EVALUATION

OFFICE OF
INSPECTOR GENERAL
U.S.DEPARTMENT OF THE INTERIOR

JUAN F. LUIS HOSPITAL AND MEDICAL CENTER

Report No.: VI-EV-VIS-0002-2011

September 2012

SEP 19 2012

The Honorable John P. deJongh, Jr.
Governor of the Virgin Islands
No. 21-22 Kongens Gade
St. Thomas, VI 00802

Subject: Evaluation Report – Juan F. Luis Hospital and Medical Center
Report No. VI-EV-VIS-0002-2011

Dear Governor deJongh:

This report presents the final results of our evaluation of the Juan F. Luis Hospital and Medical Center (JFLH). JFLH is the primary source of health care for St. Croix, but JFLH's current fiscal crisis is jeopardizing the future of the hospital as an effective treatment facility. JFLH has been forced to contrive unconventional fiscal arrangements to stay afloat while overlooking fundamental steps it could take to mitigate its fiscal deficit. If JFLH is to continue operations, comprehensive financial management changes are critical to help the hospital balance revenue with expenses.

Our evaluation offers two primary recommendation categories that focus on JFLH's management of revenues and expenses. We believe that implementing these recommendations will provide JFLH ways to better manage its revenue cycle, including such basics as billing and collection, as well as more effectively monitor its accounts payable and its other sources of significant expense.

Based on your office's response to the draft report (see appendix 3) we consider recommendations 4 and 11 to be resolved and implemented, with no further action required. We consider, however, that recommendations 1 to 3, 5 to 10, and 12 are resolved but not implemented (see appendix 4). We are referring these recommendations to the U.S. Department of the Interior's Office of Insular Affairs to track implementation, with a request that the Virgin Islands Government provides documentation that demonstrates implementation of agreed-upon actions to revamp and strengthen JFLH.

We appreciate the commitment to change that JFLH has exhibited in the past months and the difference it already has made. If you have questions concerning this letter or the report, or wish clarification concerning our recommendations, please contact Mr. Hannibal M. Ware, Eastern Regional Manager, at 703-487-8058.

Sincerely,

Mary L. Kendall

Mary L. Kendall
Deputy Inspector General

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Results in Brief

The Juan F. Luis Hospital and Medical Center (JFLH) of St. Croix historically has conducted its operations in an environment of fiscal deficit. JFLH leadership has been slow to respond to increasing annual financial losses and, in past years, has practiced a business-as-usual approach to hospital management. JFLH's limited resources now have been eroded to the point where the hospital's ability to provide health care services may be seriously jeopardized. Current conditions confirm the present chief executive officer's recurring comments that "all systems in the Hospital are either bruised or broken."

During our evaluation, we found—

- Ineffective revenue cycle management, including billing and collection, precertification of services for patients, internal arrangements, and charge master updates;
- Noncompliance with the Centers for Medicare and Medicaid Services (CMS);
- Significant increases in expenses that did not correspond with increases in revenues;
- Ineffective management of debt; and
- Inadequate monitoring of payments on employee loans, contracts, agreements, leases, and purchase orders.

Introduction

Objective

The objective of our evaluation was to determine whether Juan F. Luis Hospital and Medical Center (JFLH) carried out its administrative functions by minimizing financial losses, collecting accounts and loans receivable, and securing contracts that are in the best interest of the institution.

Background

JFLH is the only full service hospital on the island of St. Croix, U.S. Virgin Islands. JFLH provides comprehensive primary, medical, and specialty health care services, including acute, emergency, rehabilitative, cardiology, and ambulatory care. Services are available 24 hours a day, 7 days a week, to meet the needs of approximately 51,000 residents and more than 300,000 visitors annually.

JFLH exists through a partnership arrangement with the Government of the Virgin Islands (GVI) to encourage the hospital's self-sufficiency as a goal and to manage health care delivery. JFLH has a long-standing financial deficit and has reported annual operating losses averaging $35 million from fiscal year 2005 through fiscal year 2010. GVI provided the hospital with an annual average of $26.7 million over the same period to offset some of the losses and help the hospital meet its legal requirement to care for patients who could not otherwise afford medical visits (figure 1).

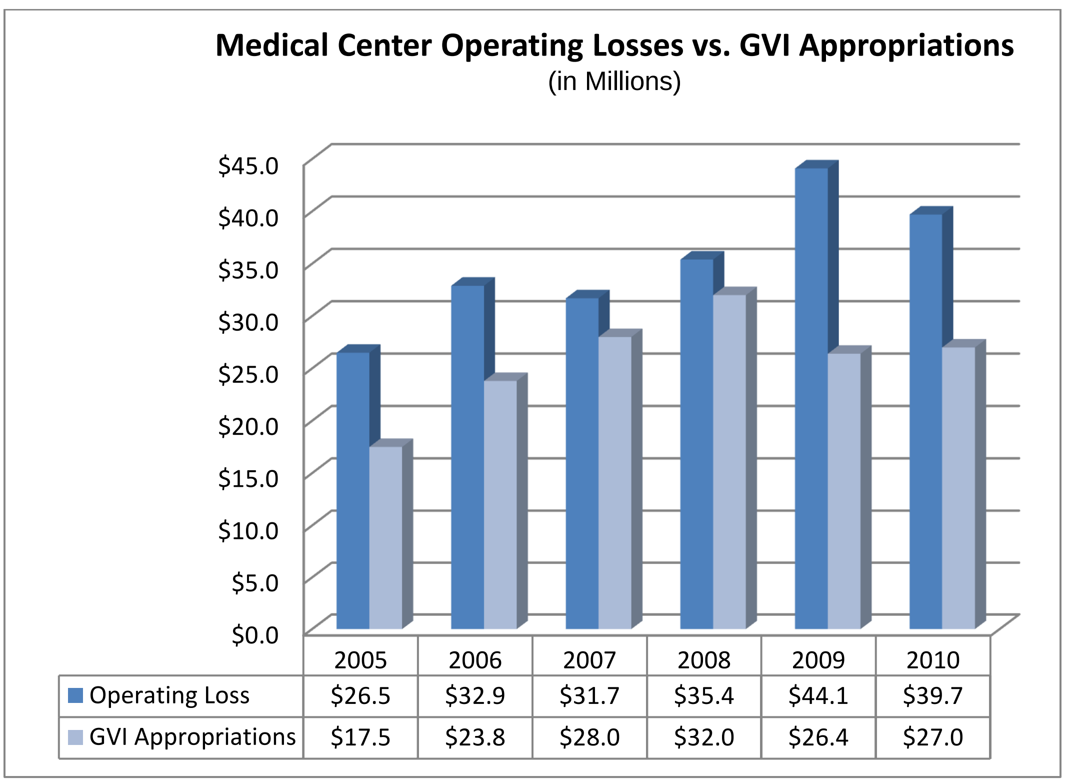


Figure 1.

Annual GVI appropriations to JFLH were tied to salaries, utilities, and special programs like the nursing school and energy initiatives, and were presented on JFLH's financial statements as tax appropriations. In addition to these tax appropriations, every year during the same period of 2005 to 2010, GVI directly paid JFLH vendors and contractors for specific major equipment or capital improvements, like the cost of building the cardiac center. These additional appropriations averaged $900,000 annually, totaling more than $5 million during the 6-year period.

Findings

The combination of revenue shortfalls and the expense of running an island hospital that is mandated to provide care to all individuals regardless of their ability to pay has led to significant operating losses for JFLH. Equally significant has been JFLH's inability to effectively control its expenses relative to the amount of revenue it generates. Continued unbalanced spending has eroded the hospital's ability to pay for many of its critical services and now threatens its ability to meet community needs.

Claims of patient neglect and neglect of physical hospital security in the areas of nursing and surgery services illustrate JFLH's weakened capacity to supply the community with appropriate health care. These claims made by the Centers for Medicare and Medicaid Services (CMS) in June 2011 have further jeopardized JFLH's status and placed more than 50 percent of patient revenues in jeopardy.

In spite of both its historical and current fiscal challenges, JFLH still can mitigate its current state of deficit if it takes immediate and comprehensive measures to improve its management of revenues and expenses.

Management of Revenues

JFLH's chronic inability to generate a steady flow of revenue has been a major contributor to its current fiscal position. Although JFLH faces annual losses in the tens of millions of dollars, it has not taken sufficient steps to ensure that patient accounts receivable, third-party reimbursements, and internal service agreements have been collected in a timely, effective manner. In addition, JFLH has not raised its rates to reflect current health care costs.

Patient Accounts Receivable

The efficient handling of accounts receivable is critical to the financial health of any hospital, because these accounts are a primary revenue source. Yet JFLH continues to struggle with the management of these accounts. As of December 2011, patient accounts receivable were valued at more than $68 million. After allowances had been made for accounts deemed uncollectible and for normal adjustments made by third-party insurers, JFLH valued their outstanding patient accounts receivable at roughly $11.5 million. This disparity between actual receivables and what JFLH views as collectible underscores JFLH's difficulties with obtaining payment for services rendered.

Responsibility for collection of patient accounts covered by health insurance, historically the easiest accounts to collect, is handled by JFLH staff. For services provided to uninsured patients, JFLH contracts with two private companies. We reviewed a sample of 24 individual accounts valued at $1.8 million. We found that JFLH's collection efforts were neither timely nor rigorous in half of the accounts reviewed. These accounts were the responsibility of JFLH since they belonged to patients covered by health insurance. For example—

- A patient discharged in October 2010 with a bill of $342,780 had medical coverage under CIGNA (the insurance policy held by Virgin Islands Government workers), as well as secondary coverage through Medicaid. JFLH took 4 months to issue a final bill. CIGNA paid $249,640, in addition to the patient's own prepaid amount of $410, leaving a balance of $92,730. As of September 2011, JFLH had failed to submit a claim to Medicaid for reimbursement of the remaining amount.

- A patient covered by the Virgin Islands Worker's Compensation Administration (WCA) was discharged in October 2006 after incurring a bill of $13,020. JFLH issued a final bill in October, but did not consistently follow through with efforts to collect. Although JFLH sent a few follow-up reminders during the early months of the overdue bill, no telephone inquiries, resending of bills, or enforcement letters encouraging collection took place for 2 years while the bill remained unpaid. When we notified the JFLH business office, the manager responded that WCA usually takes 1 to 3 years to reimburse. As of March 2012, more than five years after a final bill was issued, JFLH still had not been paid.

Third Party Reimbursements

Reimbursements from the Veteran's Administration (VA) and CIGNA account for 29 percent of JFLH's annual patient revenues. JFLH has an ongoing relationship with these insurance providers and is familiar with their policies and criteria for reimbursement. Both providers require precertification to initiate insurance coverage. The precertification process consists of a simple telephone call from JFLH to the VA or CIGNA office, notifying staff of JFLH's plan for medical treatment or procedure. This step is critical to ensure that all revenues due to JFLH will be collected. We found instances where JFLH did not receive reimbursement due to administrative failures to pre-certify patients. For example—

- JFLH issued a final bill of $229,860 for a patient discharged in August 2009. Although the patient was hospitalized for 261 days, VA only reimbursed $8,710 for the first 10 days. VA denied the balance because JFLH failed to pre-certify, causing JFLH to lose $221,150 in revenues. JFLH issued a bill of $24,800 to CIGNA for a patient discharged in January 2010. CIGNA did not honor the bill because JFLH failed to pre-certify the patient.

Internal Service Arrangements

JFLH contracted with a company to analyze pathology specimens for private physicians using JFLH's laboratory. The contract stipulated that JFLH be paid $25 for each specimen no later than the tenth day of the month following the service. The contract also required that payment be accompanied by a statement of services rendered to private physicians.

While payments resulting from this contract may have been considered a viable source of revenue, we found that JFLH failed to implement checks and balances to ensure accuracy and receipt of all revenues billed for services rendered. We found several instances where the company failed to submit either statements for services rendered or corresponding payments. In these instances, JFLH had no idea how much the hospital should have received. Administrative staff also never followed up to determine the revenue owed to JFLH.

We also found instances where the contractor submitted statements, but did not submit payments. Based on the statements we reviewed, the company owed JFLH at least $16,150 for services provided. JFLH did not know any money was owed until we brought it to their attention.

Throughout the life of this contract, JFLH never accessed pathology records maintained in its own laboratory to cross-reference the accuracy of statements and payments submitted by the contractor.

Stagnant Rates

In light of rising healthcare costs, hospitals regularly review their charges to ensure that their rates reflect current costs. According to a study conducted for the Medicare Payment Advisory Commission, hospitals customarily review at least some charges annually. JFLH’s CEO confirmed that, in spite of steadily escalating expenses, JFLH had not revisited its hospital charges for 5 years until it conducted a review of its charge master, which is a list of a hospital's prices for every procedure performed and every supply item used during those procedures. JFLH’s charge master review resulted in a rate increase that began in August 2011.

A February 2012 meeting with the CEO indicated that JFLH plans to regularly review rates to capture the true cost of providing healthcare and to respond to JFLH’s serious fiscal position. The CEO also noted the planned initiation of a new rate increase in March 2012.

Noncompliance with the Centers for Medicare and Medicaid Services

Significantly challenged with revenue generation at multiple levels of hospital management, JFLH currently faces the potential loss of what has been a reliable source of patient revenue. In excess of 50 percent of JFLH’s patient revenue has been generated from patients covered by CMS. CMS covers patient services, as long as JFLH maintains its CMS certification. Instances of patient neglect and neglect of physical security in the areas of nursing and surgery services have jeopardized JFLH’s status and placed these revenues at risk. To continue its eligibility to receive CMS funding, JFLH negotiated a 3-year agreement with CMS that requires a plan of correction.

JFLH has implemented a plan to protect this major source of patient revenue and is working toward full compliance. JFLH must meet the terms of its agreement to ensure future funding.

Recommendations

To address the management of revenues to stabilize its financial resources, JFLH, at a minimum, should:

1. Consistently apply collection procedures, including timely follow-ups on unpaid bills to all primary and secondary insurance carriers;

2. Comply with precertification and disclosure regulations set forth by certain insurance carriers, such as CIGNA and VA, to increase the likelihood of reimbursement;

3. Closely monitor all revenue-generating arrangements to ensure all revenues due are efficiently collected;

4. Frequently review rates to capture the rising cost of providing health care services; and

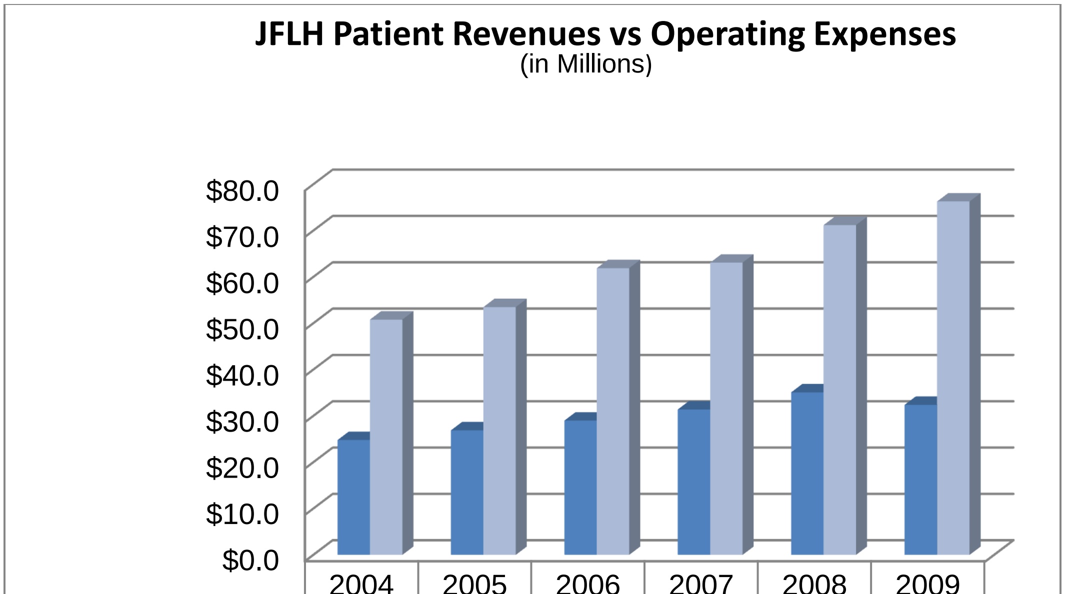
5. Fully implement the terms of the agreement with CMS to ensure future Medicare and Medicaid funding.

Management of Expenses

JFLH's financial position also has deteriorated due in large part to its inability to balance expenses against revenue. Although strapped for cash, JFLH has not exercised fiscal restraint. The resulting debt has hindered payment of outstanding bills as they come due and plunged the hospital into an ever-deepening cycle of untimely payments that require both service charges and late fees, and jeopardize long-standing relationships with vendors. In addition, JFLH has not properly monitored its agreements to lessen the frequency of overpayments, pre-payments, and unsupported payments.

Unsustainable Expenses

JFLH's independent financial auditors conducted a 6-year analysis focusing on financial data between 2004 and 2009. The analysis, presented at a June 2010 board meeting, demonstrated that JFLH's operating expenses towered over operating revenues (figure 2).



	2004	2005	2006	2007	2008	2009
Total Operating Revenues	$24.8	$26.9	$29.0	$31.4	$35.1	$32.4
Total Operating Expenses	$50.8	$53.5	$61.9	$63.1	$71.2	$76.3

Figure 2.

The auditors explained that although JFLH now served fewer patients (patient days decreased by 21 percent), full-time employment had increased by 23 percent and the average salary increased by 20 percent. The study attributed the increase in full-time employment to the cost of additional personnel handling tasks other than direct patient care.

Our review of JFLH financial reports showed that while operating expenses increased by a rate of 33.4 percent, operating revenues increased only by 23.5 percent over the same period. Disparity between patient revenues and expenses increased JFLH's dependency on GVI appropriations, while threatening its ability to meet its financial responsibilities without exploring other options such as restructuring its staffing levels.

We obtained studies performed by CMS, which showed that when compared to similar hospitals, the number of full-time employees per occupied bed at JFLH was unusually high. Between fiscal years 2007 and 2010, JFLH averaged more than nine employees per occupied bed. Over the same period, the hospitals in CMS's control group averaged about eight full-time employees. This difference of one employee, averaged over the total number of hospital beds, creates significant additional staff. While the number of employees per occupied bed does not define hospital efficiency in and of itself, in a cash strapped environment, it is a prime indicator of inflated employee costs, and reinforces the analysis of JFLH's independent auditors.

Recurring Expenses

As of December 31, 2011, JFLH owed 185 vendors approximately $29 million. This amount continues to balloon because JFLH's does not pay its vendors on time. In order to remain afloat, JFLH has been forced to adopt unconventional terms to manage its debt. It has accepted inflated costs for much-needed pharmaceuticals, as well as burdensome financing terms from vendors. These terms have created a vicious cycle of deficit management that plunges JFLH deeper into debt.

Our review disclosed that JFLH is sometimes forced to purchase pharmaceuticals from secondary vendors when nonpayment of debt strains its relationship with its primary vendor. Even though this primary vendor grants reduced costs and extended payment terms, the vendor now requires prepayment for pharmaceuticals due to JFLH's history of nonpayment of bills. Strapped for cash, JFLH has turned to secondary vendors for its pharmaceutical supplies. Ironically, these vendors purchase JFLH's order from the same primary vendor and then pass cost and markup on to JFLH.

An in-house price comparison conducted for JFLH's hemodialysis unit revealed that purchasing pharmaceuticals from a secondary vendor can cost up to $17,000 more per month for only one drug. Another analysis conducted in April 2011, again by a JFLH in-house committee, determined that the hospital potentially expended $75,000 more per month when the hospital purchased pharmaceuticals from secondary vendors, which amounted to $900,000 annually. The analysis also revealed that cash flow woes forced JFLH to purchase pharmaceuticals from secondary vendors up until April 2011.

Since then, JFLH has struggled to purchase at least 80 percent of its pharmaceuticals from its primary vendor in an effort to reduce costs. This action was taken to address extraneous costs applied to purchases by secondary vendors and demonstrates one action taken by the hospital to address its debt load. Any fluctuation in JFLH's tenuous financial position, however, will force it back into inflated payments.

We also found that vendors added significant finance charges based on JFLH's history of making late payments. For example, a vendor contracted to recruit and place qualified healthcare professionals now requires JFLH to make weekly payments to cover finance charges. Our review of all weekly finance charges made to this vendor in fiscal years 2009 to 2011 revealed that payments grew from roughly $2,700 in 2009 to $9,700 in 2011. The financing terms required by this vendor were not part of the original contract agreement or any other supplemental agreement. Rather, they were outlined in an email that billed for the finance charges. JFLH either had to accept the terms and pay the weekly finance charges or face the risk of losing its traveling healthcare professionals, which comprised a significant portion of the hospital's overall staff. During the past 3 years, JFLH has made payments in excess of $670,000 in finance charges alone and, as of December 2011, had an outstanding balance of $3.6 million owed to this vendor.

JFLH also incurred debt due to its partnership agreement to meet patient needs for specialized medical equipment. The hospital entered into a partnership to establish and operate a spiral CAT scanner, MRI equipment, and a diagnostic lab. JFLH agreed to pay this partner for all referrals. Historically, uninsured patient accounts are the most difficult to collect. Because of this agreement, JFLH's debt to its partner has ballooned to $5 million since 2007. At the close of our evaluation, JFLH had met with its partner and had offered a settlement of $1 million.

In addition to the expenses listed above, JFLH also incurred $50 million in debt to GVI. Since the beginning of fiscal year 2000, GVI has extended additional salary and benefit payments for other JFLH employees (not included in the annual appropriation), averaging more than $4 million annually. GVI extended this particular cost, however, with the expectation of reimbursement. Due to JFLH's weak financial position, it could not reimburse GVI, accumulating arrears of more than $50 million. At the close of our evaluation, GVI had forgiven the debt. In light of GVI's current fiscal condition, in which hundreds of GVI employees have been laid off and threats of payless paydays loom, JFLH cannot continue with business as usual and expect continued GVI bailouts. This not only creates a strain on JFLH but on GVI as a whole.

Monitoring Costs

In times of fiscal austerity, minimizing costs necessitates careful scrutiny of every dollar spent. We found, however, that JFLH did not regularly monitor its costs. We questioned $2.1 million in employee loans, overpayments, payments made without valid agreements or supporting documentation, and payments made for services that were never received. Each instance could have been avoided had JFLH properly scrutinized or monitored money expended.

Employee Loans

Since JFLH's expenses far exceed its revenues, the hospital has a fiduciary responsibility to ensure the careful use of its limited resources. For instance, JFLH distributed more than $211,000 in employee loans intended to serve as salary advances from 1999 to 2004 and again from 2010 to 2011. New employees waiting for their first checks, as well as tenured employees facing financial hardship, received these loans. Many loans, however, were never repaid and several of the employees are no longer employed by JFLH.

During our evaluation, we notified JFLH's CFO about these issues. The CFO began to personally contact those who had not repaid their salary advances. Although letters were issued in September 2011, an outstanding balance of $116,800 remains. We learned that the Financial Services director is collaborating with JFLH's legal counsel to send out enforcement letters demanding payment. JFLH has now discontinued the practice of issuing employee loans.

Overpayments

We found that JFLH made $67,000 in overpayments to employees and contractors because no one reconciled outgoing payments with the terms of established agreements. For example, an employee temporarily acted in an executive management level position from October 2009 to December 2010. Although no longer acting in that position after it was filled in January 2011, the employee continued to receive elevated compensation until August 2011. This resulted in an overpayment of $35,700 that has not been repaid.

In another example, a security officer had a contractual agreement with JFLH that cited $16 per hour as the rate of pay. Our review revealed that the officer actually received $25 per hour, resulting in an overpayment of $9,800. Because no one reconciled outgoing payments, JFLH was unaware of the discrepancy until we brought it to the CFO's attention. Once notified, the CFO initiated a payment plan with the security officer to recoup the overpayment.

Payments Without Valid Agreements

JFLH did not always ensure that it made payments based on valid agreements. Failure to do so gave JFLH limited recourse in instances of nonperformance or overpayment, resulting in $68,690 in payments made without valid agreements. For example, JFLH entered into an agreement with a construction company to perform roofing repairs in January 2011. Rather than use a contract that had been reviewed and monitored according to normal procurement practices, JFLH issued a purchase requisition worth $72,700. JFLH gave the company an upfront payment of $36,300, but the company never showed up to perform the work.

Only after our December 2011 inquiry, essentially a year after the original requisition had been signed, JFLH issued a demand letter. In February 2012, JFLH and the company owner resumed talks to consider additional roofing work to offset the money received. At the close of our evaluation, we learned that the owner had proposed that JFLH enter into subsequent agreements and make partial discounts until the original agreed sum had been paid in full. If JFLH ultimately agrees, it will have to make additional payments to this company and run the risk of nonperformance once again.

In another example, JFLH hired a second security officer without an employment contract or a Notice of Personnel Action. A review of personnel files disclosed that JFLH intended to pay the security officer the standard rate of $16 per hour, but the officer was actually paid at the rate of $25 per hour. The discrepancy enabled the officer to receive $13,600 without a contract and $4,900 in excess of the intended amount. Again, JFLH had been unaware of the discrepancy until we brought it to the attention of hospital staff. At that time, the security officer was no longer employed at JFLH.

Payments Without Supporting Documentation

We found that JFLH did not always obtain supporting documentation from its contractors to justify costs. Instead, JFLH paid down its debt on the sum it had been billed without determining the legitimacy of the charges. For example, we found that a contractor received travel reimbursements totaling $12,865, although he did not provide supporting documentation with corresponding invoices. In one instance, the contractor submitted an invoice for travel charges of $8,170. When we compared the contractor's travel dates to workdays claimed, we discovered that the contractor did not provide any service to JFLH for the first 14 days of travel. A simple review would have alerted JFLH to the unsupportable charges.

We also found instances where JFLH made payments without a record of supporting documentation from contractors. Therefore, the hospital did not know if it had overpaid for products or received all of the products it had paid for. For example, we reviewed eight payments made to a pharmaceutical vendor. JFLH officials could not provide us with invoice statements for five of the payments or with receiving reports for any of the eight payments, which totaled $1.7 million.

In almost every instance where we notified JFLH management of shortcomings with their monitoring of payments, they worked immediately to resolve the issues and rectify the problem areas.

Recommendations

To fiscally stabilize JFLH by addressing the management of expenses, JFLH, at a minimum, should:

6. Review staffing levels to determine potential alternatives that accommodate sustainable revenue streams;
7. Negotiate with major creditors to create better repayment terms and lower accounts payable balances;
8. Enforce collections on employee loans to recoup outstanding balances from current and former JFLH employees;
9. Monitor contracts, agreements, leases, and employment terms to prevent overpayments and the issuance of payments without valid contracts;
10. Uniformly enforce reimbursement for overpayments in the form of employee incentives and wages;
11. Adhere to internal rules and regulations by securing contracts for purchases and services; and
12. Ensure the receipt, review, and filing of supporting reports for all purchases and services provided to JFLH. All pharmaceuticals should be accounted for and verified as received to ensure that JFLH took possession of all items paid for.

Conclusion and Recommendations

Conclusion

JFLH has no quick solution that it can use to balance ongoing expenses against incoming revenue. A chain reaction of difficulties has deepened and made more complex the fiscal adaptations required by hospital management to balance the growing deficit. Sweeping changes are necessary for JFLH to successfully mitigate long-standing fiduciary challenges. JFLH is a central force in providing the health care needs of the St. Croix community. To serve this community effectively, JFLH can no longer overlook potential revenue sources while charging expenses against unidentified income. We believe that, to continue as an effective source of health care for its community and the visiting public, JFLH needs to consider the many positive changes that can be instituted by rigorous daily attentiveness to good fiscal practices.

Recommendations

To address the deficiencies identified in this report, we recommend that the Governor of the Virgin Islands ensures that JFLH will:

1. Consistently apply collection procedures, including timely follow-ups on unpaid bills to all primary and secondary insurance carriers.

   VI Response: The Governor concurred with this recommendation, indicating that a revenue cycle team has been formed at JFLH to capture and collect all charges. An internal action plan prepared by JFLH noted that this recommendation was about 90 percent implemented.

   OIG Reply: We consider this recommendation resolved but not implemented.

2. Comply with precertification and disclosure regulations set forth by certain insurance carriers, such as CIGNA and VA, to increase the likelihood of reimbursement.

   VI Response: The Governor noted that JFLH concurred with this recommendation. JFLH's internal action plan indicates that this action is being handled by its revenue cycle team and that it was approximately 90 percent complete.

   OIG Reply: We consider this recommendation resolved but not implemented.

3. Closely monitor all revenue-generating arrangements to ensure all revenues due are efficiently collected.

   VI Response: The Governor concurred with this recommendation, indicating that JFLH representatives have met with all involved parties. JFLH noted on its internal action plan that this recommendation was less than 70 percent complete.

OIG Reply: We consider this recommendation resolved but not implemented.

4. Frequently review rates to capture the rising cost of providing health care services.

   VI Response: The Governor concurred with this recommendation, noting that JFLH has identified a charge capture coordinator to ensure each department's changes are being recorded and captured. JFLH also has implemented the last phases of its charge capture software.

   OIG Reply: We consider this recommendation resolved and implemented.

5. Fully implement the terms of the agreement with CMS to ensure future Medicare and Medicaid funding.

   VI Response: The Governor concurred with this recommendation, responding that JFLH had entered into agreements to specifically improve Chronic Dialysis, Patient Care Assessment, Wound Care Management, and Nursing care and leadership. JFLH's internal action plan noted that this recommendation was about 90 percent complete.

   OIG Reply: We consider this recommendation resolved but not implemented.

6. Review staffing levels to determine potential alternatives that accommodate sustainable revenue streams.

   VI Response: The Governor concurred with this recommendation, noting JFLH's ongoing efforts to review and make changes to staffing levels. JFLH has demonstrated a 17.4 percent reduction in cost from a month-to-month comparison. Its internal action plan noted that this recommendation was about 90 percent complete.

   OIG Reply: We consider this recommendation resolved but not implemented.

7. Negotiate with major creditors to create better repayment terms and lower accounts payable balances.

   VI Response: The Governor concurred with this recommendation, noting JFLH's ongoing efforts to negotiate with accounts payable creditors for debt relief. JFLH's internal action plan rated the progress of implementation as less than 70 percent complete.

   OIG Reply: We consider this recommendation resolved but not implemented.

8. Enforce collections on employee loans to recoup outstanding balances from current and former JFLH employees.

   VI Response: The Governor concurred with this recommendation, noting JFLH's ongoing collection efforts and the issuance of demand letters. JFLH's internal action plan rated the progress of implementation as less than 70 percent complete.

   OIG Reply: We consider this recommendation resolved but not implemented.

9. Monitor contracts, agreements, leases, and employment terms to prevent overpayments and the issuance of payments without valid contracts.

   VI Response: The Governor concurred with this recommendation and outlined ongoing efforts to monitor such agreements through reorganization, internal auditing, and the Board of Directors' involvement. JFLH's internal action plan reported this to be about 90 percent completed.

   OIG Reply: We consider this recommendation resolved but not implemented.

10. Uniformly enforce reimbursement for overpayments in the form of employee incentives and wages.

    VI Response: The Governor concurred with this recommendation, responding that the use of payment demand letters and a collection process, which may include garnishing wages, is ongoing. JFLH's internal action plan reported this to be less than 70 percent completed.

    OIG Reply: We consider this recommendation resolved but not implemented.

11. Adhere to internal rules and regulations by securing contracts for purchases and services.

    VI Response: The Governor concurred with this recommendation, reporting that JFLH has implemented internal audit reporting to the Board of Directors' Finance Committee.

    OIG Reply: We consider this recommendation resolved and implemented.

12. Ensure the receipt, review, and filing of supporting reports for all purchases and services provided to JFLH. All pharmaceuticals should be accounted for and verified as received to ensure that JFLH took possession of all items paid for.

    VI Response: The Governor concurred with this recommendation, indicating that monthly reviews of contracts are now reported to the Board of Directors' Finance Committee. JFLH's internal action plan considered this action about 90 percent completed.

    OIG Reply: We consider this recommendation resolved but not implemented.

Appendix 1: Scope, and Methodology

Scope

We performed our inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency "Quality Standards for Inspections." We performed our evaluation work from May 9, 2011, to December 31, 2011 at the Juan F. Luis Hospital (JFLH) on St. Croix and reviewed activities and transactions that occurred during calendar years 2009 to 2011, as well as other periods as appropriate, to better obtain a historical perspective of JFLH's financial position. We reviewed audited financial statements from 2004 to 2010, board minutes from 2007 to 2011, and employee loans issued from 1999 to 2011.

Methodology

To accomplish our objective, we interviewed officials and reviewed financial reports and records pertaining to patient accounts receivable, third-party reimbursements, contracts, employment agreements, employee loans, and revenues. We reviewed the entire universe of employee loans and selected judgmental samples in the areas of patient accounts receivable, contracts, employment agreements, and operational transactions. We also consulted with JFLH's two accounts receivable contractors and officials from the Center for Medicare and Medicaid Services.

Appendix 2: Questioned Costs

Unrealized Income (Poor Collection Efforts)	
Patient Accounts Receivable	$105,750
Third Party Reimbursements	$245,950
Internal Service Arrangements	$16,150
Total	**$367,850**
Funds To Be Put to Better Use	
Recurring Expenses (Finance Charges)	$672,800
Total	**$672,800**
Questioned Costs (Lack of Monitoring)	
Unnecessary/Unreasonable (Employee Loans)	$211,000
Ineligible Costs (Overpayments & Payment w/o Agreements)	$135,660
Unsupported Costs	$1,777,930
Total	**$2,124,590**
Overall Monetary Impact - JFLH	**$3,165,240**

Appendix 3: Virgin Islands Response

The response from the Governor of the Virgin Islands follows on page 21.

THE UNITED STATES VIRGIN ISLANDS
OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE
Charlotte Amalie, V.I. 00802
340-774-0001

July 30, 2012

Ms. Mary L. Kendall
Acting Inspector General
United States Department of the Interior
Office of the Inspector General
Caribbean Field Office
Ron deLugo Federal Building, Room 207
St. Thomas, Virgin Islands 00802

Dear Ms. Kendall:

This correspondence acknowledges receipt of your letter dated May 31st, 2012 regarding the U. S. Department of the Interior's Office of the Inspector General Draft Evaluation Report No. VI-EV-VIS-0002-2012, *Juan F. Luis Hospital and Medical Center* (JFLH or JFL). The draft evaluation report essentially provides recommendations in support of two key financial areas necessitating greater focus and attention from the JFL team: the management of revenues and expenses. My administration appreciates your assistance in this endeavor and submits the following response.

JFLH is cognizant of the issues raised and in concurrence with the recommendations in the draft report (Exhibit I). As noted by Chief Executive Officer, Mr. Jeff Nelson, "Since the declaration of a financial emergency in March 2011, JFL has engaged in open, transparent and ongoing communications regarding its financial challenges." Recognizing the need to be vigilant with addressing its revenue and expense challenges, JFL has already taken steps to correct deficiencies, prior to and subsequently, since receiving the evaluation report. Accordingly, changes and improvements, inclusive of admitting and discharge planning, reduction in medication costs and errors, and redressing discharge time, are underway in key financial processes.

The aforementioned and related measures are expected to positively impact JFL's revenues for the fiscal year. JFL's Income Statement for June 2012, reflects an increase in both month-to- date and year-to-date revenues as compared to the same period in the prior year (FY 2011). Similarly, there has been a decrease in expenses from June 2011 to June 2012, and JFL expects its total operating expenses for FY 2012 to be less than they were in FY 2011.

As indicated in your May 31st letter, the Juan F. Luis Hospital and Medical Center is the primary provider of healthcare services to the people of the Virgin Islands and transient guests, in the district of St. Croix. As such, it is imperative that its internal financial controls be strengthened, coupled with adoption of creative/innovative ways to generate and/or collect much needed revenues. Such progress will help to ensure the continuity of providing quality healthcare to the general public.

Thank you for your draft evaluation report. I am confident that CEO Nelson and his team will continue to proactively make positive strides toward resolution of JFL's fiscal concerns.

Sincerely,

John P. de Jongh, Jr.
Governor

Enclosure

Finding # 1: Management of Revenues

Governor Juan F. Luis Hospital's (JFL) chronic inability to generate a steady flow of revenue has been a major contributor to its current fiscal position. Although JFL faces annual losses in the tens of millions of dollars, it has not taken sufficient steps to ensure that patient accounts receivable, third-party reimbursements, and internal service agreements have been collected in a timely, effective manner. In addition, JFL has not raised its rates to reflect current health care costs.

Recommendations (JFL)

1. Consistently apply collection procedures, including timely follow-ups on unpaid bills to all primary and secondary insurance carriers
2. Comply with precertification and disclosure regulations set forth by certain insurance carriers, such as CIGNA and VA, to increase the likelihood of reimbursements
3. Closely monitor all revenue-generating arrangements to ensure all revenues due are efficiently collected
4. Frequently review rates to capture the rising cost of providing health care services
5. Fully implement the terms of the agreement with CMS to ensure future Medicare and Medicaid funding

Government's Response

JFL concurs with the finding and recommendations. However, as an answer to the decreasing tax appropriations provided to JFL from the Government of the Virgin Islands, during Fiscal Years (FY) 2011 (FY11) and 2012 (FY12) JFL has increased its charges to be on par with those of the Schneider Regional Medical Center (SRMC). As a result, JFL's FY12 revenues for June and for the year to-date period through June are significantly higher than the revenues for the same time periods in FY11. The table below displays the increase in gross and net patient revenues.

Governor Juan F. Luis Hospital & Medical Center
Financial Statement Overview for June 2012
As of July 17, 2012
Source: JFL Finance

	YTD Thru June		YTD Thru June Chg.				FY12 YE Est. vs. FY11 YE Act.	
Income Statement	*FY12*	*FY11*	*$*	*%*	*FY12 YE Est.*	*FY11 YE Act.*	*$*	*%*
Gross Revenues	**$87,301,375**	**$63,698,838**	**$23,602,537**	37.1%	**$120,798,198**	**$86,879,638**	**$33,918,559**	39.0%
Subtotal Contractuals/Bad Debt/C	$52,385,893	$34,828,854	$17,557,038	50.4%	$72,483,987	$47,932,993	$24,550,993	51.2%
Net Patient Revenues	$34,915,482	$28,869,984	$6,045,498	20.9%	$48,314,211	$38,946,645	$9,367,566	24.1%
Other Revenues	$757,965	$754,639	$3,326	0.4%	$955,752	$1,138,086	($182,334)	-16.0%
Subtotal Operating Revenues	$35,673,447	$29,624,622	$6,048,825	20.4%	$49,269,963	$40,084,731	$9,185,232	22.9%
Non-Operating Revenue	$54,027,911	$0	$54,027,911		$54,027,911	$0	$54,027,911	#DIV/0!
U.S.V.I. Capital Transfers	$0	$0	$0		$0	$200,000	($200,000)	-100.0%
Tax Appropriations	$16,910,094	$18,416,899	($1,506,805)	-8.2%	$21,506,094	$23,977,957	($2,471,863)	-10.3%
Subtotal Tax Appropriations	*$70,938,005*	*$18,416,899*	*$52,521,106*	285.2%	*$75,534,005*	*$24,177,957*	*$51,356,048*	212.4%
Total "cash" revenues - with non-oper.	**$106,611,452**	**$48,041,521**	**$58,569,931**	121.9%	**$124,803,968**	**$64,262,688**	**$60,541,280**	94.2%
Total "cash" revenues - without debt relief	**$52,583,541**	**$48,041,521**	**$4,542,019**	8.6%	**$70,776,057**	**$64,262,688**	**$6,513,369**	9.2%

Further, as of December 2011, JFL's patients' net accounts receivable, the amount expected to be collected in cash, was $11.5 million. JFL accounts for the receivables based on Generally Accepted Accounting Principles (GAAP).

Corrective Action

Recommendations 1 to 5

JFL has implemented a revenue cycle team approach with a target to capture and collect 100 percent of all charges. The revenue cycle team meets at least twice a week to address and implement actions and systems to generate more revenues, on the same book of patient business, and collect all the cash JFL is owed. To date, the revenue cycle team has:

- Reduced the day's final not billed claims from more than nine (9) days to five (5) days
- Implemented new admission screens to improve the verifiability of patient's contact and insurance information
- Implemented the last phases of the Craneware charge capture software
- Identified a Charge Capture Coordinator to ensure each department's charges are recorded/captured

JFL's Revenue Cycle Team, who meet at least twice a week, has been working toward implementing corrective measures including:

- Producing timely bills. During the month of May, JFL sent out more than 9,000 bills to patients. This is the highest number of bills sent out by JFL in any month.
- Offering an amnesty program for self-pay accounts. The program provides significant discounts to patients who pay their JFL bills. For bills paid in full by June 30, patients received a 50 percent discount. For bills paid in full by July 31, patients received 25 percent discount. Through June 30th, the amnesty program raised an additional $230,000 over the amounts collected in May. JFL expects the amnesty program to bring in more than $300,000 in additional cash.
- Implementing new charge collection and accounts receivable work re-design programs including:
    - Implementing Craneware software to capture charges
    - Implementing daily Turn Around Documents to track claim collections
    - Implementing charges for services performed

Compliance with the Centers for Medicare and Medicaid Services

JFL has implemented and entered into Systems Improvement Agreements (SIAs) with CMS to improve: Chronic Dialysis (JFL has now been awarded 5 Diamond Status by CMS' Contractor, Quality Insights Network 3), Patient Care Assessment, Wound Care Management, and Nursing care and leadership.

- Per the SIAs, JFL has complied with contracting with industry expert firms to lead JFL to full compliance with CMS

- JFL has implemented daily work plans of correction to address CMS' and the community concerns regarding the above. JFL team members are assigned to implement and report the work in progress at least weekly. The work plans are submitted to CMS monthly. There are monthly calls with CMS to review the work plans and the results achieved to date.
- The SIA for the Dialysis Unit is set to expire on December 31, 2012
- The SIA for the entire hospital is set to expire on November 28, 2014
- Both SIAs could be extended depending upon the results of CMS' onsite survey of JFL
- The updated work plans submitted to CMS are available on JFL's website www.jflusvi.org under the transparency tab.

Responsible Party (ies):

- Revenue Cycle Team – Mrs. Sezelle Gabriel-Banwaree, Assistant CFO
- CMS SIA Hemodialysis unit – Mr. Larry McGowan, Interim Manager
- CMS SIA Whole Hospital – Work Plan Team

Implementation date: March 2011

Due Date: December 2012

Finding #2: Management of Expenses

JFL's financial position also has deteriorated due in large part to its inability to balance expenses against revenue. Although strapped for cash, JFL has not exercised fiscal restraint. The resulting debt has hindered payment of outstanding bills as they come due and plunged the hospital into an ever-deepening cycle of untimely payments that require both service charges and late fees, and jeopardize long-standing relationships with vendors. In addition, JFL has not properly monitored its agreements to lessen the frequency of overpayments, pre-payments, and unsupported payments.

Recommendations (JFL)

6. Review staffing levels to determine potential alternatives that accommodate sustainable revenue streams
7. Negotiate with major creditors to create better repayment terms and lower accounts payable balances
8. Enforce collections on employee loans to recoup outstanding balances from current and former JFL employees
9. Monitor contracts, agreements, leases, and employment terms to prevent overpayments and the issuance of payments without valid contracts
10. Uniformly enforce reimbursement for overpayments in the form of employee incentives and wages

11. Adhere to internal rules and regulations by securing contracts for purchases and services
12. Ensure the receipt, review, and filing of supporting reports for all purchases and services provided to JFL. All pharmaceuticals should be accounted for and verified as received to ensure that JFL took possession of all items paid for

Government's Response

JFL concurs with the finding and recommendations; however, JFL notes the following insights regarding its overall expense management. As noted in the table below, JFL's expense management programs are increasingly taking effect. JFL's subtotal operating expenses for June 2012 was 17.4% less costly than for June 2011. For the year to-date through June 2012, JFL's expenses were only up by 2.8% over the same time period for the prior year. JFL expects total operating expenses for the year ending FY12 September 30 to be significantly less than the total operating expenses for the same time period in FY11.

Governor Juan F. Luis Hospital & Medical Center
Financial Statement Overview for June 2012
As of July 17, 2012
Source: JFL Finance

	For Month June		Month Change		YTD Thru June		YTD Thru June Chg.	
Income Statement	FY12	FY11	$	%	FY12	FY11	$	%
Expenses								
Subtotal Compensation and Travelers	$3,501,797	$4,369,790	($867,993)	-19.9%	$33,394,195	$34,644,283	($1,250,088)	-3.6%
Supplies	$937,660	$1,300,965	($363,305)	-27.9%	$8,661,504	$10,089,922	($1,428,417)	-14.2%
Professional Fees/Services	$959,133	$1,136,212	($177,079)	-15.6%	$10,515,277	$8,236,023	$2,279,254	27.7%
Other Expenses	$510,650	$343,099	$167,551	48.8%	$4,496,551	$2,565,846	$1,930,705	75.2%
Subtotal Operating Expenses	$5,909,241	$7,150,066	($1,240,825)	-17.4%	$57,067,527	$55,536,073	$1,531,454	2.8%

Corrective Actions

Recommendation 6: Review staffing level

JFL implemented several key steps including:

- Eliminating eighty six (86) full time employment positions on February 28, 2012
- Deploying a Registered Nurse (RN) dominated care model with targeted daily RN to Patient Ratios
- Continuing to reduce overtime hours

Compensation Cost Changes

JFL's largest single operating expense is compensation. On February 28, 2012, JFL eliminated eighty-six (86) full time equivalent positions including Certified Nursing Assistance and Licensed Practical Nurses, from which JFL expects to reduce its total compensation costs by approximately $4 million over a twelve month period. Since February 28, 2012, JFL has experienced additional lower compensation costs due to lower overtime costs:

- March 2012 had 426 fewer overtime hours than in February 2012
- April 2012 had 532 fewer overtime hours than in March 2012
- May 2012 had lower overtime per pay period than the previous months

Nursing accounts for the largest segment of JFL's compensation costs. To optimize nursing compensation, on February 29, 2012, JFL implemented:

- RN to Patient Ratio system to deploy RNs with a business discipline. Using RN to Patient Ratio union standards, JFL deploys approximately one RN to every five or fewer patients. This deployment is modified by the acuity (intensity of an illness) of the admitted patients or the services rendered on an outpatient basis. JFL monitors and adjusts the deployment of RNs three times a day, seven days a week.
- JFL further recognizes the cost of traveling RNs. As of June 30th, JFL has one hundred eighty five (185) RNs of which sixty (60) are contracted to JFL from nurse travel agencies. To reduce the number of traveling RNs under contract, JFL has negotiated through the Office of Collective Bargaining with the RN Virgin Island Nursing Association's Collective Bargaining Unit for higher market competitive wages for RNs effective October. JFL's objective is to raise the salaries of local permanent RNs to market rates in order to attract and retain more local and permanent RNs. This will eliminate the need for and expense of high cost traveling RNs. JFL estimates the cost savings from this action will exceed $1 million annually. JFL anticipates a reduction of travel RNs by 90 percent by December 30, 2012.

Compensation Cost Reduction - Early Retirement Programs

- In June 2011, a voluntary, early retirement incentive was offered to employees with twenty-five years of service or more and at least fifty (50) years of age, as well as to other interested parties. Twenty-nine (29) employees with more than thirty (30) years of service voluntarily participated.
- In October 2011, JFL offered a second and final round of early retirement incentive program to team members. JFL anticipated yielding approximately $3.5 million in savings for Fiscal Year 2012. Five (5) team members accepted that package.

Responsible Party(ies)

Reduction in Force: Mr. Jeff A. Nelson, Chief Executive Officer
Management of Overtime: Terry Lynch, CNO
Implementation Date: February 28, 2012

Recommendation 7: Negotiate with major creditors

Cash Flow Management – Debt Relief

- JFL is actively working with accounts payable creditors for debt relief. JFL currently owes more than $34 million to creditors as of April 30, 2012. JFL expects to complete the agreement with one creditor that will reduce JFL's payables by about $5 million. JFL continually negotiates with creditors to reduce the debt JFL owes.

Supplies Cost Reduction – Group Purchasing

- In January 2012, JFL joined Premier, a Group Purchasing Organization (GPO) to reduce the cost of supplies and equipment; in particular, JFL signed an agreement to reduce its pharmaceutical and medical/surgical supplies. The recent contract with Premier is expected to reduce JFL's total supplies costs by an estimated $700,000 annually over the experience of Fiscal Year 2011 (FY'11).

Professional Fees Reductions – Physician and Locum Tenums

- JFL currently pays approximately $5 million annually in physician compensation and $4 million in locum tenums costs to cover the physicians while they are not on the island. JFL is currently examining ways to work to reduce these costs and/or find a more effective manner to partner with physicians to generate revenues for JFL and the physicians at a more effective cost.

Responsible Party (ies):

- Debt relief – Mr. Jeff A. Nelson, Chief Executive Officer
- Supply cost reductions – Ms. Hazel Philbert-Thomas, Director of Materials Management
- Professional fee reductions – Mr. Jeff A. Nelson, Chief Executive Officer

Implementation Date: January 2012

Recommendation 8: Enforce collections on employee loans

JFL has issued payment demand letters for advance payments to employees, and the collection process is on-going.

Responsible Party (ies):

- Repayment of loans – Ms. Aishe Nisbett, Asst. Chief Financial Officer and Mrs. Royette Russell, Esq., General Counsel

Implementation Date: September 2011 and ongoing

Recommendation 9: Monitor contracts/agreements

- JFL reports of the listing of executed contracts on a monthly basis to the JFL's Finance Committee of the Board of Directors as well as reorganized JFL's management reporting system to include establishing an Internal Auditor reporting directly to JFL's Board of Director and its Finance Committee. Each month, JFL reports its professional, service and other contracts to the Finance Committee of the JFL Board of Directors for review and oversight.

- OIG's Draft Evaluation Report indicated JFL's failure to enter into formal (not "valid") agreements; however, this was not the reason that JFL was owed $36,300 for work that was not performed. A requisition is a contract and legal recourse is available to JFL for failure to perform under that contract. Such recourse includes reimbursement, specific performance and damages for breach. JFL contacted a contractor who has performed the work. JFL has taken action to recoup the $36,300.

- The Draft Evaluation Report indicated a concern regarding the agreement with a Pathologist. The agreement provides workspace and certain supplies for the analysis of specimens by the Pathologist. In return, the Pathologist agrees to pay JFL $25.00 for each specimen reviewed no later than the tenth day of the month following the service. Checks and balances have been implemented. The specimens are logged into the JFL Meditech System and reconciled against the monies paid to JFL by the doctor. The contract expired in June of 2011 and the parties entered into discussions including the need to increase monitoring. Additionally, prior to the audit JFL was acutely aware of the need for checks and balances and has made plans to conduct more frequent audits of the statements and payments.

- The Draft Evaluation Report noted that a JFL employee who temporarily acted in an executive management level position continued to receive elevated compensation after the position was filled. The decision to continue payments to this employee was not an oversight, but rather a Chief Executive Officer decision. The employee continued to receive payments until a proper transition of roles could be established. Once the employee's new role was changed, compensation was changed as well.

Responsible Party (ies):

- Contract review and management – Mrs. Royette Russell, Esq. General Counsel and Ms. Dyma Williams, Risk Management and Compliance

Implementation Date: September 2011 and ongoing

Recommendation 10: Enforce reimbursement for overpayment (employees)

JFL has issued payment demand letters and the collection process, which may include garnishing wages, if necessary, is on-going.

Responsible Party (ies):

- Reimbursement for overpayment – Ms. Aishe Nisbett, Asst. Chief Financial Officer

Implementation Date: September 2011 and ongoing

Recommendation 11: Adhere to internal rules & regulations (purchases/services)

JFL has implemented internal audit reporting of this matter to JFL Board's Finance Committee, and linked legal sufficiency review and Finance reporting of contracts to JFL Board's Finance Committee.

Responsible Party (ies):

- Mrs. Royette Russell, Esq. General Counsel
- Ms. Dyma Williams, Risk Management and Compliance

Implementation Date: July 2012 and ongoing

Recommendation 12: Ensure review and access to supporting reports (purchases/services)

JFL reports monthly review of contracts to JFL Board of Director's Finance Committee and the JFL Board of Directors.

Responsible Party (ies):

- Mrs. Royette Russell, Esq. General Counsel
- Ms. Aishe Nisbett, Assistant CFO
- Ms. Dyma Williams, Risk Management and Compliance

Implementation Date: FY10

Appendix I – JFL's Financial Statements through June 30, 2012

Governor Juan F. Luis Hospital & Medical Center
Financial Statement Overview for June 2012
As of July 17, 2012
Source: JFL Finance

	For Month June		*Month Change*	
Income Statement	***FY12***	***FY11***	***$***	***%***
Revenues including tax $				
Gross Revenues	**$11,165,608**	**$8,058,762**	**$3,106,846**	38.6%
Contractuals/Deductions	$3,020,933	$3,333,882	($312,949)	-9.4%
Subtotal Contractuals	$3,020,933	$3,333,882	($312,949)	-9.4%
Provision for Doubtful Accounts	$3,103,971	$1,298,351	$1,805,620	139.1%
Charity/Administrative Discounts	$574,461	$320,288	$254,173	79.4%
Subtotal Bad Debt and Charity	$3,678,432	$1,618,639	$2,059,792	127.3%
Subtotal Contractuals/Bad Debt/C	$6,699,365	$4,952,521	$1,746,843	35.3%
Net Patient Revenues	$4,466,243	$3,106,241	$1,360,002	43.8%
Other Revenues	$65,929	$110,328	($44,399)	-40.2%
Subtotal Operating Revenues	$4,532,172	$3,216,569	$1,315,603	40.9%
Non-Operating Revenue	$0	$0	$0	
U.S.V.I. Capital Transfers	$0	$0	$0	
Tax Appropriations	$1,908,232	$1,942,303	($34,071)	-1.8%
Subtotal Tax Appropriations	*$1,908,232*	*$1,942,303*	*($34,071)*	*-1.8%*
Total "cash" revenues - with non-oper.	**$6,440,404**	**$5,158,872**	**$1,281,532**	39.1%
Total "cash" revenues - without debt relief	**$6,440,404**	**$5,158,872**	**$1,281,532**	24.8%
Expenses				
Subtotal Compensation and Travelers	*$3,501,797*	*$4,369,790*	*($867,993)*	-19.9%
Supplies	$937,660	$1,300,965	($363,305)	-27.9%
Professional Fees/Services	$959,133	$1,136,212	($177,079)	-15.6%
Other Expenses	$510,650	$343,099	$167,551	48.8%
Subtotal Operating Expenses	*$5,909,241*	*$7,150,066*	*($1,240,825)*	-17.4%
EBIDA - with non-operating revenues	**$531,163**	**($1,991,194)**	**$2,522,357**	-126.7%
EBIDA - with non-op and w/o debt relief	**$531,163**	**($1,991,194)**	**$2,522,357**	-126.7%
Depreciation Expense	$259,619	$278,563	($18,944)	-6.8%
Interest Income	($104)	($931)	$827	-88.8%
Interest Expense	$390	$1,380	($990)	-71.7%
Subtotal	$259,905	$279,012	($19,106)	-6.8%
Net Income (loss)	**$271,258**	**($2,270,206)**	**$2,541,463**	-111.9%

Governor Juan F. Luis Hospital & Medical Center
Financial Statement Overview for June 2012
As of July 17, 2012
Source: JFL Finance

	YTD Thru June		YTD Thru June Chg.	
Income Statement	***FY12***	***FY11***	***$***	***%***
Revenues including tax $				
Gross Revenues	**$87,301,375**	**$63,698,838**	**$23,602,537**	37.1%
Contractuals/Deductions	$29,987,787	$20,783,108	$9,204,678	44.3%
Subtotal Contractuals	$29,987,787	$20,783,108	$9,204,678	44.3%
Provision for Doubtful Accounts	$20,321,487	$11,070,299	$9,251,189	83.6%
Charity/Administrative Discounts	$2,076,619	$2,975,448	($898,829)	-30.2%
Subtotal Bad Debt and Charity	$22,398,106	$14,045,746	$8,352,360	59.5%
Subtotal Contractuals/Bad Debt/C	$52,385,893	$34,828,854	$17,557,038	50.4%
Net Patient Revenues	$34,915,482	$28,869,984	$6,045,498	20.9%
Other Revenues	$757,965	$754,639	$3,326	0.4%
Subtotal Operating Revenues	$35,673,447	$29,624,622	$6,048,825	20.4%
Non-Operating Revenue	$54,027,911	$0	$54,027,911	
U.S.V.I. Capital Transfers	$0	$0	$0	
Tax Appropriations	$16,910,094	$18,416,899	($1,506,805)	-8.2%
Subtotal Tax Appropriations	*$70,938,005*	*$18,416,899*	*$52,521,106*	285.2%
Total "cash" revenues - with non-oper.	**$106,611,452**	**$48,041,521**	**$58,569,931**	121.9%
Total "cash" revenues - without debt relief	**$52,583,541**	**$48,041,521**	**$4,542,019**	8.6%
Expenses				
Subtotal Compensation and Travelers	*$33,394,195*	*$34,644,283*	*($1,250,088)*	-3.6%
Supplies	$8,661,504	$10,089,922	($1,428,417)	-14.2%
Professional Fees/Services	$10,515,277	$8,236,023	$2,279,254	27.7%
Other Expenses	$4,496,551	$2,565,846	$1,930,705	75.2%
Subtotal Operating Expenses	*$57,067,527*	*$55,536,073*	*$1,531,454*	2.8%
EBIDA - with non-operating revenues	**$49,543,925**	**($7,494,552)**	**$57,038,476**	761.1%
EBIDA - with non-op and w/o debt relief	**($4,483,986)**	**($7,494,552)**	**$3,010,565**	40.2%
Depreciation Expense	$2,721,063	$2,535,688	$185,375	7.3%
Interest Income	($2,619)	($13,958)	$11,339	-81.2%
Interest Expense	$6,222	$15,251	($9,029)	-59.2%
Subtotal	$2,724,666	$2,536,980	$187,685	7.4%
Net Income (loss)	**$46,819,259**	**($10,031,532)**	**$56,850,791**	-566.7%

Governor Juan F. Luis Hospital & Medical Center
Financial Statement Overview for June 2012
As of July 17, 2012
Source: JFL Finance

Income Statement	*FY12 YE Est.*	*FY11 YE Act.*	*FY12 YE Est. vs. FY11 YE Act.* $	%
Revenues including tax $				
Gross Revenues	**$120,798,198**	**$86,879,638**	**$33,918,559**	39.0%
Contractuals/Deductions	$39,050,586	$26,156,696	$12,893,890	
Subtotal Contractuals	$39,050,586	$26,156,696	$12,893,890	49.3%
Provision for Doubtful Accounts	$29,633,400	$14,238,960	$15,394,440	
Charity/Administrative Discounts	$3,800,001	$7,537,338	($3,737,337)	
Subtotal Bad Debt and Charity	$33,433,401	$21,776,298	$11,657,103	53.5%
Subtotal Contractuals/Bad Debt/C	$72,483,987	$47,932,993	$24,550,993	51.2%
Net Patient Revenues	$48,314,211	$38,946,645	$9,367,566	24.1%
Other Revenues	$955,752	$1,138,086	($182,334)	-16.0%
Subtotal Operating Revenues	$49,269,963	$40,084,731	$9,185,232	22.9%
Non-Operating Revenue	$54,027,911	$0	$54,027,911	#DIV/0!
U.S.V.I. Capital Transfers	$0	$200,000	($200,000)	-100.0%
Tax Appropriations	$21,506,094	$23,977,957	($2,471,863)	-10.3%
Subtotal Tax Appropriations	*$75,534,005*	*$24,177,957*	*$51,356,048*	212.4%
Total "cash" revenues - with non-oper.	**$124,803,968**	**$64,262,688**	**$60,541,280**	94.2%
Total "cash" revenues - without debt relief	**$70,776,057**	**$64,262,688**	**$6,513,369**	9.2%
Expenses				
Subtotal Compensation and Travelers	*$43,899,587*	*$44,839,352*	*($939,765)*	-2.1%
Supplies	$11,474,486	$13,965,124	($2,490,638)	-17.8%
Professional Fees/Services	$13,392,676	$11,990,735	$1,401,940	11.7%
Other Expenses	$6,028,502	$4,825,777	$1,202,725	24.9%
Subtotal Operating Expenses	$74,795,250	$75,620,988	($825,738)	-1.1%
EBIDA - with non-operating revenues	**$50,008,719**	**($11,358,300)**	**$61,367,019**	540.3%
EBIDA - with non-op and w/o debt relief	**($4,019,193)**	**($11,358,300)**	**$7,339,107**	64.6%
Depreciation Expense	$3,759,538	$3,387,353	$372,185	11.0%
Interest Income	($3,035)	($16,574)	$13,538	-81.7%
Interest Expense	$7,784	$18,859	($11,076)	-58.7%
Subtotal	$3,764,287	$3,389,639	$374,648	11.1%
Net Income (loss)	**$46,244,432**	**($14,747,939)**	**$60,992,371**	413.6%

Governor Juan F. Luis Hospital & Medical Center
Financial Statement Overview for June 2012
As of July 17, 2012
Source: JFL Finance

	For Month June		*June Difference*	
Balance Sheet	***2012***	***2011***	***$***	***%***
Current Assets				
Cash & Cash Equivalent	$78,942	$344,607	($265,666)	-77.1%
Accounts Receivables, Net	$12,650,389	$9,001,350	$3,649,040	40.5%
Due from Third Party Payers	$361,142	($93,157)	$454,299	
Inventories	$1,439,839	$2,392,705	($952,866)	-39.8%
Prepaid Expenses	$103,784	$67,375	$36,409	
Deposits on equipment	$1,134,593	$96,940	$1,037,654	1070.4%
Total Current Assets	$15,768,689	$11,809,820	$3,958,869	33.5%
Restricted Assets				
Cash & Cash Equivalent	$586,234	$1,545,243	($959,009)	-62.1%
Pledges/Other Receivables	$0	$75,000	($75,000)	-100.0%
Total Restricted Assets	$586,234	$1,620,243	($1,034,009)	-63.8%
Capital Assets, Net	$40,944,148	$44,295,341	($3,351,193)	-7.6%
Investment in Advanced Radiology LLC	$2,806,800	$2,437,051	$369,749	15.2%
Total Assets	$60,105,871	$60,162,455	($56,584)	-0.1%
Liabilities				
Current Liabilities				
Current Capital Lease Obligations	$23,970	$61,114	($37,144)	-60.8%
Accounts Payable	$22,185,150	$19,292,235	$2,892,915	15.0%
Accrued Payroll	$1,090,190	$1,397,666	($307,476)	-22.0%
Accrued Vacation	$2,479,847	$3,298,796	($818,949)	-24.8%
Accrued Expenses	$9,047,940	$4,450,165	$4,597,775	103.3%
Due to U.S. Virgin Islands Government	$0	$49,815,669	($49,815,669)	-100.0%
Due to Water and Power Authority	$7,018,274	$4,310,833	$2,707,441	62.8%
Deferred Revenue	$0	$500,000	($500,000)	
Total Current Liabilities	$41,845,370	$83,126,477	($41,281,107)	-49.7%
Capital Lease Obligations	$51,787	$237,319	($185,531)	-78.2%
Total Liabilities	$41,897,157	$83,363,795	($41,466,638)	-49.7%
Net Assets (Deficit)				
Invested in capital assets, net of related debt	$40,868,391	$43,996,908	($3,128,517)	-7.1%
Restricted - Expendable for Capital Acquisitions	$586,234	$1,620,243	($1,034,009)	-63.8%
Unrestricted	(23,245,912)	(68,818,493)	$45,572,581	-66.2%
Total Net Deficit	$18,208,714	($23,201,341)	$41,410,055	-178.5%
Total Liabilities and Net Assets (Deficit)	$60,105,871	$60,162,455	($56,585)	-0.1%

Appendix II

Specific Claims Noted in Draft Report

Per the current agreement with CIGNA Insurance, JFL is reimbursed for covered services rendered to patients with CIGNA Insurance at a ten percent (10%) discount off of the billed charges less any applicable coinsurance, co-payments, and deductibles. For the particular claim with a balance of $92,418 of late charges from October 2010, JFL has billed CIGNA Insurance for the remaining balance.

JFL continues to follow-up on claims with the Virgin Islands Workers' Compensation Administration, the VA, and other government agencies regarding payment for all outstanding claims.

Additional Attention to Expense Management Warranted

- Admitting and discharge planning. JFL is implementing national guidelines to establish expectations of a patient's length of stay and treatment protocols. This process will reduce JFL's operating expenses by more than $1 million through eliminating waste and inefficiencies once the guideline system is fully functional.
- Reduction in medication costs and errors. JFL implemented a new pharmacy purchasing program that has resulted in saving JFL more than $75,000 per month. JFL is also currently implementing new pharmacy procedures to reduce medication errors that cost JFL thousands of dollars annually.
- Discharge time. JFL is in the process of implementing a discharge time of 11 am. Patients will be able to have a more predictable time to have family members pick them up. The program will save JFL more than $100,000 over a twelve month time period.
- Monthly contract reporting. JFL has implemented a process to keep the JFL Board of Directors informed as to the number, names and terms of each professional and service contract on a monthly basis.

Also see attached, "Claims Submission" and "Monitoring Agreements" **Project Title** under Revenue Management (Improvement Category) on the Governor Juan F. Luis Hospital & Medical Center <u>Project Action Plan</u> as of May 16, 2012 (Appendix III).

Appendix III

Governor Juan F. Luis Hospital & Medical Center
Project Action Plan
Project: Revenue Management
As of May 16, 2012

[redacted]

		(Action to Take)	(Action Steps)	(Accountable)	Start	Finish				
Revenue Management	Stabilization of Financial Resources	Apply collection procedures	Consistently apply collection procedures, including timely follow-ups on unpaid bills to all primary and secondary insurance carriers;	INHS & Revenue Cycle Team	16-Apr-12	31-Oct-12	IT Infrastructure and Hardware, FTEs	Timely Claims, Clean Bills, Full Accreditation		As of April 16, 2011 JFL's Revenue Cycle Team has been working toward implementing measures that would produce timely claims, clean bills, and full accreditation. Additionally, with the support of INHS, the teams continues to aim toward applying and sustaining efficient collections procedures
		Comply with precertification and disclosure regulations	Comply with precertification and disclosure regulations set forth by certain insurance carriers, such as CIGNA and VA, to increase the likelihood of reimbursement;					Increased Revenue.		
		Monitor all revenue-generating arrangements	Closely monitor all revenue-generating arrangements to ensure all revenues due are efficiently collected;							
		Review rates	Frequently review rates to capture the rising cost of providing health care services;							
		Implement terms of CMS Agreement	Fully implement the terms of the agreement with CMS to ensure future Medicare and Medicaid funding.							
	Claims Submission	Failure to submit claim to Medicaid	Submission of Claim for $92,730 to Medicaid for full payment	A. Nisbett	23-Apr-12	22-May-12	Actual Claims	Full Reimbursement of Funds		The finance department is in review of the case.
		Failure to submit a claim to workman's compensation	Submit claim of $13,000 to workman's Compensation	A. Nisbett	23-Apr-12	23-May-12	Actual Claims	Full Reimbursement of Funds		The finance department is in review of the case.
	Monitoring Agreements	Failure to monitor VI Pathology Contract	Analysis of current contract	Legal & Patients Accounts, Admitting, MIS & Laboratory	25-Jan-12	30-Jun-12	Existing Contract	Structured Plan and implemented contract		
			Renegotiate or Terminate the contract	Legal, Patients Accounts, Admitting, MIS & Laboratory	25-Jan-12		Existing Contract			
			Recoup approximately $16,150	A. Nisbett	23-Apr-12		Past Claims	Recoupment of existing payment & possible overlooked payments		
			Audit Past invoices	A. Nisbett	23-Apr-12		Invoices			
	Charge Master Review	Update Charge Description Manager (CDM)	Implement Craneware Software	Revenue Style Team, INHS	8-Mar-10	30-Jun-12	Software, FTB's	Full implementation of Craneware Software		
			Identify CDM Specialist		1-Mar-12	30-Jun-12	1 FTE	Full functioning CDM Specialist		
		Increase Hospital Rates	Price Analysis & Price Mark Ups		August 2011 & March 2011	NA	Existing Prices, Fee Schedules	Newly implemented fees		
	CMS Compliance	Non-Compliance with CMS COP	Enter into a SIA with CMS	CEO, Revenue Cycle Team, Nursing Staff, Ancillary Staff, Marsh Consultants	28-Nov-11	2014	SIA, CMS Operations	Satisfactory completion of SIA and Full Accreditation		
			Implemented CMS Work Plan Team		11-Nov-11	2014	Work Plan, Support			
			Restructure Clinical and Support Departments		11-Nov-11	2014	Staff,			

Appendix 4: Status of Recommendations

Recommendations	Status	Action Required
1	Resolved; not implemented.	Continue on-going efforts towards full implementation.
2	Resolved; not implemented.	Continue on-going efforts towards full implementation.
3	Resolved; not implemented.	Continue on-going efforts towards full implementation.
4	Resolved and implemented.	None; continue newly implemented practice
5	Resolved; not implemented.	Continue on-going efforts towards full implementation.
6	Resolved; not implemented.	Continue on-going efforts towards full implementation.
7	Resolved; not implemented.	Continue on-going efforts towards full implementation.

8	Resolved; not implemented.	Continue on-going efforts towards full implementation.
9	Resolved; not implemented.	Continue on-going efforts towards full implementation.
10	Resolved; not implemented.	Continue on-going efforts towards full implementation.
11	Resolved and implemented.	None; continue newly implemented practice
12	Resolved; not implemented.	Continue on-going efforts towards full implementation.

Report Fraud, Waste, and Mismanagement

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