



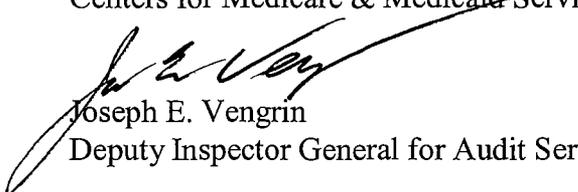
DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

JAN 14 2008

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

FROM: 
Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of UMass Memorial Medical Center's Reported Fiscal Year 2006 Wage Data (A-01-07-00509)

Attached is an advance copy of our final report on UMass Memorial Medical Center's (the Hospital) reported fiscal year (FY) 2006 wage data. We will issue this report to the Hospital within 5 business days. This review is one in a series of reviews of the accuracy of hospitals' wage data, which the Centers for Medicare & Medicaid Services (CMS) uses in developing its wage indexes.

Under the prospective payment system for acute-care hospitals, Medicare Part A pays hospitals at predetermined, diagnosis-related rates for patient discharges. The payment system base rate includes a labor-related share. CMS adjusts the labor-related share by the wage index applicable to the area in which a hospital is located.

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2006 Medicare cost report.

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2006 Medicare cost report. Specifically, the Hospital overstated its wages by \$13,408,945 and 139,916 hours. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent. The errors in reported wage data occurred because the Hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate, supportable, and in compliance with Medicare requirements. If the Hospital does not revise the wage data in its FY 2006 cost report, the FY 2010 wage index for the Hospital's core-based statistical area will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

We recommend that the Hospital:

- submit a revised FY 2006 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$13,408,945 and 139,916 hours and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

In its written comments on our draft report, the Hospital did not agree with all of our findings. Nevertheless, the Hospital stated that it would resubmit its Medicare cost report to fully account for all recommended adjustments and strengthen its review and reconciliation procedures to ensure that wage data are supportable and comply with Medicare requirements. We maintain that our findings are correct and need no modification.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or Michael J. Armstrong, Regional Inspector General for Audit Services, Region I, at (617) 565-2689 or through e-mail at Michael.Armstrong@oig.hhs.gov. Please refer to report number A-01-07-00509.

Attachment



Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

JAN 17 2008

Report Number: A-01-07-00509

Mr. Todd Keating
Treasurer/Chief Financial Officer
UMass Memorial Medical Center
328 Shrewsbury Street
Worcester, Massachusetts 01604

Dear Mr. Keating:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of UMass Memorial Medical Center's Reported Fiscal Year 2006 Wage Data." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after the final report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact David Lamir, Audit Manager, at (617) 565-2704 or through e-mail at David.Lamir@oig.hhs.gov. Please refer to report number A-01-07-00509 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "Michael J. Armstrong".

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. Thomas W. Lenz
Consortium Administrator
Consortium for Financial Management and Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF UMASS MEMORIAL
MEDICAL CENTER'S REPORTED
FISCAL YEAR 2006 WAGE DATA**



Daniel R. Levinson
Inspector General

January 2008
A-01-07-00509

Office of Inspector General

<http://oig.hhs.gov>

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

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THIS REPORT IS AVAILABLE TO THE PUBLIC
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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Under the inpatient prospective payment system for acute-care hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. The Centers for Medicare & Medicaid Services (CMS) adjusts prospective payments by the wage index applicable to the area in which each hospital is located. CMS calculates a wage index for each metropolitan area, known as a core-based statistical area (CBSA), as well as a statewide rural wage index for each State. These calculations use hospital wage data (which include wages, salaries, and related hours) collected 4 years earlier to allow time for the collection of complete cost report data from all inpatient prospective payment system hospitals and for reviews of hospital wage data by CMS's fiscal intermediaries. For example, CMS will base the fiscal year (FY) 2010 wage indexes on wage data collected from hospitals' Medicare cost reports for their FYs that began during Federal FY 2006.

CMS bases each wage index on the average hourly wage rate of the applicable hospitals divided by the national average rate. A hospital's wage rate is the quotient of dividing total dollars (numerator) by total hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations.

CMS is required to update wage indexes annually in a manner that ensures that aggregate payments to hospitals are not affected by changes in the indexes. CMS is also required to update payments to hospitals by an applicable percentage based on the market basket index, which measures the inflationary increases in hospital costs. Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and ensure the appropriate level of funding to cover hospital costs.

UMass Memorial Medical Center (the Hospital) is a 771-bed hospital in Worcester, Massachusetts. The Hospital is one of nine hospitals in a Massachusetts CBSA. The Hospital reported wage data of \$385.6 million and 9.3 million hours in its FY 2006 Medicare cost report, which resulted in an average hourly wage rate of \$41.45.

OBJECTIVE

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2006 Medicare cost report.

SUMMARY OF FINDINGS

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2006 Medicare cost report. Specifically, the Hospital reported the following inaccurate wage data, which affected the numerator and/or denominator of its wage rate calculation:

- misstated and misclassified wages totaling \$8,302,678 and 98,312 hours,

- unsupported costs related to wages for Part B services totaling \$3,686,095 and 41,604 hours, and
- overstated postretirement benefit costs totaling \$1,420,172.

These errors occurred because the Hospital did not sufficiently review and reconcile its reported wage data to supporting documentation to ensure that the data were accurate, supportable, and in compliance with Medicare requirements. As a result, the Hospital overstated its wage data by \$13,408,945 (numerator) and 139,916 hours (denominator) for the FY 2006 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent from \$41.45 to \$40.64. If the Hospital does not revise the wage data in its cost report, the FY 2010 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

RECOMMENDATIONS

We recommend that the Hospital:

- submit a revised FY 2006 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$13,408,945 and 139,916 hours and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

UMASS MEMORIAL MEDICAL CENTER'S COMMENTS

In its written comments on our draft report, the Hospital did not agree with all of our findings. Nevertheless, the Hospital stated that it would resubmit its Medicare cost report to fully account for all recommended adjustments and strengthen its review and reconciliation procedures to ensure that wage data are supportable and comply with Medicare requirements.

We have included the Hospital's comments in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We maintain that our findings are correct and need no modification.

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INTRODUCTION

BACKGROUND

Medicare Inpatient Prospective Payment System

Under the inpatient prospective payment system for acute-care hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. In fiscal year (FY) 2007, the Centers for Medicare & Medicaid Services (CMS) expects Medicare Part A to pay inpatient hospitals approximately \$112.7 billion.

Wage Indexes

The geographic designation of hospitals influences their Medicare payments. Under the inpatient prospective payment system, CMS adjusts payments through wage indexes to reflect labor cost variations among localities.¹ CMS uses the Office of Management and Budget (OMB) metropolitan area designations to identify labor markets and to calculate and assign wage indexes to hospitals. In 2003, OMB revised its metropolitan statistical area definitions and announced new core-based statistical areas (CBSA). CMS calculates a wage index for each CBSA and a statewide rural wage index for each State for areas that lie outside CBSAs. The wage index for each CBSA and statewide rural area is based on the average hourly wage rate of the hospitals in those areas divided by the national average hourly wage rate. All hospitals within a CBSA or within a statewide rural area receive the same labor payment adjustment.

To calculate wage indexes, CMS uses hospital wage data (which include wages, salaries, and related hours) collected 4 years earlier to allow time for CMS to collect complete cost report data from all inpatient prospective payment system hospitals and for CMS's fiscal intermediaries to review these data. For example, CMS will base the wage indexes for FY 2010, which will begin October 1, 2009, on wage data collected from hospitals' Medicare cost reports for their FYs that began during Federal FY 2006. A hospital's wage rate is the quotient of dividing total dollars (numerator) by total hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations. Inaccuracies in either the dollar amounts or hours reported can have varying effects on the final rate computation.

Section 1886(d)(3)(E) of the Social Security Act (the Act) requires that CMS update wage indexes annually in a manner that ensures that aggregate payments to hospitals are not affected by changes in the indexes. Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments. Further, section 1886(d)(3)(A)(iv) of the Act requires CMS to update labor and nonlabor average standardized amounts by an applicable percentage increase specified in section 1886(b)(3)(B)(i). The percentage increase is based on the market basket index, which measures inflationary increases in hospital costs. The inclusion of unallowable costs in wage data could produce an inaccurate market basket index for updating prospective payments to hospitals.

¹The inpatient prospective payment system wage index or a modified version also applies to other providers, such as outpatient hospitals, long term care hospitals, inpatient rehabilitation facilities, inpatient psychiatric facilities, skilled nursing facilities, home health agencies, and hospices.

UMass Memorial Medical Center

UMass Memorial Medical Center (the Hospital) is a 771-bed hospital in Worcester, Massachusetts. The Hospital is one of nine hospitals in a Massachusetts CBSA. The Hospital submitted to CMS its FY 2006 Medicare cost report covering the period October 1, 2005, through September 30, 2006.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2006 Medicare cost report.

Scope

Our review covered the \$385,647,160 in salaries and 9,300,760 in hours that the Hospital reported to CMS on Worksheet S-3, part II, of its FY 2006 Medicare cost report, which resulted in an average hourly wage rate of \$41.45. We limited our review of the Hospital's internal controls to the procedures that the Hospital used to accumulate and report wage data for its cost report.

We performed our fieldwork at the Hospital in Worcester, Massachusetts, from February through May 2007.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidance;
- obtained an understanding of the Hospital's procedures for reporting wage data;
- verified that wage data on the Hospital's trial balance reconciled to its audited financial statements;
- reconciled the total reported wages on the Hospital's FY 2006 Medicare cost report to its trial balance;
- reconciled the wage data from selected cost centers to detailed support, such as payroll registers or accounts payable invoices;
- selected for testing wage data in the FY 2006 Medicare cost report from cost centers that accounted for at least 2 percent of the total Hospital wages;

- tested a sample of transactions from these cost centers and reconciled wage data to payroll records;
- interviewed Hospital staff regarding the nature of services that employees and contracted labor provided to the Hospital; and
- determined the effect of the reporting errors by recalculating, as shown in Appendix A, the Hospital's average hourly wage rate using the CMS methodology for calculating the wage index, which includes an hourly overhead factor, in accordance with instructions published in the Federal Register.

We conducted our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2006 Medicare cost report. Specifically, the Hospital reported the following inaccurate wage data, which affected the numerator and/or denominator of its wage rate calculation:

- misstated and misclassified wages totaling \$8,302,678 and 98,312 hours,
- unsupported costs related to wages for Part B services totaling \$3,686,095 and 41,604 hours, and
- overstated postretirement benefit costs totaling \$1,420,172.

These errors occurred because the Hospital did not sufficiently review and reconcile its reported wage data to supporting documentation to ensure that the data were accurate, supportable, and in compliance with Medicare requirements. As a result, the Hospital overstated its wage data by \$13,408,945 (numerator) and 139,916 hours (denominator) for the FY 2006 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent from \$41.45 to \$40.64. If the Hospital does not revise the wage data in its cost report, the FY 2010 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.²

ERRORS IN REPORTED WAGE DATA

The errors in reported wage data are discussed in detail below, and the cumulative effect of the findings is presented in Appendix A.

Misstated and Misclassified Wages

The "Medicare Provider Reimbursement Manual" (the Manual), part II, section 3605.2, states that hospitals should ensure that the wage data reported on their Medicare cost reports are

²The extent of overpayments cannot be determined until CMS finalizes its FY 2010 wage indexes.

accurate and exclude wages incurred for skilled nursing facility services; direct personnel costs for interns and residents; and costs for equipment, supplies, travel, and overhead items. Further, it limits services paid under contract to those directly related to patient care, including nursing, diagnostic, therapeutic, and rehabilitative services and certain management services related to the personnel costs of hospital executive officers and nursing administrators. The Manual, part I, section 2102.3, states that costs not related to patient care are those that are not appropriate or necessary in the operation of patient care facilities and activities and are not reimbursable Medicare costs. The Manual, part II, section 3605.2, also states: “Paid hours include regular hours (including paid lunch hours), overtime hours, paid holiday, vacation and sick leave hours, paid time-off hours, and hours associated with severance pay.”

The Hospital incorrectly reported a total of \$8,282,105 in salaries and 92,267 hours. Specifically, the Hospital included the following wage data that were not in compliance with Federal requirements:

- salaries for excluded services that the Hospital’s adjustment did not correctly account for, which overstated the Hospital’s wage data by \$6,320,006 and 99,201 hours;
- salaries and fringe benefit costs for services not directly related to patient care (e.g., corporate marketing), which overstated the wage data by \$1,131,775 and 28,502 hours;
- pension costs totaling \$830,324 for two affiliated hospitals that had already reported these costs on their own cost reports; and
- salaries without the related hours for severance payments and outreach labs, which understated hours by a total of 35,436.

As a result, the Hospital overstated its wage data by \$8,282,105 in salaries (\$6,320,006 plus \$1,131,775 plus \$830,324) and 92,267 hours (99,201 plus 28,502 minus 35,436). After overhead was factored in, the Hospital overstated its wage data by a total of \$8,302,678 and 98,312 hours, which overstated its average hourly wage rate by \$0.45.

Unsupported Costs for Part B Services

The Social Security Act and Medicare regulations provide that, as a general matter, the costs of services provided by physicians, nurse practitioners, physician assistants, and clinical social workers are covered by Part B, not Part A.³

³Section 1861(s)(1) of the Act and 42 CFR §§ 410.10(a) and 410.20(a) include care by physicians as covered Part B services; section 1861(b)(4) of the Act and 42 CFR §§ 409.10(b)(3) and 415.102(a) exclude physician services from Part A inpatient hospital services. Section 1861(s)(2)(K)(ii) of the Act and 42 CFR § 410.75 include care by nurse practitioners as covered Part B services; section 1861(b)(4) of the Act and 42 CFR § 409.10(b)(5) exclude nurse practitioner services from Part A inpatient hospital services. Section 1861(s)(2)(K)(i) of the Act and 42 CFR § 410.74 include care by physician assistants as covered Part B services; section 1861(b)(4) of the Act and 42 CFR § 409.10(b)(4) exclude physician assistant services from Part A inpatient hospital services. Section 1861(s)(2)(N) of the Act and 42 CFR § 410.73 include care by clinical social workers as covered Part B services.

The Manual, part II, section 3605, requires hospitals to exclude from their reported wage index information those physician, nurse practitioner, physician assistant, and other services that hospitals claim for Part B reimbursement as patient services. Under Medicare, these services are related to patient care and are billed separately under Part B. The Manual, part II, section 2108, states that, to claim provider services under Part A, hospitals must distinguish these services from medical and surgical services rendered by a physician to an individual patient, which are reimbursed under Part B. An agreement between the hospital and the hospital-based physician on what services are Part A or Part B should be based on supporting documentation that is communicated to the hospital's intermediary.

The Hospital could not provide supporting documentation for \$3,603,341 in salaries and related fringe benefits and 39,319 hours recorded as Part A wages for services provided by physicians, nurse practitioners, physician assistants, and clinical social workers that are generally billed under Part B, in compliance with Federal requirements. As a result, after overhead was factored in, the Hospital overstated its wage data by \$3,686,095 and 41,604 hours, which overstated its average hourly wage rate by \$0.21.

Overstated Postretirement Benefit Costs

The Manual, part II, section 3605.2, states: "For purposes of determining the wage-related costs for the wage index, a hospital must use generally accepted accounting principles (GAAP)." GAAP provisions governing pension plans allow for the use of an "accrual" basis of accounting for contributions to a plan, so that plan liabilities need not be liquidated by actual cash transfers to the plan.

However, in June 2003, CMS clarified in a note to section 3605.2 that, "[a]lthough hospitals should use GAAP in developing wage-related costs, the amount reported for wage index purposes must meet the reasonable cost provisions of Medicare." Medicare reasonable cost principles differ from certain GAAP provisions by requiring a "cash" basis of accounting. Specifically, the Manual, part I, section 2142.3, states that "for a plan to be considered funded for the purposes of Medicare cost reimbursement, the liability to be funded must have been determined, and the provider must have been obligated to make payments into the fund." Federal regulations setting forth the principles of reasonable cost reimbursement state: "Reasonable provider payments made under unfunded deferred compensation plans are included in allowable costs only during the cost reporting period in which actual payment is made to the participating employee" (42 CFR § 413.100(c)(2)(vii)(A)). In addition, 42 CFR § 413.100(c)(2)(vii)(B) states: "Accrued liability related to contributions to a funded deferred compensation plan must be liquidated within 1 year after the end of the cost reporting period in which the liability is incurred." Further, 42 CFR § 413.100(c)(2)(vii)(C) states: "Postretirement benefit plans . . . are deferred compensation arrangements and thus are subject to the provisions of this section regarding deferred compensation and to applicable program instructions . . ."

The Hospital's cost report included \$2,097,000 in postretirement benefit costs for its funded deferred compensation plan, of which only \$415,000 had been liquidated in compliance with Federal requirements. Of the remaining \$1,682,000 in unliquidated costs, \$1,535,161 was reported as Part A wages. Although the Hospital used GAAP to determine its postretirement

benefit costs, these costs had not yet been funded and may never be funded. As a result, after overhead was factored in, the Hospital overstated its Part A wage data by \$1,420,172, which overstated its average hourly wage rate by \$0.15.

CAUSES OF WAGE DATA REPORTING ERRORS

These reporting errors occurred because the Hospital did not sufficiently review and reconcile wage data to supporting documentation to ensure that all amounts included in its Medicare cost report were accurate, supportable, and in compliance with Medicare requirements.

OVERSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS

As a result of the reporting errors, the Hospital overstated its Part A wage data by \$13,408,945 (numerator) and 139,916 hours (denominator) for the FY 2006 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent from \$41.45 to \$40.64. If the Hospital does not revise the wage data in its cost report, the FY 2010 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

RECOMMENDATIONS

We recommend that the Hospital:

- submit a revised FY 2006 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$13,408,945 and 139,916 hours and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

UMASS MEMORIAL MEDICAL CENTER'S COMMENTS

In its written comments on our draft report, the Hospital agreed with our finding that it had included certain wages and hours related to excluded and nonpatient care services in its wage data. The Hospital generally disagreed with our finding that it had included unsupported costs related to wages for Part B services. Although it did not take issue with our finding of unsupported physicians' costs and hours, the Hospital provided us with a list of its nonphysician practitioners (i.e., nurse practitioners, physician assistants, and clinical social workers) whose wages were included on the cost report and provided verification from its Medicare carrier that these practitioners did not bill Part B during the audit period.

Regarding our finding that the Hospital had overstated its postretirement benefit costs, the Hospital stated that the difference in costs was due to its reporting postretirement benefit costs using GAAP rather than a cash basis. The Hospital maintained that the Medicare requirement to liquidate accrued liabilities within 1 year after the end of the cost-reporting period, which was the basis for questioning the postretirement benefit costs, is subject to further review and appeals.

Nonetheless, the Hospital stated that it would resubmit its Medicare cost report to fully account for all recommended adjustments and strengthen its review and reconciliation procedures to ensure that wage data are supportable and comply with Medicare requirements.

The Hospital's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We maintain that our findings are correct and need no modification. Regarding our finding of unsupported costs and hours recorded as Part A wages for certain nonphysician services that are generally billed under Part B, most of these wages and hours were for services provided by nurse practitioners and physician assistants. Section 1861(b)(4) of the Act and 42 CFR §§ 409.10(b)(4) and 409.10(b)(5) exclude nurse practitioners and physician assistants services from Part A inpatient hospital services. Moreover, even if the services were allowable under Part A, the Hospital did not provide any documentation to support recording as Part A wage data the salaries, fringe benefits, and related hours for nurse practitioners, physician assistants, and clinical social workers.

Although the Hospital calculated its postretirement benefit costs in accordance with GAAP, it did not report these costs in accordance with Medicare requirements. The Manual, part II, section 3605.2, issued in June 2003, states that hospitals should use GAAP to develop wage-related costs but that the amount reported for wage index purposes must also meet Medicare reasonable cost principles. A Federal Register notice repeated this instruction. Specifically, in the Federal Register (70 Fed. Reg. 47278, 47369, Aug. 12, 2005), CMS stated that:

we are clarifying in this final rule that hospitals must comply with the requirements in 42 CFR § 413.100 . . . and related Medicare program instructions for developing pension and other deferred compensation plan costs as wage-related costs for the wage index

. . . .

. . . In 2003, we updated the cost report instructions in section 3605.2 of the PRM, Part II, to also clarify the September 1, 1994 instructions for the wage index. At the instructions for wage-related costs . . . we noted that, "Although hospitals must use GAAP in developing wage related costs, the amount reported for wage index purposes must meet the reasonable cost provisions of Medicare." The clarification was to ensure that a hospital includes in the wage index only those pension and other deferred compensation plan costs that meet the timely liquidation requirements for Medicare reasonable cost principles. When CMS issued the September 1, 1994 instructions, CMS did not anticipate nor intend for hospitals to include costs in the wage index that have not been funded and may never be funded. Including unfunded deferred compensation costs in the wage index can significantly misrepresent an area's average hourly wage, especially if the plan is never funded.

APPENDIXES

CUMULATIVE EFFECT OF FINDINGS

Components	Reported Fiscal Year 2006 Wage Data	Unsupported Part B Services		Misstated and Misclassified Wages				Unfunded Post-Retirement Costs	Adjusted Fiscal Year 2006 Wage Data	
		Contracted Physician Services	Employee Services	Incorrect Adjustment	Pension Costs	Other Unallowable Costs	Understated Hours			
UMASS Medical										
<i>Schedule S-3, Part II</i>										
Total Salaries										
line1/col. 3	Total Salaries	\$349,876,183.00				(\$3,160,003.00)		(\$847,899.00)		\$345,868,281.00
Excluded Salaries										
line 4.01/col. 3	Teaching Physician	\$0.00								\$0.00
line5/col. 3	Physician- Part B	\$0.00	2,159,262.40							\$2,159,262.40
line6/col. 3	Interns and Residents	\$82,926.00								\$82,926.00
line 6.01/col. 3	Contracted Services, Interns and Residents	\$20,954,381.00								\$20,954,381.00
line 8/col. 3	Skilled Nursing Facility (SNF)	\$0.00								\$0.00
line8.01/col. 3	Excluded Area	\$28,432,357.00								\$28,432,357.00
subtotal (subtract)		\$49,469,664.00	\$0.00	2,159,262.40	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$51,628,926.40
Additional Salaries										
line9/col. 3	Contract Labor	\$2,594,451.00								\$2,594,451.00
line 10/col. 3	Contract Labor - Physician Part A	\$7,318,832.00	(807,362.00)							\$6,511,470.00
line11/col. 3	Home Office	\$0.00								\$0.00
line13/col. 3	Wage-Related Cost (Core)	\$93,448,326.00		(612,603.29)		(\$3,160,003.00)	(\$830,324.00)	(\$283,876.00)	(\$1,535,161.40)	\$87,026,358.31
line 14/col. 3	Wage-Related Cost (Other)	\$650,896.00								\$650,896.00
line 16/col. 3	Non- Physician Anesthetist Part A	\$24,114.00		(24,114.00)						\$0.00
subtotal (add)		\$104,036,619.00	(807,362.00)	(636,717.29)	(\$3,160,003.00)	(\$830,324.00)	(\$283,876.00)	\$0.00	(\$1,535,161.40)	\$96,783,175.31
	Adjusted Salaries	\$404,443,138.00	(807,362.00)	(2,795,979.69)	(\$6,320,006.00)	(\$830,324.00)	(\$1,131,775.00)	\$0.00	(\$1,535,161.40)	\$391,022,529.91
Total Paid Hours										
line1/col. 4	Total Hours	11,650,478.00				(99,201.00)		(28,502.00)	35,436.00	11,558,211.00
Excluded Hours										
line 4.01/col. 4	Teaching Physician	0.00								\$0.00
line5/col. 4	Physician Part B	0.00	35,326.90							\$35,326.90
line6/col. 4	Intern and Residents	3,121.00								\$3,121.00
line 6.01/col. 3	Contracted Services, Interns and Residents	960,254.00								\$960,254.00
line7/col. 4	Home Office Personnel	0.00								\$0.00
line 8/col. 4	Skilled Nursing Facility (SNF)	0.00								\$0.00
line8.01/col. 4	Excluded Area	1,031,312.00								\$1,031,312.00
subtotal (subtract)		1,994,687.00	0.00	35,326.90	0.00	0.00	0.00	0.00	0.00	2,030,013.90
Additional Salaries										
line9/col. 4	Contract Labor	51,466.00								51,466.00
line 10/col. 4	Contract Labor - Physician Part A	65,443.00	(3,992.00)							61,451.00
line11/col. 4	Home Office	0.00								0.00
subtotal (add)		116,909.00	(3,992.00)	0.00	0.00	0.00	0.00	0.00	0.00	112,917.00
	Adjusted Hours	9,772,700.00	(3,992.00)	(35,326.90)	(99,201.00)	0.00	(28,502.00)	35,436.00	0.00	9,641,114.10



Medical Center
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October 3, 2007

Mr. Michael Armstrong
Regional Inspector General for Audit Services
Office of Inspector General
Region I
John F. Kennedy Federal Building
Boston, MA 02203

Report Number A-01-07-00509

Dear Mr. Armstrong:

In response to your draft report of UMass Memorial Medical Center's reported fiscal year 2006 wage data, the Medical Center provides the following comments:

We take significant effort to comply with Medicare requirements for reporting wage data. The filed wage data was completed based upon our review of our financial records and judgments.

We agree with your finding that certain wages and hours related to excluded and non-patient care services should be revised and re-submitted to the fiscal intermediary as recommended.

We generally disagree with your findings regarding Part B services since we have taken great effort not to employ personnel billing Part B services under the Medical Center. The Provider Reimbursement Manual, Part II, Section 3605 specifies that salaries be excluded for practitioners who bill for Part B patient services. In our case, any nurse practitioner, physician assistant or other personnel that bill Part B services are employed by the UMass Memorial Medical Group Practice, an entity that is supported by Part B services. They are not included on the cost report. As part of our analysis of your finding, we supplied you a list of these non-physician providers, including verification from our local Medicare Carrier, that they did not claim Part B services during this time period.

The difference in the postretirement benefit costs was due to our reporting this cost using generally accepted accounting principles instead of a cash basis amount. The rationale cited to disallow this cost is based upon the reasonable cost provision of Medicare, where accrued liabilities are to be liquidated within one year after the end of the cost report. It is our understanding that this Medicare requirement is still subject to further review and appeals.

In summary, we will re-submit the Medicare Cost report to fully account for all recommended adjustments and will strengthen our review and reconciliation procedures to ensure that the wage data is supportable and complies with Medicare requirements.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd Keating".

Todd Keating
Treasurer/Chief Financial Officer
oig7103.doc