



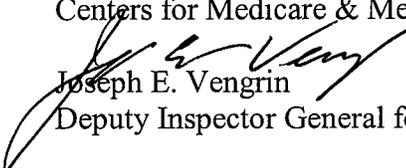
DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

MAR 29 2006

**TO:** Herb Kuhn  
Director, Center for Medicare Management  
Centers for Medicare & Medicaid Services

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

**SUBJECT:** Review of Medicare Inpatient Wage Rate Assignment at Hackettstown Regional Medical Center, Hackettstown, New Jersey (A-03-05-00005)

Attached is an advance copy of our final report on Medicare inpatient wage rate assignment at Hackettstown Regional Medical Center (the hospital), Hackettstown, NJ. We will issue this report to the hospital within 5 business days. This is one of a series of reviews of the accuracy of hospitals' fiscal year (FY) 2003 wage data, which the Centers for Medicare & Medicaid Services (CMS) will use in developing FY 2007 wage indexes.

Under the inpatient 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. Section 4410 of Public Law 105-33 enacted 42 U.S.C. § 1395ww (note), which provides that for discharges on or after October 1, 1997, the area wage index applicable to any hospital in an urban area of a State may not be less than the area wage index applicable to hospitals in rural areas of the State.

The objective of our review was to determine whether the hospital complied with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report.

The hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report. Specifically, the hospital overstated its wage data by \$311,908 and understated hours by 1,865. Our correction of the hospital's errors reduced the average hourly wage rate by 1.2 percent from \$29.84 to \$29.48. These errors 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 regulations and guidance.

If the hospital does not revise the wage data in its cost report, the FY 2007 wage index for the Allentown-Bethlehem-Easton, PA-NJ, urban area core-based statistical area (CBSA) will be inflated, and this misstatement will result in overpayments to the six Pennsylvania hospitals that use this wage index. However, both New Jersey hospitals in the CBSA, including Hackettstown, used the higher New Jersey statewide rural wage index rather than the lower wage index for the CBSA in FY 2005. As long as the New Jersey statewide rural wage index remains higher than the CBSA wage index, the New Jersey hospitals will continue to use the statewide rural wage index. Therefore, the hospital's misstated wage data would not change payments to the two New Jersey hospitals.

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct its misstated wage data totaling \$311,908 in overstated salaries and 1,865 in understated hours and
- implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

In its written comments on our draft report, the hospital concurred with our findings and recommendations and said that it had submitted revised cost report data to the fiscal intermediary. The hospital also stated that most of the identified errors were oversights and that it had implemented a review process to identify costs and hours that do not meet Medicare regulations.

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](mailto:george.reeb@oig.hhs.gov) or Stephen Virbitsky, Regional Inspector General for Audit Services, Region III, at (215) 861-4470 or through e-mail at [stephen.virbitsky@oig.hhs.gov](mailto:stephen.virbitsky@oig.hhs.gov). Please refer to report number A-03-05-00005.

Attachment



MAR 30 2006

Office of Audit Services – Region III  
Public Ledger Building, Room 316  
150 South Independence Mall West  
Philadelphia, PA 19106-3499

Report Number: A-03-05-00005

Ms. Stella Visaggio  
Chief Financial Officer  
Hackettstown Regional Medical Center  
651 Willow Grove Street  
Hackettstown, New Jersey 07840

Dear Ms. Visaggio:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled “Review of Medicare Inpatient Wage Rate Assignment at Hackettstown Regional Medical Center, Hackettstown, New Jersey.” A copy of this report will be forwarded to the HHS action official noted below 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 the HHS action 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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports issued to the Department’s grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

If you have any questions or comments about this report, please do not hesitate to contact me, or your staff may contact Bernard Siegel, Audit Manager, at (215) 861-4484 or through e-mail at [bernard.siegel@oig.hhs.gov](mailto:bernard.siegel@oig.hhs.gov). Please refer to report number A-03-05-00005 in all correspondence.

Sincerely,

Stephen Virbitsky  
Regional Inspector General  
for Audit Services

Enclosures

cc: Rodney Woods  
Vice President, Government Programs  
Riverbend Government Benefits Administrator  
730 Chestnut Street  
Chattanooga, Tennessee 37402

**Direct Reply to HHS Action Official:**

James Kerr  
Regional Administrator  
Centers for Medicare & Medicaid Services  
U.S. Department of Health and Human Services  
26 Federal Plaza, 38<sup>th</sup> Floor  
New York, New York 10278

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICARE INPATIENT  
WAGE RATE ASSIGNMENT  
AT HACKETTSTOWN  
REGIONAL MEDICAL CENTER,  
HACKETTSTOWN, NEW JERSEY**



**Daniel R. Levinson  
Inspector General**

**MARCH 2006  
A-03-05-00005**

# ***Office of Inspector General***

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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 hospitals at predetermined, diagnosis-related rates for patient discharges. The Centers for Medicare & Medicaid Services (CMS) adjusts hospital payments by the wage index applicable to the area in which each hospital is located.

CMS calculates a wage index for each core-based statistical area (CBSA) and one statewide rural wage index per State for areas that lie outside CBSAs. CMS will base the fiscal year (FY) 2007 wage indexes on wage data collected from hospitals' FY 2003 Medicare cost reports. Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and ensure the appropriate level of funding to cover hospitals' costs of furnishing services.

Hackettstown Regional Medical Center (the hospital) reported wage data of \$30.7 million and 1.03 million hours on its FY 2003 Medicare cost report, which resulted in an average hourly wage rate of \$29.84.<sup>1</sup> The \$29.84 average hourly wage rate is the quotient of \$30.7 million (numerator) divided by the 1.03 million hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations. Therefore, inaccuracies in either the dollar amount or hours reported may have varying effects on the final rate computation.

As of FY 2005, the hospital and seven other acute care hospitals (one in New Jersey and six in Pennsylvania) made up the Allentown-Bethlehem-Easton, PA-NJ, urban area CBSA. Pursuant to 42 U.S.C. § 1395ww (note), the two New Jersey hospitals in the CBSA used the New Jersey statewide rural wage index because the CBSA wage index was lower than the rural wage index.

### OBJECTIVE

The objective of our review was to determine whether the hospital complied with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report.

### SUMMARY OF FINDINGS

The hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report. Specifically, the hospital reported the following inaccurate data, which affected the numerator and the denominator of the wage rate calculation:

- misstated salaries and hours, which overstated salaries by \$296,537 and understated wage data by 1,985 hours;
- unallowable home office wage-related benefit costs, which overstated wage data by \$14,108; and

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<sup>1</sup>The wage rate discussed in this report does not include an inflation factor or occupational mix that CMS applies to determine the final wage rates used for Medicare inpatient payment calculations.

- unallowable contract labor services, which overstated wage data by \$1,263 and 120 hours.

These errors 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 regulations and guidance. As a result, the hospital overstated its wage data by \$311,908 (numerator) and understated hours by 1,865 (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 1.2 percent from \$29.84 to \$29.48.

If the hospital does not revise the wage data in its cost report, the FY 2007 wage index for the Allentown-Bethlehem-Easton, PA-NJ, urban area CBSA will be inflated, and this misstatement will result in overpayments to the six Pennsylvania hospitals that use this wage index.<sup>2</sup> However, both New Jersey hospitals in the CBSA, including Hackettstown, used the higher New Jersey statewide rural wage index rather than the lower wage index for the CBSA in FY 2005. As long as the New Jersey statewide rural wage index remains higher than the CBSA wage index, the New Jersey hospitals will continue to use the statewide rural wage index. Therefore, the hospital's misstated wage data would not change payments to the two New Jersey hospitals.

## **RECOMMENDATIONS**

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct its misstated wage data totaling \$311,908 in overstated salaries and 1,865 in understated hours and
- implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

## **HACKETTSTOWN REGIONAL MEDICAL CENTER COMMENTS**

In its written comments on our draft report, the hospital concurred with our findings and recommendations and said that it had submitted revised cost report data to the fiscal intermediary. The hospital also stated that most of the identified errors were oversights and that it had implemented a review process to identify costs and hours that do not meet Medicare regulations. CMS and the fiscal intermediary agreed with the finding and recommendations.

The hospital's comments are included as Appendix B and CMS, Region II, comments are included as Appendix C.

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<sup>2</sup>The extent of overpayments cannot be determined until CMS finalizes its FY 2007 wage indexes.

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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 inpatient costs at predetermined, diagnosis-related rates for patient discharges. Medicare Part B, on the other hand, pays for medical costs such as physicians' services rendered to patients, clinical laboratory services, and outpatient hospital services.

In fiscal year (FY) 2005, according to the Centers for Medicare & Medicaid Services (CMS), Medicare Part A expects to pay 3,900 acute care hospitals about \$105 billion, an increase of about \$5 billion over FY 2004.

#### **Wage Index**

The geographic designation of hospitals influences their Medicare payments. Under the hospital inpatient prospective payment system, CMS adjusts payments through a wage index to reflect labor cost variations among localities. 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 (CBSAs). CMS calculates a wage index for each CBSA and one statewide rural wage index per 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 the cost report settlement process and CMS's data review. Accordingly, wage data collected from hospitals' Medicare cost reports in FY 2003 will be used to calculate wage index values in FY 2007. A hospital's wage rate is the quotient of dividing the total dollars (numerator) by total hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations. Therefore, inaccuracies in either dollar amounts or hours reported may have varying effects on the final rate computation.

Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and ensure the appropriate level of funding to cover hospitals' costs of furnishing services. Section 1886(d)(3)(E) of the Social Security Act requires that CMS update the wage indexes annually in a manner that ensures that aggregate payments to hospitals are not affected by changes in the indexes.

## **Hackettstown Regional Medical Center**

Hackettstown Regional Medical Center (the hospital), formerly Hackettstown Community Hospital, is a 92-bed regional medical center in Hackettstown, NJ. As of FY 2005, the hospital and seven other acute care hospitals (one in New Jersey and six in Pennsylvania) made up the Allentown-Bethlehem-Easton, PA-NJ, urban area CBSA. Pursuant to 42 U.S.C. § 1395ww (note), the two New Jersey hospitals in the CBSA used the higher New Jersey statewide rural wage index rather than the lower CBSA wage index. Although the hospital used the wage index set at the New Jersey statewide rural wage rate, the hospital's wage data affect the calculation of the CBSA wage index used by the six Pennsylvania hospitals.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

The objective of our review was to determine whether the hospital complied with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report.

#### **Scope**

Our review covered the \$30.7 million and 1.03 million hours that the hospital reported to CMS on Schedule S-3, part II, of its FY 2003 Medicare cost report, which resulted in an average hourly wage rate of \$29.84.<sup>1</sup> 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 FY 2003 Medicare cost report.

We performed our fieldwork at the hospital in Hackettstown, NJ, from February through March 2005.

#### **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 and cost report reconciled to its audited financial statements;
- reconciled the total reported wages on the hospital's FY 2003 Medicare cost report to its trial balance;

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<sup>1</sup>The wage rate discussed in this report does not include an inflation factor or occupational mix that CMS applies to determine the final wage rates used for Medicare inpatient payment calculations.

- 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 2003 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;
- reviewed the reasonableness of the hospital's methodology for wage data allocations; and
- determined the effect of the reporting errors by recalculating 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. (See Appendix A.)

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 2003 Medicare cost report. Specifically, the hospital reported the following inaccurate data, which affected the numerator and the denominator of the wage rate calculation:

- misstated salaries and hours, which overstated salaries by \$296,537 and understated wage data by 1,985 hours;
- unallowable home office wage-related benefit costs, which overstated wage data by \$14,108; and
- unallowable contract labor services, which overstated wage data by \$1,263 and 120 hours.

These errors 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 regulations and guidance. As a result, the hospital overstated its wage data by \$311,908 (numerator) and understated hours by 1,865 (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 1.2 percent from \$29.84 to \$29.48.

If the hospital does not revise the wage data in its cost report, the FY 2007 wage index for the Allentown-Bethlehem-Easton, PA-NJ, urban area CBSA will be inflated, and this misstatement will result in overpayments to the six Pennsylvania hospitals that use this wage index.<sup>2</sup> However, both New Jersey hospitals in the CBSA, including Hackettstown, used the higher New Jersey statewide rural wage index rather than the lower wage index for the CBSA in FY 2005. As long as the New Jersey statewide rural wage index remains higher than the CBSA wage index, the New Jersey hospitals will continue to use the statewide rural wage index. Therefore, the hospital's misstated wage data would not change payments to the two New Jersey hospitals.

## **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 Salaries and Hours**

The "Medicare Provider Reimbursement Manual" (the Manual), part II, section 3605.2, requires hospitals to ensure that the wage data on their Medicare cost reports are accurate. Section 3605.2 also requires hospitals to report the number of paid hours corresponding to the amounts reported as salaries. Paid hours include regular time, overtime, paid holidays, vacation and sick leave, paid time off, and severance pay. When the hospital cannot determine the number of hours, it should not report the associated salaries.

- The hospital included \$296,793 of off-duty nursing, teaching, rape counseling, and jury duty salaries without including the associated hours. Because the hospital cannot determine the associated hours, it should not include these salaries for wage reporting.
- The hospital did not include 1,976 hours related to the salary of one of five executives allocated to the hospital by its home office. The hospital should include these hours for wage reporting. Our inclusion of the additional hours for the executive salaries decreased the overhead factor and thus increased reported wages by \$256 and related hours by 9.

Because of these misstated salaries and hours, the hospital overstated wage data by \$296,537 and understated wage data by 1,985 hours.

### **Unallowable Home Office Wage-Related Benefit Costs**

The Manual, part II, section 3605.2, requires hospitals to report salaries and wage-related benefit costs for personnel who are affiliated with a home office, who provide services to the hospital, and whose salaries are not reported with total salaries on the cost report. Hospitals are required to report wage-related benefit costs—both core and allowable exception costs—on Exhibit 7 of Form CMS 339. Part I of Exhibit 7 is a standardized core list of wage-related benefit costs.

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<sup>2</sup>The extent of overpayments cannot be determined until CMS finalizes its FY 2007 wage indexes.

Hospitals are required to report allowable wage-related benefit costs not included on the core list of wage-related costs on part II of Exhibit 7. These exceptions to the core list are allowable only if each wage-related cost exceeds the 1-percent threshold and conforms to established criteria and instructions.

The hospital included \$14,108 for wage-related benefit costs allocated to the hospital by its home office. Those benefit costs, including employee parties, gifts, executive seminars, trips, and meals, did not meet Medicare requirements for inclusion as core wage-related benefit costs or allowable exception costs. Consequently, the hospital overstated its wage data by \$14,108 on its FY 2003 Medicare cost report.

### **Unallowable Contract Labor Services**

Part II, section 3605.2, of the Manual states that the amount paid for services furnished under contract are allowable if they are for direct patient care and do not include costs for equipment, supplies, travel, and miscellaneous or overhead items. Direct patient care services include nursing, diagnostic, therapeutic, and rehabilitative services and certain management services. In addition, the Manual requires that hospitals should not report on-call contract labor hours.

The hospital included \$1,263 for travel and per diem costs documented as associated with contract labor salaries on three invoices from one vendor. The hospital also reported 120 on-call hours documented as contract labor hours on nine invoices from one vendor. Consequently, the hospital overstated contract labor salaries by \$1,263 and contract labor hours by 120.

### **CAUSES OF WAGE DATA REPORTING ERRORS**

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 regulations and guidance.

### **OVERSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS**

As a result of the reporting errors, the hospital overstated its wage data by \$311,908 (numerator) and understated hours by 1,865 (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 1.2 percent from \$29.84 to \$29.48.

If the hospital does not revise the wage data in its cost report, the FY 2007 wage index for the Allentown-Bethlehem-Easton, PA-NJ, urban area CBSA will be inflated, and this misstatement will result in overpayments to the six Pennsylvania hospitals that use this wage index. However, both New Jersey hospitals in the CBSA, including Hackettstown, used the higher New Jersey statewide rural wage index rather than the lower wage index for the CBSA in FY 2005. As long as the New Jersey statewide rural wage index remains higher than the CBSA wage index, the New Jersey hospitals will continue to use the statewide rural wage index. Therefore, the hospital's misstated wage data would not change payments to the two New Jersey hospitals.

## **RECOMMENDATIONS**

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct its misstated wage data totaling \$311,908 in overstated salaries and 1,865 in understated hours and
- implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

## **HACKETTSTOWN REGIONAL MEDICAL CENTER COMMENTS**

The hospital concurred with our findings and recommendations. The hospital stated that it was able to estimate the number of hours related to the \$296,793 questioned in the “Misstated Salaries and Hours” section of the draft report. It stated that most of the identified errors were “oversights” and that the hospital had “implemented a review process to identify cost and hours that do not meet Medicare regulations.” In addition, the hospital identified \$566,000 in wage-related costs that was not included in the original cost report data.

The hospital said that it had submitted revised cost report data to the fiscal intermediary. We did not audit the changes. CMS and the fiscal intermediary agreed with the finding and recommendations.

The hospital’s comments are included in Appendix B and CMS, Region II, comments are included as Appendix C.

# **APPENDIXES**

CHANGES IN HOURLY WAGE RATE FOR FY 2003 - HACKETTSTOWN REGINAL MEDICAL CENTER

	Reported	Misstated Salaries and Hours		Unallowable	Contract Labor	Audited
	FY 2003	Overstated	Understated			
	Wage Data	Salaries	Hours	Benefit Costs	Services	Wage Data
<b>Total Salaries</b>	\$24,165,983	(\$296,793)	\$0	\$0	\$0	\$23,869,190
<b>Excluded Salaries</b>						
Teaching Physicians	\$0	\$0	\$0	\$0	\$0	\$0
Physician Part B	\$0	\$0	\$0	\$0	\$0	\$0
Interns and Residents	\$0	\$0	\$0	\$0	\$0	\$0
Contract Services - Interns and Residents	\$0	\$0	\$0	\$0	\$0	\$0
Skilled Nursing Facilities	\$0	\$0	\$0	\$0	\$0	\$0
Excluded Area	\$88,582	\$0	\$0	\$0	\$0	\$88,582
<b>Total Excluded Salaries</b>	\$88,582	\$0	\$0	\$0	\$0	\$88,582
<b>Additional Salaries</b>						
Contract Labor	\$523,039	\$0	\$0	\$0	(\$1,263)	\$521,776
Contract labor - Physician Part A	\$0	\$0	\$0	\$0	\$0	\$0
Home Office Salaries and Wages	\$187,753	\$0	\$0	(\$14,108)	\$0	\$173,645
Home Office - Physician Part A	\$0	\$0	\$0	\$0	\$0	\$0
Wage-Related Cost (CORE)	\$5,964,647	\$0	\$0	\$0	\$0	\$5,964,647
Wage-Related Costs - Other	\$0	\$0	\$0	\$0	\$0	\$0
Physician Part A	\$12,735	\$0	\$0	\$0	\$0	\$12,735
<b>Total Additional Salaries</b>	\$6,688,174	\$0	\$0	(\$14,108)	(\$1,263)	\$6,672,803
<b>Adjusted Salaries</b>	\$30,765,575	(\$296,793)	\$0	(\$14,108)	(\$1,263)	\$30,453,411
<b>Total Hours</b>	1,025,052	0	1,976	0	0	1,027,028
<b>Excluded Hours</b>						
Teaching Physicians	0	0	0	0	0	0
Physician Part B	0	0	0	0	0	0
Interns and Residents	0	0	0	0	0	0
Contract Services - Interns and Residents	0	0	0	0	0	0
Skilled Nursing Facilities	0	0	0	0	0	0
Excluded Area	3,912	0	0	0	0	3,912
<b>Total Excluded Hours</b>	3,912	0	0	0	0	3,912
<b>Additional Hours</b>						
Contract Labor	8,846	0	0	0	(120)	8,726
Contract Labor - Physician Part A	0	0	0	0	0	0
Home Office Hours	1,594	0	0	0	0	1,594
Home Office - Physician Part A	0	0	0	0	0	0
<b>Total Additional Hours</b>	10,440	0	0	0	(120)	10,320
<b>Adjusted Hours</b>	1,031,580	0	1,976	0	(120)	1,033,436

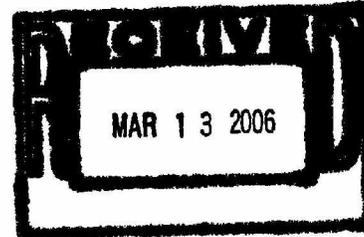




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March 10, 2006

Stephen Virbitsky  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of Audit Services – Region III  
Public Ledger Building, Room 316  
150 South Independence Mall West  
Philadelphia, PA 19106-3499



Re: Report Number A-03-05-00005

Dear Mr. Virbitsky:

In connection with the audit report entitled *Review of Medicare Inpatient Wage Rate Assignment at Hackettstown Regional Medical Center, Hackettstown, New Jersey*, our response is as follows:

#### **Misstated Salaries and Hours**

- The Hospital included \$296,793 of salaries in the cost report that did not have hours associated with them. This was due to a system issue that was corrected by management during the 21<sup>st</sup> pay period (out of 26) in 2003 and accordingly this has been addressed for future periods.

While we agree that the hours were inadvertently omitted from the cost report, we believe that it is more appropriate to add the hours in for these programs, than to eliminate the costs. We believe that the reduction of the salaries that you have proposed should be reversed, and the appropriate number of hours added in to total hours. We have estimated the number of hours based on the average hourly rate for employees in the various services, and have provided this information to our fiscal intermediary. In summary, we concur with this finding, but believe that it should be corrected as we have proposed, rather than to disallow the costs.

- The Hospital did not include 1,976 hours related to the salary of an executive that was allocated to the Hospital by our home office. This was an oversight, and hours for this individual have been included in the Hospital's subsequent cost report. We concur with this finding.

**Unallowable Home Office Wage-Related Benefit Costs**

The Hospital included \$14,108 for wage-related benefit costs allocated to the Hospital by the Home Office that did not meet Medicare requirements for inclusion as core-related benefit costs. We concur with this assessment and will review wage-related benefit costs for proper inclusion.

**Unallowable Contract Labor Services**

The Hospital included \$1,263 for travel and per-diem costs related to services provided by a contract labor vendor. In addition 120 hours of on-call time was included as contract labor hours. This was an oversight. We concur with this finding and have implemented a review process to identify cost and hours that do not meet Medicare regulations.

The findings noted above have been communicated to our fiscal intermediary and have been incorporated into our revised Medicare cost report.

It should be noted that, subsequent to the completion of this audit, the Hospital did identify approximately \$566,000 of additional cost that we believe to be wage related that were not included in wage related costs in the 2003 Medicare cost report. We have requested of our fiscal intermediary that these costs be included in our wage data.

Sincerely,



Stella Visaggio, CPA  
Chief Financial Officer

cc: Bob Peterson, Director of Patient Finance & Reimbursement



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Centers for  
Medicare & Medicaid Services  
Region II

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**Memorandum**

Date March 10, 2006

From James T. Kerr, Regional Administrator  
CMS, Region II

To Stephen Virbitsky, Office of Audit Services  
HHS Office of Inspector General, Region III

Subject Draft Audit Report – Review of Medicare Inpatient Wage Rate Assignment at  
Hackettstown Regional Medical Center, Hackettstown, New Jersey

We contacted the audit office of the fiscal intermediary for Hackettstown Regional Medical Center, Riverbend, and we were told that Riverbend agrees with the draft report's findings and has already implemented adjustments. The OIG should be aware that the deadline for implementing adjustments to the 2003 wage index data had almost expired when Riverbend received the draft report. If there are pending draft reports on wage data for other hospitals for 2003, it may be too late to implement further adjustments.

If you have any questions, you may contact Peter Reisman at (212) 616-2505.

cc: P. Reisman  
G. Fantaousakis



# ACKNOWLEDGMENTS

This report was prepared under the direction of Stephen Virbitsky, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

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