medicaid Program Margin

In FYs 2002 through 2006, both the other New Orleans area hospitals and the testifying hospitals had negative Medicaid program margins. See Graph 4.

Graph 4



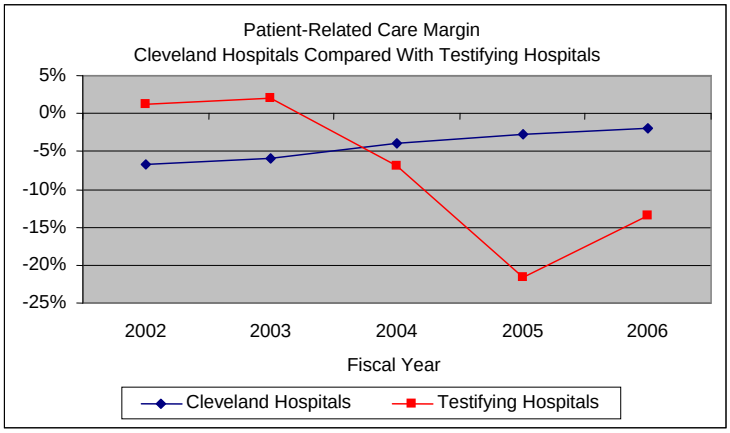
Testifying Hospitals Compared With Hospitals in a Demographically Similar City

To gain a more accurate understanding of the financial situation of the testifying hospitals, we developed comparisons with hospitals in a city (Cleveland, Ohio) with demographics similar to those of New Orleans. We compared the testifying hospitals with the Cleveland hospitals for patient-related care margin, total margin, Medicare program margin, and Medicaid program margin.

Patient-Related Care Margin

The patient-related care margins for FYs 2002 and 2003 were constant but not similar for both groups. The testifying hospitals had a positive patient-related care margin and the Cleveland hospitals had a negative patient-related care margin. Both groups experienced similar, negative patient-related care margins in FY 2004. In FY 2005, both groups had a negative patient-related care margin, but the Cleveland hospitals had a smaller negative margin. In FY 2006, both groups had negative patient-related care margins. See Graph 5.

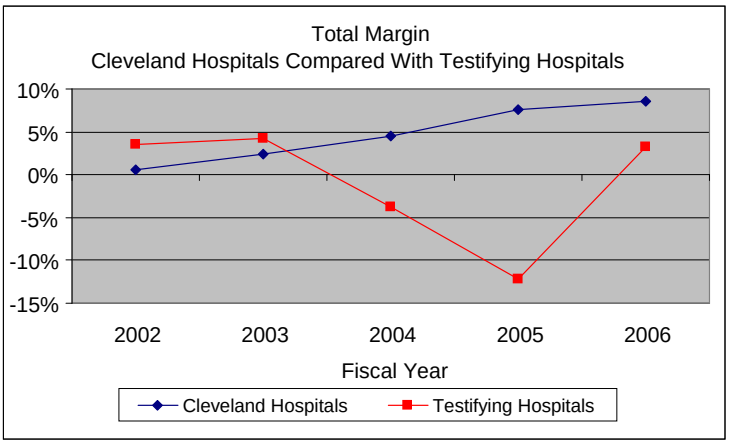
Graph 5



Total Margin

The total margins for FYs 2002 and 2003 were somewhat similar: the testifying hospitals had a positive total margin and the Cleveland hospitals had a slightly positive total margin. For FYs 2004 and 2005, the testifying hospitals had a negative total margin, while the Cleveland hospitals had a positive total margin. In FY 2006, the testifying hospitals had a positive total margin, which included additional funding from Business Interruption insurance payments and Federal funding in response to hurricane damage. The Cleveland hospitals had a continued increase for a positive total margin. See Graph 6.

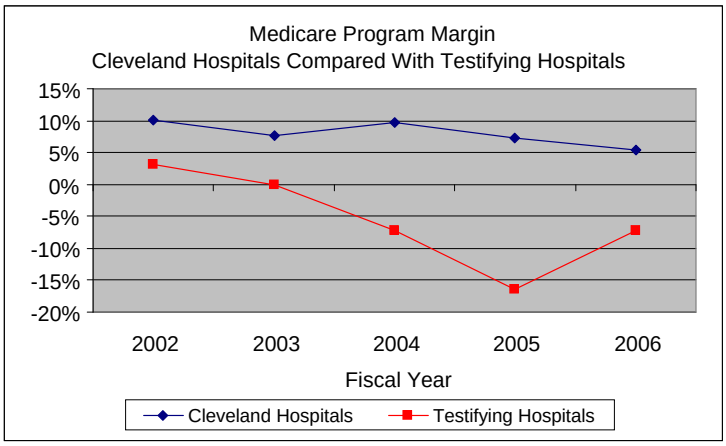
Graph 6



Medicare Program Margin

A comparison of the Medicare program margins shows that in FY 2002, the testifying hospitals and the Cleveland hospitals had positive Medicare program margins. For FYs 2003 through 2006, the testifying hospitals had a negative Medicare program margin and the Cleveland hospitals had a positive Medicare program margin. See Graph 7.

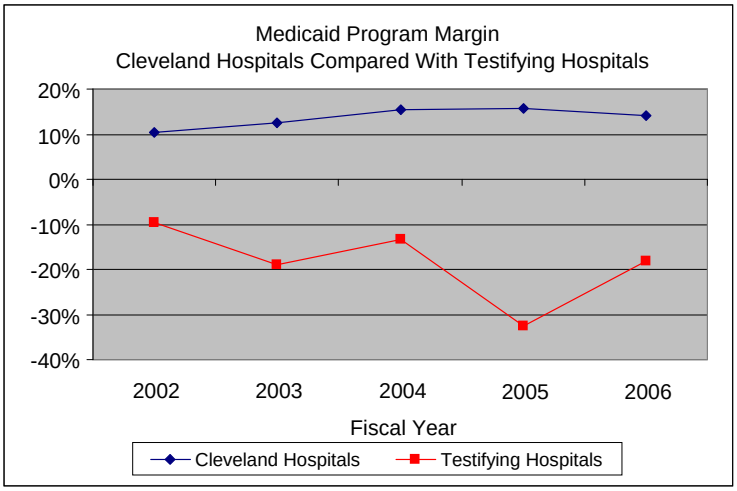
Graph 7



Medicaid Program Margin

A comparison of the Medicaid program margins shows that in FYs 2002 through 2006, the testifying hospitals had a negative Medicaid program margin and the Cleveland hospitals had a positive Medicaid program margin. See Graph 8.

Graph 8



Testifying Hospitals Compared With Hospitals in a Geographically Similar City

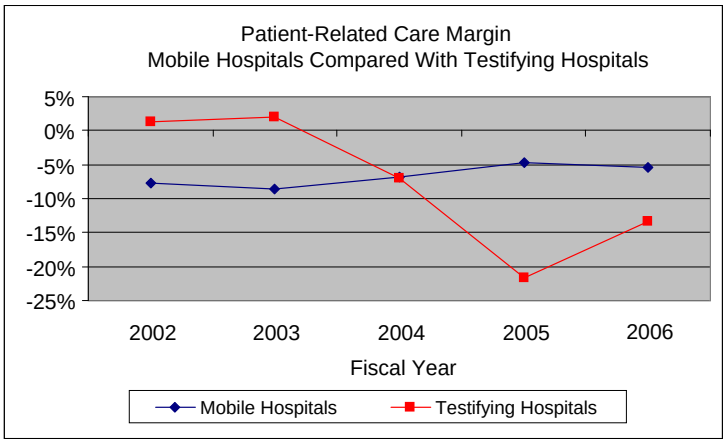
We compared the testifying hospitals with peer hospitals from a city (Mobile, Alabama) whose physical and cultural geography were similar to those of New Orleans. We compared the testifying hospitals with Mobile hospitals using the same characteristics we examined in our comparison of New Orleans and Cleveland hospitals: patient-related care margin, total margin, Medicare program margin, and Medicaid program margin.

Patient-Related Care Margin

The patient-related care margins for FYs 2002 and 2003 for the two groups were constant but not similar. The testifying hospitals had a positive patient-related care margin, and the Mobile hospitals had a negative patient-related care margin. The testifying hospitals and the Mobile

hospitals experienced similar, negative patient-related care margins for FYs 2004, 2005, and 2006. See Graph 9.

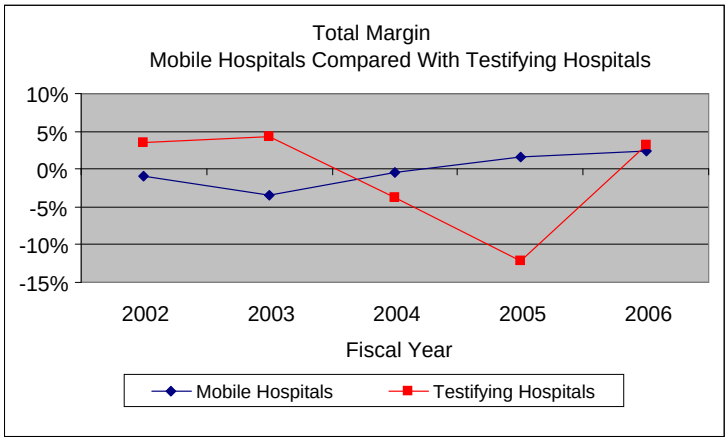
Graph 9



Total Margin

The total margins for FYs 2002 and 2003 for the two groups were constant but not similar. The testifying hospitals had a positive total margin and the Mobile hospitals had a negative total margin. For FY 2004, the testifying hospitals had a negative total margin, while the Mobile hospitals had a slight negative total margin. For FY 2005, the testifying hospitals had a negative total margin, while the Mobile hospitals had a positive total margin. In FY 2006, the testifying hospitals had a positive total margin, which included additional funding from Business Interruption insurance payments and Federal funding in response to the hurricane damage. The Mobile hospitals' total margin continued to increase, resulting in a positive total margin, which included additional Federal funding. See Graph 10.

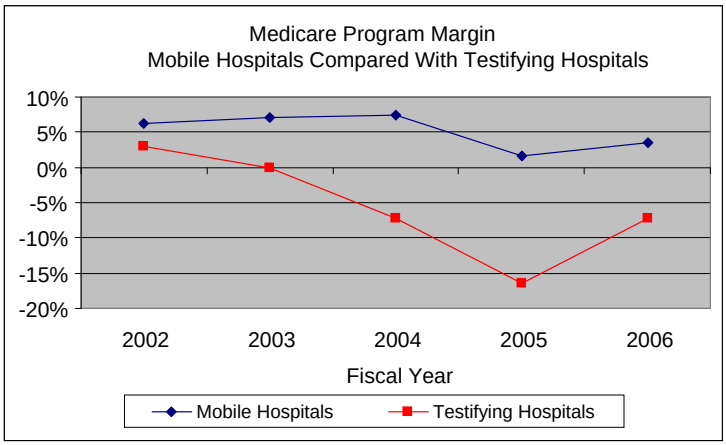
Graph 10



Medicare Program Margin

A comparison of the Medicare program margins shows that in FY 2002, the testifying hospitals and the Mobile hospitals had positive Medicare program margins. However, for FYs 2003 through 2006, the testifying hospitals had a negative Medicare program margin, while the Mobile hospitals had a positive Medicare program margin. See Graph 11.

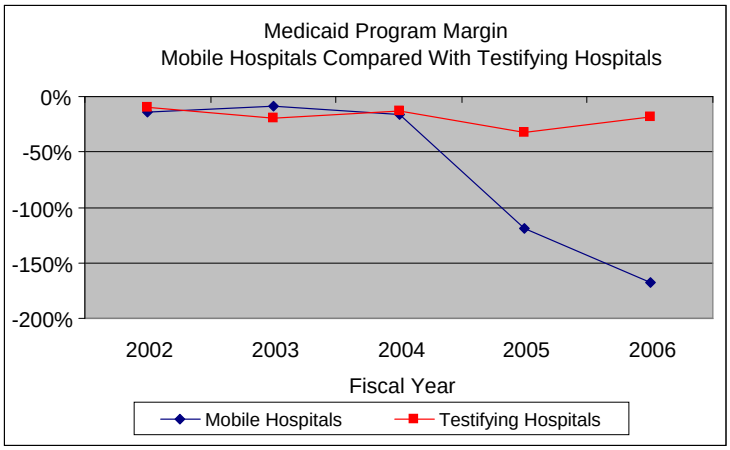
Graph 11



Medicaid Program Margin

A comparison of the Medicaid program margins shows that in FYs 2002 through 2006, the testifying hospitals and the Mobile hospitals had negative Medicaid program margins. See Graph 12.

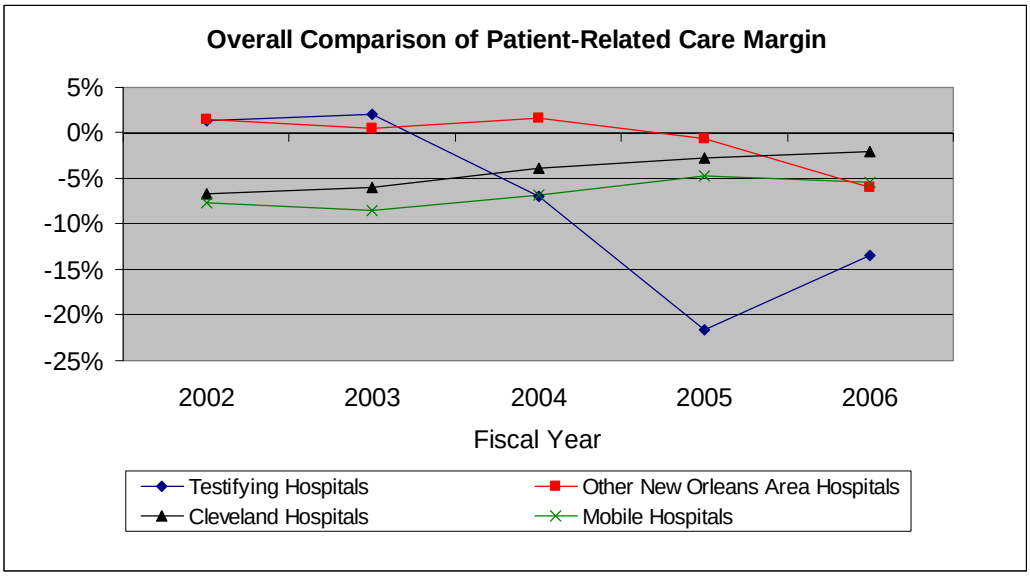
Graph 12



Summary of Hospital Financial Analysis

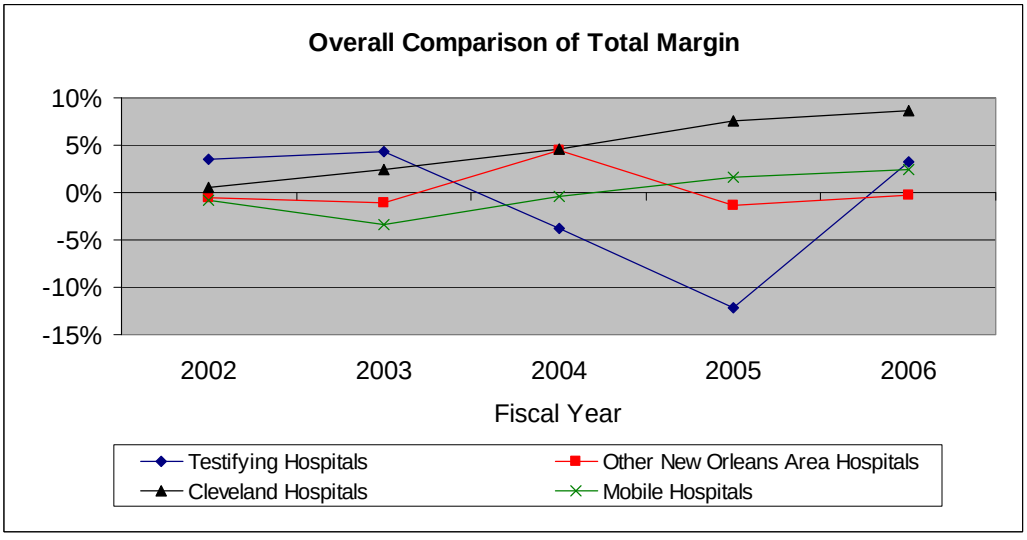
An overall comparison of the patient-related care margins of the testifying hospitals, other New Orleans area hospitals, Cleveland area hospitals, and Mobile hospitals appears in Graph 13 and indicates that in FY 2006, all hospitals experienced negative patient-related care margins.

Graph 13



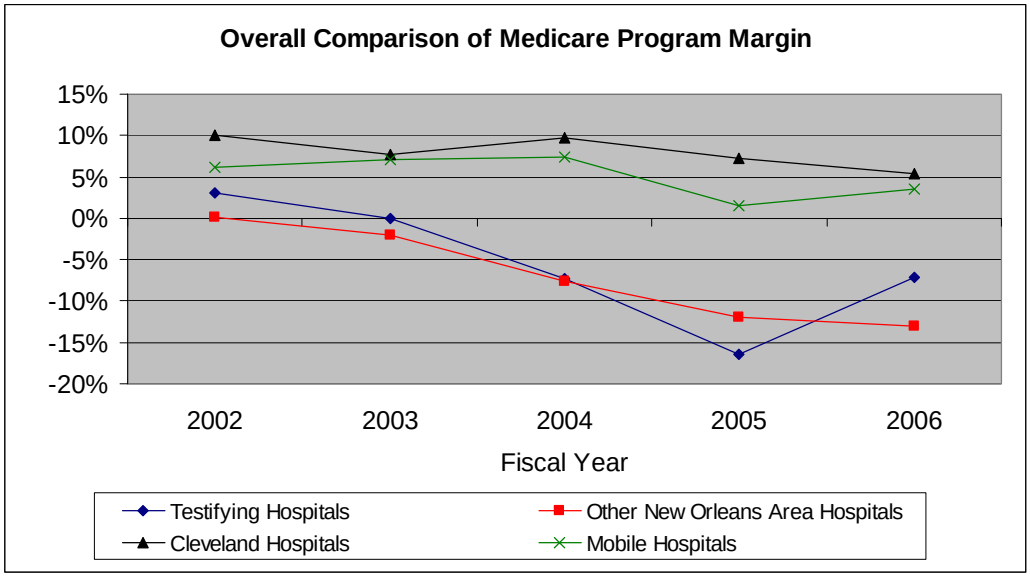
An overall comparison of the total margins of the testifying hospitals, other New Orleans area hospitals, Cleveland hospitals, and Mobile hospitals appears in Graph 14. In FY 2006, all hospitals experienced positive total margins, with the exception of the other New Orleans area hospitals, which experienced a slightly negative total margin.

Graph 14



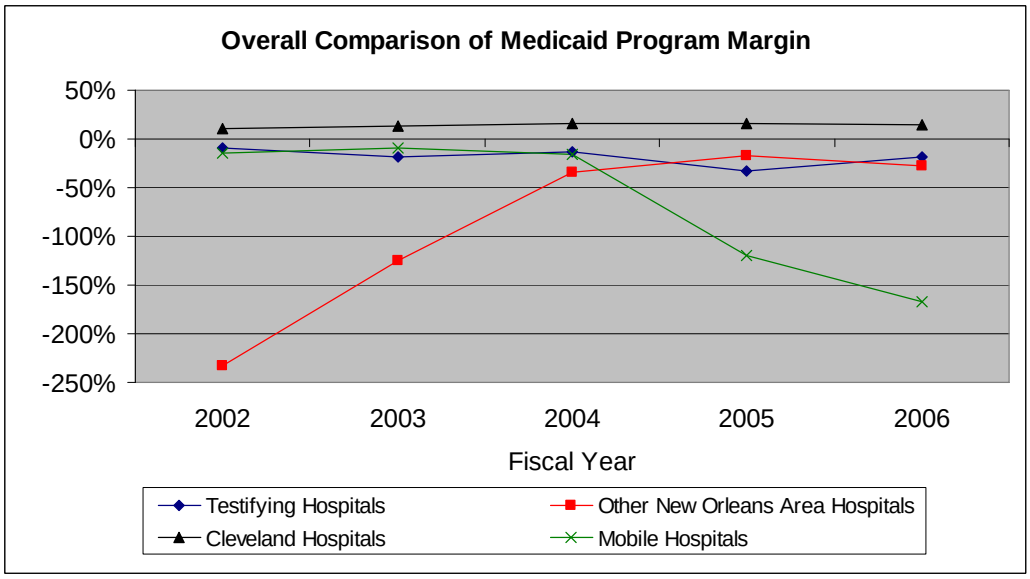
An overall comparison of the Medicare program margins of the testifying hospitals, other New Orleans area hospitals, Cleveland hospitals, and Mobile hospitals appears in Graph 15. In FY 2006, the testifying and other New Orleans area hospitals experienced negative Medicare program margins, whereas the other two groups had positive Medicare margins.

Graph 15



An overall comparison of the Medicaid program margins of the testifying hospitals, other New Orleans area hospitals, Cleveland hospitals, and Mobile hospitals appears in Graph 16. In FY 2006, all hospital groups, with the exception of the Cleveland hospitals, experienced negative Medicaid program margins.

Graph 16



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.