



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
3rd Floor Bertolino Building
Harrisburg, Pennsylvania 17105-2675

MAR 08 2007

TELEPHONE NUMBER
(717) 787-9200
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JOHN H. BUNGO, CGFM, CFS
DIRECTOR

Mr. Kenneth M. Wright
Controller
Hahnemann University Hospital
Broad & Vine Streets
Philadelphia, Pennsylvania 19102

Dear Mr. Wright:

I am enclosing the final report of the Hahnemann University Hospital recently completed by this office. Your response has been incorporated into the final report and labeled as Appendix.

I would like to express my appreciation to all the courtesy extended to my staff during the course of fieldwork. I understand that you were especially helpful to Timothy Rausch in expediting the audit process.

The final report will be forwarded to the Department's Office Medical Assistance Programs (OMAP) to begin the Department's resolution process concerning the report contents. The staff from the OMAP may be in contact with you to follow-up on the action taken to comply with the report's recommendations.

If you have any questions concerning this matter, please contact Richard Polek, Audit Resolution Section, at (717) 787-8890.

Sincerely,

John H. Bungo, CGFM, CFS

Enclosures

cc: Mr. Michael Nardone
Ms. Sharon W. Hayden
Mr. William Miller
Ms. Demielo C. Lucketta
Mr. Jeffrey W. Bechtel



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JOHN H. BUNGO, CGFM, CFS
DIRECTOR

TELEPHONE NUMBER
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Mr. Michael Nardone
Deputy Secretary
Office of Medical Assistance Programs
Room 515 Health & Welfare Building
P.O. Box 2675
Harrisburg, Pennsylvania 17105

Dear Mr. Nardone:

In response to your request, the Bureau of Financial Operations (BFO) performed an audit of Hahnemann University Hospital (Hahnemann) Medical Assistance Cost Report (MA336), Schedule S-7 for the fiscal years ended June 30, 2004, and June 30, 2005. The audit was performed to assist your staff in assessing the accuracy of the Charges and Revenues for Use in DSH Upper Payment Limit Calculations.

The mission of the BFO, accomplished through audit and review activities, is to assist DPW management to administer human service programs of the highest quality, at the lowest cost, with integrity.

Results In Brief

- For the fiscal year ended June 30, 2004:

The Fee-For-Service, Managed Care-Inpatient and Bad Debt Charges agree with the general ledger amounts as reported on the financial statements.

The Managed Care-Outpatient Charges and Revenues were restated to agree with the general ledger balances as reported on the financial statements. The restated amounts are set forth on Exhibit A.

The Charity Care Charges reported are materially understated as compared to the general ledger amounts as reported on the financial statements. The reported amount of \$6,914,861 should be increased by \$1,204,525 to \$8,119,386.

Results In Brief (Continued)

- For the fiscal year ended June 30, 2005:

The Bad Debt and Charity Care Charges agree with the general ledger amounts as reported on the financial statements.

The Fee-For-Service and Managed Care Charges reported do not agree with the general ledger amounts as reported on the financial statements. These Charges should be restated as set forth on Exhibit A.

The Revenues were restated to agree with the general ledger amounts as reported on the financial statements. The restated amounts are set forth on Exhibit A. The Medical Assistance Fee For Service Outpatient amount is negative because a write off of \$350,000 was recorded in July, 2004 consistent with Hahnemann's policy to fully reserve all Medicaid accounts that are over 180 days past due.

Background

Hahnemann is a for profit wholly owned subsidiary of Tenet Healthcare Corporation, who, through its subsidiaries, owns and operates acute care hospitals and related health care services. Tenet owns and operates 70 acute care hospitals in 12 states that offer a wide array of medical services.

Hahnemann is located in center city Philadelphia and offers a wide range of health and medical services including many community focused programs. Many of Hahnemann's patients are eligible for Medical Assistance. Hahnemann also has a university level medical school.

Hahnemann is required to annually complete a Medical Assistance Form 336 cost report. Schedule S-7 is one component of the cost report. Schedule S-7 is the only element of the cost report requested to be audited.

Objective/Scope/Methodology

The objective of the BFO was to ascertain the accuracy of the amounts reported by Hahnemann on their MA 336, Schedule S-7 for the fiscal years ended June 30, 2004, and June 30, 2005.

In accomplishing our objective, we had discussions with management, reviewed the general ledger and its underlying records, tested selected transactions and made inquiries of management and the billing department regarding discrepancies.

Objective/Scope/Methodology (Continued)

Government auditing standards require that we obtain an understanding of management controls that are relevant to the audit objective described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of compliance with generally accepted accounting principals. Based on our understanding of the controls, no significant deficiencies came to our attention.

Our review of the S-7 Schedules was conducted between June 12, 2006, and November 21, 2006, and was performed in accordance with the General Instructions for Completion of the Medical Assistance Cost Report. This report, when presented in its final form, will be available for public inspection.

Results Of Fieldwork

Issue No. 1 – Reported Hospital Charges Were Materially Misstated

The principal adjustment discovered in the course of the fieldwork was that all of the Charges on the S-7 for June 30, 2005, were overstated except for Bad Debt and Charity Care Charges. For Revenues, some categories were overstated while some categories were understated. In discussions with management, it was ascertained that the amounts reported were based upon cumulative totals compiled over more than the fiscal year subject to review. Also included in the sampled data were duplicative listings for insurance reimbursement purposes that were not wholly representative of general ledger postings. As such, the amounts reported on S-7 were not based on the general ledger entries.

For insurance purposes, approximately 10% to 15% of the entries made during the fiscal year ended June 30, 2005, were to correct prior period errors and omissions. To give some examples: Claims that were rejected in earlier years were resubmitted during the audited period; insurance information that was initially submitted with errors in the original claims were corrected and resubmitted during the audit period; or, where a patient's insurance coverage changed, it was later resubmitted with the updated coverage. Such entries duplicated the original entries made in the prior periods and there was no indication that the original entries, after being resubmitted during the audit period, were reversed in the prior periods. This resulted in an overstatement of many Charges.

For the fiscal year ended June 30, 2004, the Charity Care Charges as reported on Schedule S-7 were understated as compared to the general ledger. Although the understatement was significant within the Charity Care category, the understatement

Results Of Fieldwork (Continued)

was not material in regard to the total Charges. Exhibit A revises the Charity Care Charges to agree with the general ledger balance.

For both years, the Bad Debt Charges as reported on Schedule S-7 agree with the general ledger amounts.

Revenues were sampled on a random basis that included all patient categories for both of the audited years. With only a few immaterial exceptions, the Revenues tested were received and deposited by way of a lock box system and were traced to the corresponding value reported for the same patient and service date as Charges. Based on these tests, the Revenues should also be adjusted for all categories for both years. The revised Revenues are shown on Exhibit A.

Hahnemann does not prepare its own, separate financial statements because it is a subsidiary of its parent entity, Tenet Healthcare Corporation. Along with all other subsidiaries, Hahnemann's general ledger information is consolidated with the parent entity. The parent entity is a publicly traded corporation listed in the New York Stock Exchange and is subject to the reporting and disclosure requirements of all publicly traded entities. Hahnemann's management has provided assurance that the general ledger records provided in the course of this review are the same as those provided to the parent entity.

Finally, management has agreed that the amounts reported on Schedule S-7 should agree with amounts in the general ledger and, as such, agrees with the revised amounts on Exhibit A.

Recommendations

The BFO recommends that Hahnemann revise its Schedules S-7 for fiscal years ended June 30, 2004, and 2005 to accurately restate the amounts reported (See Exhibit A). The originally reported Charges and Revenues were based on Hahnemann's insurance reimbursement database rather than accrual basis generally accepted accounting principals.

The BFO also recommends all future schedules S-7 agree with or be reconciled to the general ledger.

Results Of Fieldwork (Continued)

Issue No. 2 - Certain Substantiation Deficiencies Were Encountered

In the course of testing the selected sample, there were no billing invoices or remittance records for one patient out of the 100 patients selected for testing. Other discrepancies discovered in the course of the testing were satisfactorily resolved.

Recommendation

The BFO recommends that Hahnemann maintain in its data base revenue information with supporting detail for every charge made to or on behalf of a patient.

Issue No. 3 - The Medical Assistance Fee-For-Service Outpatient Revenues Were A Negative Amount For 2005

In the course of revising the Medical Assistance Fee-For-Service Outpatient Revenues, it was ascertained that reserves for uncollectible accounts was increased due to certain Medical Assistance accounts becoming more than 180 days past due with the offsetting entry being to reduce revenues in an amount in excess of those recorded in the current period.

Recommendation

The BFO recommends that when uncollectible accounts are written off, the charge should be to bad debts expense. It is incorrect to charge the revenue account, especially so in a year subsequent to the original recordation of the revenue.

Exit Conference/Summation

The management of Hahnemann did not feel that an exit conference was necessary. Their written response is attached to this report as an Appendix.

Results Of Fieldwork (Continued)

In accordance with our established procedures, please provide a response within 60 days to the Audit Resolution Section concerning actions to be taken to ensure that the report recommendations are implemented. In addition, the response should include the OMAP's position on the issues included in the report. Any additional clarification or assistance can be provided by the BFO upon request.

Please contact Richard J. Polek, Audit Resolution Section, at (717) 787-8890 if you have any questions concerning this matter.

Sincerely,

A handwritten signature in black ink that reads "John H. Bungo". The signature is written in a cursive style with a large initial 'J' and 'B'.

John H. Bungo, CGFM, CFS

Attachments

cc: Ms. Sharon W. Hayden
Mr. William Miller
Ms. Demielo C. Luckette
Mr. Kenneth M. Wright
Mr. Jeffrey W. Bechtel

EXHIBIT

**Hahnemann University Hospital
Revised Schedules S-7**

Fiscal Year Ended June 30, 2004:

<u>CHARGES:</u>	<u>As Reported</u>	<u>As Revised</u>
Medical Assistance: Fee-For-Service Inpatient	\$115,655,722	\$115,655,722
Medical Assistance: Fee-For-Service Outpatient	\$3,785,726	\$3,785,726
Medical Assistance: Managed Care Inpatient	\$330,670,839	\$330,670,839
Medical Assistance: Managed Care Outpatient	\$66,377,342	\$64,418,909
Charity Care Charges	\$6,914,861	\$8,119,986
Bad Debt	\$37,939,607	\$37,939,607
Local Funded Programs	\$158,025	\$158,025
 <u>REVENUES:</u>		
Medical Assistance: Fee-For-Service Inpatient	\$13,170,335	\$18,954,732
Medical Assistance: Fee-For-Service Outpatient	\$1,165,887	\$197,814
Medical Assistance: Managed Care Inpatient	\$15,526,787	\$15,526,786
Medical Assistance: Managed Care Outpatient	\$2,244,572	\$286,139

Fiscal Year Ended June 30, 2005:

<u>CHARGES:</u>		
Medical Assistance: Fee-For-Service Inpatient	\$201,073,360	\$129,844,149
Medical Assistance: Fee-For-Service Outpatient	\$8,575,073	\$4,482,321
Medical Assistance: Managed Care Inpatient	\$595,944,869	\$398,700,181
Medical Assistance: Managed Care Outpatient	\$107,419,762	\$76,358,676
Charity Care Charges	\$6,888,456	\$6,888,456
Bad Debt Charges	\$31,128,933	\$31,128,933
Local Funded Programs	\$193,731	\$193,731
 <u>REVENUES:</u>		
Medical Assistance: Fee-For-Service Inpatient	\$10,303,693	\$30,741,543
Medical Assistance: Fee-For-Service Outpatient	\$ 94,606	(\$79,060)
Medical Assistance: Managed Care Inpatient	\$31,839,073	\$34,396,492
Medical Assistance: Managed Care Outpatient	\$ 5,079,465	\$5,363,862

EXHIBIT A

**AUDITEE'S RESPONSE
APPENDIX**



February 27, 2007

Mr. Daniel Higgins, Audit Manager
Division of Audit and Review
Bureau of Financial Operations
Department of Public Welfare
502 Philadelphia State Office Building
1400 Spring Garden Street
Philadelphia, PA 19130

Dear Mr. Higgins:

This letter is in response to the draft of the proposed audit report for Hahnemann University Hospital. I will list each issue that were the results of fieldwork completed by the Department of Public Welfare and our response as to what actions have been taken or will be taken to comply with the report recommendations.

Issue No. 1 – Reported Hospital Charges were Materially Misstated

Tenet prepared the report utilizing queries from the system which resulted in some inaccurate reporting that we did not realize was incorrect. Several circumstances contributed to this. There was a patient accounting system conversion during the period and several key personnel involved in the report preparation were changed through attrition. As a result of this field work, Tenet has submitted revised general ledger numbers for all of their 6/30/05 hospitals to the Department of Public Welfare (DPW). In addition, all future cost reporting periods will reconcile S-7 to the general ledger as has been suggested.

Issue No. 2 – Certain Substantiation Deficiencies Were Encountered

The results of fieldwork indicate that for one out of one hundred patients sampled there was difficulty producing the detailed billing records for those patients. Tenet has and will continue to strive to maintain 100% accuracy in maintaining all of the information for every charge made to or on behalf of a patient.

Issue No. 3 – The Medical Assistance Fee-For-Service Outpatient Revenues Were A Negative Amount For 2005

The results of fieldwork indicate that there was negative Medical Assistance Fee-For-Service revenue for 2005 which occurred due to some accounts at the beginning of the year becoming more than 180 days past due. It is Tenet's policy to reserve for accounts greater than 180 days which appear as a deduction to revenue in the general ledger. This generally does not result in negative overall revenue; however, it can result in that circumstance if there are some significant year to year results which are what occurred in 2005. We do not anticipate this to be a continued situation; however, we need to consistently report our financial results according to Tenet's corporate policies and procedures.

We do not require an exit conference and are satisfied with the results of the audit adjustments being accurate based on the new information Tenet submitted. Thank you for your assistance and patience in this process.

Sincerely,

Sharon W. Hayden, Director Regional Reimbursement – CNE

Cc: Bruce Hoins, Sr. Director, Operations Support
Brian Reilly, CFO, Hahnemann University Hospital