LOUISIANA STATE UNIVERSITY HEALTH CARE SERVICES DIVISION NETWORK HOSPITAL CLOSURE/PRIVATIZATION

FINANCIAL AUDIT SERVICES
INFORMATIONAL REPORT
ISSUED MAY 8, 2013

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 8, 2013

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives

Dear Senator Alario and Representative Kleckley:

This informational report provides the results of our procedures on the closure/privatization of hospitals under the Louisiana State University - Health Care Services Division.

The report provides information relating to the closure/privatization of the hospitals and the related impact of those actions. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of the Louisiana State University - Health Care Services Division for their assistance.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/ch

LSU HCSD CLOSURE-PRIVATIZATION 2013

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Louisiana State University - Health Care Services Division Network Hospital Closure/Privatization

Informational Report · May 2013

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Why We Prepared This Informational Report

Louisiana State University (LSU) is privatizing the operations of the state run hospitals in the Health Care Services Division (HCSD). The purpose of this report is to give an overview of which hospitals and services will be affected and the timing of these changes. Information in this report was obtained from LSU HCSD management.

Objectives

1. Determine which hospitals will be affected and the estimated dates
2. Determine what approvals are needed and the status of such approvals
3. Determine the effect that closure/privatization will have on the employees
4. Determine the effect that closure/privatization will have on services including prisoner care
5. Determine the effect on the medical and accounting records and equipment

Objective 1: Determine which hospitals will be affected and the estimated dates

The LSU HCSD hospital network consists of seven hospitals. Six of the seven hospitals will be affected by the privatization. Earl K. Long Medical Center (Earl K. Long) privatization has already occurred and the remaining five hospitals are anticipated to be privatized as follows:

LSU Hospital	Potential Private Partner	Estimated Effective Date
Medical Center of Louisiana at New Orleans	Louisiana Children's Medical Center	June 24, 2013
University Medical Center at Lafayette	Lafayette General Health System	June 24, 2013
Leonard J. Chabert Medical Center	Ochsner Health System and Terrebonne General Medical Center	June 24, 2013
Walter O. Moss Regional Medical Center	Lake Charles Memorial Hospital and West Calcasieu Cameron Hospital	June 24, 2013
Washington-St. Tammany Regional Medical Center	In discussion, however, partner undisclosed	Undetermined

Earl K. Long closed on April 14, 2013, and is the only hospital that will be closed. At the start of business on April 15, 2013, inpatient and outpatient care is being performed by Our Lady of the Lake Regional Medical Center (OLOL).

Lallie Kemp Regional Medical Center (Lallie Kemp) will continue to be operated and managed by LSU to serve as a critical access hospital. It will also handle some of the inpatient prisoner care needs from the Baton Rouge region. The LSU HCSD budget includes funding for the operation of Lallie Kemp in fiscal year 2014. LSU was unable to find a partner for Lallie Kemp; however, according to Dr. Frank Opelka, LSU plans to privatize it in the next two to three years.

Medical Center of Louisiana at New Orleans (Medical Center at New Orleans), University Medical Center at Lafayette (University Medical Center), Leonard J. Chabert Medical Center (Leonard J. Chabert), and Walter O. Moss Regional Medical Center (Walter O. Moss) facilities are not anticipated to close, rather the hospital building and equipment will be leased to a private partner to provide inpatient and outpatient care. The anticipated effective date for the partners to take over operations is June 24, 2013. In New Orleans, the partner will operate the Interim LSU Public Hospital at 2021 Perdido Street until construction of the new hospital is complete.

Although the CEA for Medical Center at New Orleans and University Medical Center were approved by the LSU Board of Supervisors on April 17, 2013, the CEAs have not been finalized as of May 3, 2013. The CEAs for Leonard J. Chabert and Walter O. Moss are expected to be presented to the LSU Board of Supervisors for consideration in May 2013.

Although the Washington-St. Tammany Regional Medical Center (Washington-St. Tammany) negotiating process is not as far along as the others, LSU is hopeful it can present Washington-St. Tammany for consideration to the LSU Board of Supervisors in May 2013 as well. However, no anticipated effective date has been released.

Objective 2: Determine what approvals are needed and the status of such approvals

The closure of Earl K. Long required legislative approval and was approved by the Joint Legislative Committee on the Budget (JLCB) through the approval of the original Senate Concurrent Resolution Number 130 of the 2009 Regular Session. The original agreement between LSU, the Division of Administration, the Department of Health and Hospitals (DHH), and OLOL was signed on February 5, 2010.

The original agreement provided for LSU's operation of the Graduate Medical Education (GME) program at OLOL and the provision of inpatient services by OLOL. The original agreement did not include a definitive start date, but the parties anticipated it would be upon the completion of certain construction projects such as the urgent care facility in north Baton Rouge by LSU and the trauma center and medical education building by OLOL, which was to be completed by December 31, 2013. On April 10, 2013, the JLCB approved an amendment to the original cooperative endeavor to establish a definitive start date of April 15, 2013, and to provide for the operation of the outpatient clinics by OLOL.

The Centers for Medicare and Medicaid Services (CMS) must approve an amendment to the Medicaid state plan for DHH to be authorized to reimburse partners for services in the manner anticipated by the CEAs. DHH plans to submit the Medicaid state plan amendments once the CEAs are finalized and signed.

Also, it is important that LSU retains control of its GME programs for the continuation of training of medical professionals for Louisiana. For the hospitals that will be leased, the residency slots will be transferred to the partners and the LSU Health Sciences Center New Orleans will retain the program's direction authority. The residency slots will revert back to LSU at the termination of any of the agreements with the partners. Since Earl K. Long closed, LSU is trying to move the residency slots currently associated with Earl K. Long to Medical Center at New Orleans so that they are not lost. To accomplish this, CMS approval is required. If CMS approval is not obtained, the Earl K. Long residency slots would revert back to the federal government for redistribution.

The CEAs for the other hospitals will not authorize the closure of a hospital; therefore, it is LSU's position that legislative approval is not needed. This position was supported by Attorney General Opinion 13-0034, dated April 11, 2013. The opinion concluded, "… that legislative approval is not required in order for the LSU Board of Supervisors to lease an entire hospital facility under its management and control. It is the further opinion of this office that any such hospital lease must include a provision that assures that the leased facilities continue to provide the same level of health care services at these hospitals as required by current law as well as provide assurance that any such lease agreement must be executed in accordance with the law regarding the operation and management of these public hospital facilities."

The CEAs will require the approval of the LSU Board of Supervisors and the governing boards of the partners. CMS's approval is required for the partner to use/assume the state hospital's Medicare provider agreement and provider number. DHH must issue new hospital licenses to authorize the partners to operate the hospitals. With the exception of the original Earl K. Long CEA, the approval process has not begun yet since the CEAs are not finalized.

The following is a summary of the approvals identified above.

Approving Agency/ Board/Entity	Type of Approval Still Needed
LSU Board of Supervisors, Division of Administration, and Partner(s)	Finalized CEAs
CMS	Amendments to the Medicaid State Plan
CMS	Private partner's use of the existing hospital provider number and provider agreement
CMS	Earl K. Long residency slots transferred to Medical Center at New Orleans
DHH	Partner license to be able to operate the hospital

Objective 3: Determine the effect that closure/privatization will have on the employees

Any active employees on the closure/privatization date will be laid off. The chart below indicates the number of positions lost over the past three years, the number of authorized positions for the 2013 budget year, and the number of employees still employed as of February 17, 2013.

Location	Positions Eliminated Over the Past 3 Years	Positions Included in 2013 Budget	Employees Remaining as of February 17, 2013	Potential Layoffs
HCSD Headquarters	73	189	160	
Washington-St. Tammany (*)	115	553	538	538
Earl K. Long (*)	515	964	812	812
Medical Center at New Orleans (*)	529	2,113	2,014	2,014
Lallie Kemp	42	392	357	
Leonard J. Chabert (*)	185	894	810	810
University Medical Center (*)	265	863	773	773
Walter O. Moss (*)	67	361	340	340
Total	1,791	6,329	5,804	5,287
% Laid off				91%

(*) Planned closure/privatization of hospitals

The Earl K. Long layoff plan was submitted to Civil Service on March 8, 2013. The Civil Service Commission approved the layoff plan on April 2, 2013. LSU expects layoff plans for the other hospitals will be submitted in time for the layoffs to be completed by June 24, 2013.

LSU stated that the private partners have expressed a desire to employ many of the employees to continue the operations of the hospitals. Our Lady of the Lake's website allows employees to apply for positions and has already made offers to existing employees. On February 20, 2013, a job fair was hosted by the Louisiana Workforce Commission for Earl K. Long employees in which on-site interviews were held by Our Lady of the Lake and other employers. The Louisiana Rehabilitation Office, Department of Health and Hospitals LaChip, Louisiana State Employees Retirement System, banking institutions, and credit unions were also on-site. LSU expects a similar process for the other hospitals. Based on available information provided on April 16, 2013, Our Lady of the Lake has only hired 314 of the Earl K. Long employees. As of April 22, 2013, the partners for Walter O. Moss, University Medical Center, and Medical Center of Louisiana at New Orleans are accepting applications. Leonard J. Chabert's partners are expected to begin the application process soon.

Employees participate in the Louisiana State Employees Retirement System and the Teachers Retirement System of Louisiana and as noted above, over 5,000 employees will no longer be active state employees by the end of fiscal year 2013. This will have an effect on the premium contributions the retirement systems use to pay benefits of active retirees. The employer and employee portion of contributions to the retirement systems during fiscal year 2012, for HCSD and hospitals as a whole, was approximately $90 million. It is anticipated that many employees will take early retirement which may also increase the retirement systems' payouts.

HCSD/LSU will have costs associated with the termination of the employees. One-time termination pay of approximately $29 million will be owed upon privatization. HCSD estimates that unemployment cost of approximately $13 million will have to be paid. HCSD is also estimating health insurance and life insurance legacy cost of approximately $26 million will have to be paid annually. This estimated cost represents the employer share of current and potential retirees' health/life premiums that the state is responsible for paying. HCSD will have limited future income to pay health benefits legacy cost and the termination and unemployment cost was not planned for in the 2013 budget. According to HCSD, the Division of Administration and Department of Health and Hospitals are aware of this expense and are working to find a mechanism to fund them.

				Retiree Legacy Cost (Health/Life Benefits)		
Hospital	Number of Employees (as of 2/17/13)	Leave Payout (Leave Balance as of 3/3/13)	Unemployment Insurance	Current Retirees	Potential Retirees	Total Annual Legacy Cost
Earl K. Long	812	$3,544,618	$1,996,595	$1,647,363	$1,960,246	$3,607,609
Medical Center at New Orleans	2,014	12,936,085	4,952,147	6,109,708	5,473,160	11,582,868
Leonard J. Chabert	810	3,943,779	1,991,678	1,230,706	2,199,821	3,430,527
Walter O. Moss	340	1,448,152	836,013	625,952	711,250	1,337,202
University Medical Center	773	3,798,411	1,900,700	2,242,968	2,223,022	4,465,990
Washington-St. Tammany	538	2,930,998	1,322,867	512,454	931,832	1,444,286
Total	5,287	$28,602,043	$13,000,000	$12,369,151	$13,499,331	$25,868,482

Objective 4: Determine the effect that closure/privatization will have on services including prisoner care

Emergency mental health and substance abuse, obstetrics and gynecology, and prisoner care that were performed at the Earl K. Long site will not be performed by Our Lady of the Lake.

Mental Health and Substance Abuse at Earl K. Long

Emergency mental health and substance abuse services are currently provided at the Mental Health Emergency Room Extension building (MHERE) on the Earl K. Long campus. The MHERE is an asset of the Capital Area Human Services District (CAHSD) put in operation at the Earl K. Long facility. Clinical services at the MHERE are being provided by LSU staff, LSU physicians, and CAHSD staff. LSU has notified CAHSD that an alternative site will have to be found by CAHSD. The Capital Area Human Services District was hoping to continue to run the facility on the Earl K. Long site; however, the state has informed CAHSD that the site will not be available for the provision of health care services. CAHSD has been speaking to area hospitals to determine interest in relocating the MHERE. The closing of the MHERE causes a concern in the community, as these patients will require services at existing emergency rooms and hospital facilities.

Obstetrics and Gynecology at Earl K. Long

On April 10, 2013, an agreement between DHH, LSU, and Woman's Hospital was reached for Woman's Hospital to assume operation of the clinical services at the LSU Women's Clinic, located in the Woman's Hospital Physician Tower, starting April 15, 2013. Medicaid, Medicare, commercial insured and emergency uninsured inpatient services will be provided at the Woman's Hospital location. Staff at the clinic are a part of the Earl K. Long layoff plan and would be available to be hired by Woman's Hospital.

Prisoner Care at Earl K. Long

After the closure of Earl K. Long on April 15, 2013, prisoner care in the Baton Rouge area for inpatient services will be handled at Lallie Kemp and other LSU hospitals (mainly the Medical Center at New Orleans). Any emergency after April 15 would go to the nearest emergency room that can meet the needs of the patient. For the other hospitals, between June 24 and June 30, inpatient services will go to Lallie Kemp and emergencies will go to the nearest emergency room that can meet the patient's needs.

For fiscal year 2014, the Division of Administration has redirected the funding to go to the Department of Corrections (DOC). It is anticipated that DOC will contract with LSU physicians through LSU Health Sciences Center New Orleans or additional providers to provide services on-site at the prisons. Specialty services will be provided off-site by contract with LSU or non-LSU physicians and additional services will be provided through expanded telemedicine services with LSU physicians. DOC will have the option to purchase inpatient care from the existing LSU/Partner hospitals or from non-LSU hospitals depending on cost and convenience. DOC is developing a comprehensive prisoner care plan for the 2014 appropriated state general funds.

Services at other hospitals to be privatized

LSU does not anticipate the partners of Medical Center at New Orleans, University Medical Center, Leonard J. Chabert, Walter O. Moss, and Washington-St. Tammany to eliminate services currently being provided by the hospitals.

Graduate Medical Education Program

It is important that LSU retains control of its Graduate Medical Education programs for training of medical professionals for Louisiana. According to LSU management, the residency slots associated with the hospitals' Medicare provider numbers will be transferred to the partners. The LSU Health Sciences Center New Orleans will retain the direction authority over the GME programs and all slots will revert back to LSU at the termination of any of the agreements. The Earl K. Long GME slots will merge with the Medical Center at New Orleans and then be affiliated with OLOL for the term of the cooperative endeavor agreement, if approved by the Centers for Medicare and Medicaid Services. If CMS does not approve, the Earl K. Long residency slots would revert back to the federal government for redistribution.

Outpatient Clinics

The outpatient clinics of Earl K. Long, Medical Center at New Orleans, University Medical Center, Leonard J. Chabert, Walter O. Moss, and Washington-St. Tammany will be operated by the private partners.

Objective 5: Determine the effect on the medical and accounting records and equipment

Medical Records

Earl K. Long medical records will be housed by the Health Care Services Division and stored at the HCSD Administrative and Business Office on Airline Highway in Baton Rouge and will be available for clinical review and audits. Access to these records will be controlled under the Health Insurance Portability and Accountability Act (HIPAA) Privacy Standards and records will only be released upon request and in accordance with patients' rights to privacy. HCSD is developing a Request for Proposal to contract with a release of information (ROI) company to receive and respond to request for records from the private partners. In the future, the Health Care Services Division will be a limited operation making it difficult to properly maintain and retrieve medical records. LSU believes a ROI company that specializes in digitizing, storing, retrieving, and delivering records is the best option. Release of these medical records between LSU and the partners will be subject to HCSD Policy 7513, *Use and Disclosure of Protected Health Information for Treatment, Payment and Health Care Operations*, which sets policy over following requirements of the HIPAA, Standards for Privacy of Individually Identifiable Health Information (HIPAA Privacy Regulations) and any other applicable state or federal laws or regulations for using and disclosing protected health information.

The medical records at the other facilities that will be leased by the private partners will remain at the hospital location and be handled by the private partner.

Hospital records will be retained in their original, microfilmed, or similarly reproduced form for a minimum period of 10 years from the date of patient discharge in accordance with Louisiana Revised Statute 40:2144(F)(1).

Financial Records

Financial records (i.e., vendor information, invoices, payroll records, etc.) will be moved to the Health Care Services Division for Earl K. Long, Medical Center at New Orleans, University Medical Center, Leonard J. Chabert, Walter O. Moss, and Washington-St. Tammany and maintained by the HCSD Administrative and Business Office.

Equipment

LSU property control personnel are meeting with Louisiana Property Assistance Agency personnel to seek their guidance on both the closure of Earl K. Long and the transfer of the other hospitals to the partners. Although subject to the conditions in the final CEAs, HCSD anticipates that it will remain ultimately accountable for the state property, but the individual partner will be responsible to monitor and report pursuant to its CEA. Since Earl K. Long is closing, its equipment will be leased to OLOL, transferred to other LSU hospitals, sold, or surplused.

APPENDIX A: SCOPE AND METHODOLOGY

We conducted procedures for this informational report to provide information to the Legislature on the privatization of LSU hospitals. Because this is an informational report, we did not conduct this project in accordance with all governmental auditing standards. Our procedures focused on the closure/privatization of hospitals under the Louisiana State University - Health Care Services Division (HCSD). The objectives were the following:

1. Determine which hospitals will be affected and the estimated dates
2. Determine what approvals are needed and the status of such approvals
3. Determine the effect that closure/privatization will have on the employees
4. Determine the effect that closure/privatization will have on services including prisoner care
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To obtain our objectives, we reviewed information relevant to the objectives and performed the following steps:

- Interviewed LSU - HCSD management and obtained information relating to the closure/privatization of hospitals and the related impact of these actions on the employees, health care services, equipment, and medical and accounting records.
- Interviewed LSU - HCSD management and obtained information relating to the current status and potential content of the cooperative endeavor agreements between the partners and the hospitals.
- Obtained and reviewed data from LSU - HCSD relating to employee positions and potential layoffs.
- Obtained and reviewed data from LSU - HCSD relating to cost associated with the closure/privatization of the hospitals including termination cost, unemployment insurance cost, and legacy cost (employer share of current and potential retirees' health/life premiums).