



NOV 18 2004

**TO:** Wynethea Walker  
Acting Director, Audit Liaison Staff  
Centers for Medicare & Medicaid Services

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

**SUBJECT:** Review of Cape Cod Hospital's Wage Data Used for Calculating Inpatient Prospective Payment System Wage Indices (A-01-04-00501)

Attached is an advance copy of our final report on wage data used for calculating inpatient prospective payment system (IPPS) wage indices. We will issue this report to Cape Cod Hospital (the hospital) within 5 business days. This review is the first in a series of reviews of the accuracy of wage data reported by IPPS hospitals. We suggest that you share this report with the Centers for Medicare & Medicaid Services (CMS) Division of Acute Care.

Under the acute care hospital IPPS, Medicare payments to hospitals are made at predetermined, specific rates for each hospital discharge. The payment system base rate is composed of a standardized amount that includes a labor-related share. The CMS adjusts the labor-related share by the wage index applicable to the metropolitan statistical area in which the hospital is located. The wage index values in fiscal year (FY) 2004 were based on the wage data collected by CMS from the Medicare cost reports submitted by hospitals in the cost reporting periods beginning in FY 2000.

The objective of our review was to determine whether the hospital reported FY 2000 Medicare cost report wage data in compliance with Medicare regulations.

We found that the hospital did not fully comply with Medicare regulations on reporting wage data in its FY 2000 Medicare cost report. Specifically, the hospital overstated its wage data by \$4.2 million for the Medicare FY 2000 cost report period. Furthermore, because of the impact of overstated wages, the FY 2004 wage index for the hospital and the two other hospitals in this metropolitan statistical area was overstated by 1.1 percent, and the average payment to the two other hospitals was overstated by about \$46 per hospital discharge.

Overstated wage data occurred because the hospital had not established a financial management system to track all wage data or performed sufficient review and reconciliation procedures to ensure that all reported wage data were accurate, supportable, and in compliance with Medicare regulations.

We recommend that the hospital strengthen financial reporting controls by:

- improving its financial management system to ensure accountability for all wage data and
- implementing procedures to ensure that the wage data reported on its Medicare cost reports are accurate, supported, and in compliance with Medicare regulations.

In its response to our draft report, the hospital concurred with our recommendations.

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 Michael J. Armstrong, Regional Inspector General for Audit Services, Region I, at (617) 565-2689.

Attachment



NOV 22 2004

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

Report Number: A-01-04-00501

Mr. Stephen J. Guimond  
Senior Vice President and Chief Financial Officer  
Cape Cod Healthcare  
88 Lewis Bay Road  
Hyannis, Massachusetts 02601

Dear Mr. Guimond:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Cape Cod Hospital's Wage Data Used for Calculating Inpatient Prospective Payment System Wage Indices." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. 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 members of the press and general 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).

Please refer to report number A-01-04-00501 in all correspondence.

Sincerely yours,

A handwritten signature in black ink that reads "Michael J. Armstrong".

Michael Armstrong  
Regional Inspector General  
for Audit Services

Enclosures

Page 2 – Mr. Stephen J. Guimond

**Direct Reply to HHS Action Official:**

Charlotte S. Yeh, M.D.  
Regional Administrator  
Centers for Medicare & Medicaid Services  
Department of Health and Human Services  
John F. Kennedy Federal Building, Room 2325  
Boston, Massachusetts 02203-0003

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF CAPE COD HOSPITAL'S  
WAGE DATA USED FOR  
CALCULATING INPATIENT  
PROSPECTIVE PAYMENT SYSTEM  
WAGE INDICES**



**NOVEMBER 2004  
A-01-04-00501**

# *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:

## *Office of Audit Services*

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

## *Office of Evaluation and Inspections*

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. The OEI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

## *Office of Investigations*

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

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 acute care hospital inpatient prospective payment system (IPPS), Medicare payments to hospitals are made at predetermined, specific rates for each hospital discharge. The payment system base rate is composed of a standardized amount that includes a labor-related share. The Centers for Medicare & Medicaid Services (CMS) adjusts the labor-related share by the wage index applicable to the area where the hospital is located.

The CMS uses the Office of Management and Budget metropolitan area designations to identify labor markets and to calculate and assign wage indices for hospitals. The CMS calculates a distinct wage index for each metropolitan statistical area (MSA) and uses the wage index to adjust payments under the IPPS. The CMS bases the wage index values on wage data collected from Medicare cost reports submitted by hospitals. All hospitals within a distinct MSA wage index receive the same labor payment adjustment. Wage indices for MSAs that include few hospitals may be significantly influenced by the wage data reported by one hospital. Cape Cod Hospital (the hospital), along with two other hospitals, is classified into a distinct MSA.

### **OBJECTIVE**

The objective of our review was to determine whether the hospital reported fiscal year (FY) 2000 Medicare cost report wage data in compliance with Medicare regulations.

### **SUMMARY OF FINDINGS**

The hospital did not fully comply with Medicare regulations on reporting wage data in its FY 2000 Medicare cost report. Specifically, the hospital included in the cost report:

- overstated contract labor services totaling \$3,803,292 and related hours totaling 85,919,
- overstated home office salaries and wage-related benefits core costs totaling \$364,041 and related hours totaling 2,104,
- understated overhead exclusion costs totaling \$48,287, and
- unallowable physician Part B wages totaling \$39,416.

Overstated wage data occurred because the hospital had not established a financial management system to track all wage data or performed sufficient review and reconciliation procedures to ensure that all reported wage data were accurate, supportable, and in compliance with Medicare regulations.

As a result, the hospital overstated its wage data by \$4.2 million for the Medicare FY 2000 cost report period. Furthermore, because of the impact of overstated wages, the FY 2004 wage index

for the hospital and the two other hospitals in this MSA was overstated by 1.1 percent, and the average payment to the two other hospitals was overstated by about \$46 per hospital discharge.

## **RECOMMENDATIONS**

We recommend that the hospital strengthen financial reporting controls by:

- improving its financial management system to ensure accountability for all wage data and
- implementing procedures to ensure that the wage data reported on its Medicare cost reports are accurate, supported, and in compliance with Medicare regulations.

## **CAPE COD HOSPITAL COMMENTS**

In written comments on our draft report (see app. B), the hospital concurred with our recommendations.

# TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTION</b> .....	1
<b>BACKGROUND</b> .....	1
Medicare Inpatient Prospective Payment System.....	1
Wage Index .....	1
Cape Cod Hospital.....	1
<b>OBJECTIVE, SCOPE, AND METHODOLOGY</b> .....	2
Objective.....	2
Scope.....	2
Methodology.....	2
<b>FINDINGS AND RECOMMENDATIONS</b> .....	3
OVERSTATED CONTRACT LABOR SERVICES.....	3
OVERSTATED HOME OFFICE SALARIES AND WAGE-RELATED BENEFITS CORE COSTS.....	4
UNDERSTATED OVERHEAD EXCLUSION COSTS.....	4
UNALLOWABLE PHYSICIAN PART B SALARIES.....	4
CAUSES OF OVERSTATED WAGE DATA.....	5
EFFECT OF OVERSTATED WAGE DATA.....	5
RECOMMENDATIONS.....	5
CAPE COD HOSPITAL COMMENTS.....	6
<b>APPENDIXES</b>	
A – CUMULATIVE EFFECT OF FINDINGS	
B – CAPE COD HOSPITAL COMMENTS	

## **INTRODUCTION**

### **BACKGROUND**

#### **Medicare Inpatient Prospective Payment System**

Under the acute care hospital IPPS, Medicare payments for hospital inpatient operating and capital-related costs are made at predetermined specific rates for each hospital discharge. Discharges are classified according to a list of diagnosis-related groups (DRG). The hospital base payment rate is composed of a standardized amount that includes a labor-related share. The CMS adjusts the labor-related share by the wage index applicable to the area where the hospital is located. The hospital base payment rate is multiplied by the DRG relative weight.

In FY 2004, Medicare expects to pay about \$98 billion to 4,087 acute care hospitals, an increase of \$4.1 billion over FY 2003. Of the total payments, approximately \$1.8 billion is due to payment rate and policy changes, and the remaining \$2.3 billion is due to anticipated increases in inpatient services and increases in the case mix.

#### **Wage Index**

Geographic designation influences Medicare payment. Under the hospital IPPS, CMS adjusts payments geographically through a wage index, which is intended to adjust payments to reflect labor cost variations among localities. The CMS uses the Office of Management and Budget metropolitan area designations to identify labor markets and to calculate and assign wage indices for hospitals. The CMS calculates a distinct wage index for each MSA and one wage index per State for the areas that lie outside MSAs. The CMS uses the hospital wage index to adjust payments under the IPPS. All hospitals within a distinct MSA wage index receive the same labor payment adjustment. Wage indices for MSAs that include few hospitals may be significantly influenced by the wage data reported by one hospital.

The wage index values in FY 2004 were based on the wage data collected by CMS from the Medicare cost reports submitted by hospitals in the cost reporting periods beginning in FY 2000. Section 1886(d)(3)(e) of the Social Security Act requires that CMS update the wage index annually in a manner that ensures that aggregate payments to hospitals are not affected by changes to hospitals' wage indices.

#### **Cape Cod Hospital**

The hospital is a sole community facility with 258 beds located in Hyannis, MA. The hospital, along with two other acute care hospitals, is classified into a specific MSA. As a sole community facility, the hospital is eligible for the higher of a hospital-specific rate based on its FY 1982 costs or the prospective payment system rate. Nonetheless, the wage data reported by the hospital affect the labor payment adjustment for the two other hospitals in the same MSA.

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

### **Objective**

The objective of our review was to determine whether the hospital reported FY 2000 Medicare cost report wage data in compliance with Medicare regulations.

### **Scope**

Our review covered the wage data reported by the hospital to CMS on Schedule S-3, Part II of its FY 2000 Medicare cost report. Our review of internal controls at the hospital was limited to the control procedures to accumulate and report wage data in its FY 2000 Medicare cost report. We performed our fieldwork at the hospital in Hyannis, MA, from December 2003 through March 2004.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable Medicare regulations;
- obtained an understanding of the hospital's internal control 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 2000 Medicare cost report to its trial balance;
- selected wage data for testing from cost centers on the FY 2000 Medicare cost report that accounted for at least 2 percent of the total hospital wages;
- reconciled the wage data from selected cost centers to detailed support, such as payroll registers or accounts payable invoices;
- tested a sample of personnel from selected payroll registers and verified hours to timesheets;
- held discussions with the hospital staff regarding the sample of personnel to obtain support for wages and to determine the services provided to the hospital; and
- reviewed fiscal intermediary audit reimbursement adjustments made to the hospital's wage data as reported on its FY 2000 Medicare cost report.

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

## FINDINGS AND RECOMMENDATIONS

The hospital did not fully comply with Medicare regulations on reporting wage data in its FY 2000 Medicare cost report. Specifically, the hospital included in its cost report:

- overstated contract labor services totaling \$3,803,292 and related hours totaling 85,919,
- overstated home office salaries and wage-related benefits core costs totaling \$364,041 and related hours totaling 2,104,
- understated overhead exclusion costs totaling \$48,287, and
- unallowable physician Part B salaries totaling \$39,416.

Overstated wage data occurred because the hospital had not established a financial management system to track all wage data or performed sufficient review and reconciliation procedures to ensure that all reported wage data were accurate, supportable, and in compliance with Medicare regulations.

As a result, the hospital overstated its wage data by \$4.2 million for the Medicare FY 2000 cost report period. Furthermore, because of the impact of overstated wages, the FY 2004 wage index for the hospital and the two other hospitals in this MSA was overstated by 1.1 percent, and the average payment to the two other hospitals was overstated by about \$46 per hospital discharge.<sup>1</sup> The findings related to overstated wage data are discussed in more detail in the following pages, and the cumulative effect of the findings is presented in appendix A.

### OVERSTATED CONTRACT LABOR SERVICES

The Medicare Provider Reimbursement Manual, part II, section 3605.2 states that if a hospital cannot accurately determine the number of hours associated with contract labor services, it must exclude all of these salaries and hours from its wages. Also, contracted services at a hospital include amounts paid for services furnished under contract for direct patient care and do not include costs for equipment, supplies, travel expenses, and other miscellaneous or overhead items.

The hospital did not maintain documentation to support contract labor service hours. As a result, the hospital reported wage data on its FY 2000 Medicare cost report that were overstated by \$3,803,292 in contract labor services and 85,919 contract labor service hours. Further, invoices that we reviewed that represented about 30 percent of the contract labor services totaling \$3,803,292 included unallowable travel expenses and miscellaneous costs not related to patient care.

---

<sup>1</sup>The Medicare payment to the hospital for inpatient hospital services is not affected by overstated wages. As a sole community facility, the hospital is reimbursed for inpatient services through a hospital-specific rate based on its FY 1982 costs rather than through the prospective payment system.

## **OVERSTATED HOME OFFICE SALARIES AND WAGE-RELATED BENEFITS CORE COSTS**

Hospitals are required to exclude certain costs for wage reporting purposes. The Medicare Provider Reimbursement Manual, part II, section 3104 states that the cost of home office operations should be allocated among chain components on a reasonable basis related to the services received by the entities in the chain or on a basis designed to equitably allocate the costs among the chain components. Further, the Medicare Provider Reimbursement Manual, part II, section 3605.2 states that hospitals should record the number of paid hours corresponding to the amounts reported for regular hours, overtime hours, paid holiday, vacation, and sick leave hours. Lastly, the Medicare Provider Reimbursement Manual, part II, section 2144 states that fringe benefits are primarily for the benefit of the employees and must be reasonable and related to patient care.

The hospital overstated home office salaries and wage-related benefits core costs totaling \$364,041 and related hours totaling 2,104 by not excluding certain home office costs for wage reporting purposes. Specifically, the hospital included the following costs:

- home office salaries for marketing personnel and personnel who had no relationship to the hospital's operations;
- 100 percent of wage-related benefits core costs related to home office salaries, rather than allocating the appropriate 76.3 percent as supported by the hospital's direct allocation of home office salaries;
- wages for unused vacation time pay earned by home office employees without recording the associated hours; and
- insurance costs for individuals who were not employees of the hospital.

## **UNDERSTATED OVERHEAD EXCLUSION COSTS**

The Medicare Provider Reimbursement Manual, part II, section 3605 states that employee bonuses are an employee benefit that should be included in the total reported salaries and also recorded as overhead wages.

Although the hospital recorded employee bonuses as salaries, the hospital did not make the corresponding adjustment to the employee benefits category, an overhead cost center. Overhead cost is used to determine an overhead exclusion amount that reduces total wages. Therefore, the hospital reported wages on its FY 2000 Medicare cost report that were overstated by \$48,287 because of understated overhead exclusion costs.

## **UNALLOWABLE PHYSICIAN PART B SALARIES**

The Medicare Provider Reimbursement Manual, part II, section 2182 addresses reimbursement for physician services provided in hospitals. This section states that hospitals that incur

physician compensation costs must allocate those costs in proportion to the percentage of total time that is spent in furnishing physician services to the hospital and to individual patients. Payment for the services that physicians furnish to patients in hospitals is made under Part B. The allocation of physicians' time to hospital services must be supported by adequate documentation. In the absence of such documentation, the Part A intermediary will assume that 100 percent of the physicians' compensation cost is allocated to patient services.

The hospital did not maintain documentation supporting the distribution of physician time among covered physician services to patients and to the hospital. Therefore, the hospital was required to record all physician salaries as Part B services on its Medicare cost report. Although the hospital properly recorded the significant portion of physician salaries as Part B services, it did not remove all of the physician salaries from the wage data included on its Medicare cost report. Therefore, the hospital reported wage data on its FY 2000 Medicare cost report that were overstated by \$39,416.

### **CAUSES OF OVERSTATED WAGE DATA**

The hospital overstated its reported wage data because:

- the hospital's financial management system was not designed to track all wage data, including the contract labor hours associated with contract labor service, and
- the hospital did not perform sufficient review and reconciliation procedures to ensure that all amounts reported for wage data were accurate, supportable, and in compliance with Medicare regulations.

### **EFFECT OF OVERSTATED WAGE DATA**

As a result of the conditions identified above, the hospital overstated its wage data by \$4.2 million for the Medicare FY 2000 cost report period. Furthermore, because of the impact of overstated wages, the FY 2004 wage index for the hospital and the two other hospitals in this MSA was overstated by 1.1 percent, and the average payment to the two other hospitals was overstated by about \$46 per hospital discharge.

### **RECOMMENDATIONS**

We recommend that the hospital strengthen financial reporting controls by:

- improving its financial management system to ensure accountability for all wage data and
- implementing procedures to ensure that the wage data reported on its Medicare cost reports are accurate, supported, and in compliance with Medicare regulations.

We will also provide a copy of the report to CMS and to the hospital's fiscal intermediary to help determine what impact these findings may have on current and future payments.

## **CAPE COD HOSPITAL COMMENTS**

In written comments on our draft report (see app. B), the hospital concurred with our recommendations.

# **APPENDIXES**

CUMULATIVE EFFECT OF FINDINGS

Components	Reported FY 2000 Wage Data	Home Office Component		Hospital Component			Adjusted FY 2000 Wage Data
		Overstated Wage-Related Benefits Core Cost	Overstated Office Salaries	Understated Overhead Exclusion Cost	Unallowable Physician Part B Salaries	Overstated Contract Labor Services	
<b>CAPE COD HOSPITAL</b>							
<i>Work Sheet S - 3, Part II</i>							
<b>Total Salaries</b>							
line1/col. 3	TOTAL SALARIES	\$74,981,303.00				(\$3,556,192.00)	\$71,425,111.00
	Excluded Salaries						
line5/col. 3	PHYSICIAN - PART B	\$3,268,929.00			\$37,555.00		\$3,306,484.00
line6/col. 3	INTERNS AND RESIDENTS	\$232,647.00					\$232,647.00
line8.01/col. 3	EXCLUDED AREA SALARIES	\$3,553,798.00					\$3,553,798.00
		(\$7,055,374.00)			(\$37,555.00)		(\$7,092,929.00)
	Additional Salaries						
line9/col. 3	CONTRACT LABOR	\$232,647.00					\$232,647.00
line11/col. 3	HOME OFFICE SAL AND WAGES	\$3,136,071.00	(\$248,971.00)	(\$97,887.00)			\$2,789,213.00
line13/col. 3	WAGE-RELATED COST (CORE)	\$17,412,996.00					\$17,412,996.00
sub-tot-b (ADD)		\$20,781,714.00	(\$248,971.00)	(\$97,887.00)			\$20,434,856.00
	Adjusted Salaries	\$88,707,643.00	(\$248,971.00)	(\$97,887.00)	(\$37,555.00)	(\$3,556,192.00)	\$84,767,038.00
<b>Total Paid Hours</b>							
line1/col. 4	TOTAL HOURS	3022973.3				(83,742.50)	2939230.8
	Excluded Hours						
line5/col. 4	PHYS PT B HOURS	36627.2					36627.2
line6/col. 4	INTERN AND RESIDENTS' HOURS	6280.8					6280.8
line8.01/col. 4	EXCLUDED AREAS HOURS	117450.9					117450.9
sub-tot-c (LESS)		(160,358.90)					(160,358.90)
	Additional Salaries						
line9/col. 4	CONTRACT LABOR HOURS	6260.8					6260.8
line11/col. 4	HOME OFFICE SAL HOURS	42023		(2,104.00)			39919
sub-tot-d (ADD)		48283.8		(2,104.00)			46179.8
	Adjusted Hours	2910898.2		(2,104.00)		(83,742.50)	2825051.7

CUMULATIVE EFFECT OF FINDINGS

Components	Reported FY 2000 Wage Data	Home Office Component		Hospital Component			Adjusted FY 2000 Wage Data	
		Overstated Wage-Related Benefits Core Cost	Overstated Office Salaries	Understated Overhead Exclusion Cost	Unallowable Physician Part B Salaries	Overstated Contract Labor Services		
<b>CAPE COD HOSPITAL</b>								
<b>Work Sheet S - 3, Part III</b>								
<b>OVERHEAD (OH) ALLOCATION</b>								
line13/col. 3	TOTAL OVERHEAD WAGES	\$19,139,603.00		\$810,952.00			\$19,950,555.00	
line13/col. 4	TOTAL OVERHEAD HOURS	909,835.97					909,835.97	
	TOTAL HOURS	3,022,973.30				(83,742.50)	2,939,230.80	
	LESS:							
	PHYSICIAN PART B HOURS	36,627.20					36,627.20	
	INTERN AND RESIDENTS' HOURS	6,280.80					6,280.80	
	TOTAL OVERHEAD HOURS	909,835.97					909,835.97	
	SUBTOTAL -->	952,743.97					952,743.97	
	REVISED HOURS	2,070,229.33				(83,742.50)	1,986,486.83	
	OVERHEAD REDUCTION FOR EXCLUDED AREAS - HOURS							
	SNF HOURS	0					0.00	
	EXCLUDED AREA HOURS (e.g: Home Health)	117,450.90					117,450.90	
	SUBTOTAL -->	117,450.90					117,450.90	
	EXCLUDED OVERHEAD RATE [(SNF+ Excluded Area Hours)/Revised Hours]	0.0567				0.002392	0.0591	
	EXCLUDED OVERHEAD WAGES (SOH X Excluded OH Rate)	\$1,085,852.45		\$46,007.97		\$45,775.28	\$1,177,635.70	
	EXCLUDED OVERHEAD HOURS (OH Hrs X Excluded OH rate)	51,617.98				2,176.01	53,793.99	
	OVERHEAD RATE (OH hrs/(Revised hrs + OH hrs))	0.3053					0.3141	
	WAGE-RELATED COST (CORE)	\$17,412,996.00					\$17,412,996.00	
	Overhead Work Wage-Related Cost (\$17,412,996 X .31)	\$5,316,316.43				\$153,712.71	\$5,470,029.14	
	Excluded Work Wage-Related Cost (\$5,316,316 X .0567)	\$301,612.07				\$21,803.04	\$323,415.10	
	Adjusted Salaries	\$88,707,643.00	(\$248,971.00)	(\$97,887.00)		(\$37,555.00)	\$84,767,038.00	
	Less: Excluded Overhead Salaries	(\$1,085,852.45)			(\$46,007.97)	(\$45,775.28)	(\$1,177,635.70)	
	Excluded-Work-Related Cost	(\$301,612.07)				(\$21,803.04)	(\$323,415.10)	
	REVISED WAGES	\$87,320,178.48	(\$248,971.00)	(\$97,887.00)	(\$46,007.97)	(\$37,555.00)	(\$3,623,770.32)	\$83,265,987.19
	MULTIPLY BY: INFLATION FACTOR ( Per August 1, 2003, Federal Register)	1.04954	1.04954	1.04954	1.04954	1.04954	1.04954	
	INFLATED WAGES (Adjusted Wages Used in Report) -	\$91,646,020.12	(\$261,305.02)	(\$102,736.32)	(\$48,287.20)	(\$39,415.47)	(\$3,803,291.90)	\$87,390,984.20
	REVISED HOURS (Adjusted Hours Used in Report) -	2,859,280.22		(2,104.00)			(85,918.51)	2,771,257.71
	[Adjusted Hours - Excluded OH Hours]							

CUMULATIVE EFFECT OF FINDINGS

Components	Reported FY 2000 Wage Data	Home Office Component		Hospital Component			Adjusted FY 2000 Wage Data
		Overstated Wage-Related Benefits Core Cost	Overstated Office Salaries	Understated Overhead Exclusion Cost	Unallowable Physician Part B Salaries	Overstated Contract Labor Services	
CAPE COD HOSPITAL							

IPPS IMPACT:

Average Hourly Wage (MSA Avg/Nat. Avg of \$24.7072)	32.0521	31.9607	32.0398	32.0352	32.0383	31.6737	31.5348
Federal Register - Average Hourly Wage as Published	32.0521	32.0521	32.0521	32.0521	32.0521	32.0521	32.0521
IMPACT OF CHANGE (Used in Report) =>	0.0000	(0.0914)	(0.0123)	(0.0169)	(0.0138)	(0.3784)	(0.5173)
Wage Index - Published	1.2956	1.2956	1.2956	1.2956	1.2956	1.2956	1.2956
Wage Index - Change	1.2956	1.2930	1.2953	1.2952	1.2953	1.2849	1.2810
IMPACT OF CHANGE (Used in Report) =>	0.0000	0.0026	0.0004	0.0005	0.0004	0.0107	0.0146
Avg. IPPS Payment (Based on a DRG Relative Weight of 1.0)	\$0.00	\$8.17	\$1.11	\$1.51	\$1.23	\$33.63	\$45.65

TOTAL EFFECT OF WAGE ADJUSTMENTS ON THE MSA AVERAGE HOURLY RATE AND WAGE INDEX

Provider	Cost Report Period	COST REPORT ENDING DATES	REPORTED AND/OR REVISED WAGES (WAGES)	REPORTED AND/OR REVISED HOURS (HOURS)	AVERAGE HOURLY RATE (WAGES)/(HOURS)
CAPE COD HOSPITAL	19991001	20000930	\$87,390,984.20	2,771,258	\$31.5348
HOSPITAL # 1	19991001	20000930	\$38,318,109.67	1,200,597	\$31.9159
HOSPITAL # 2 (NOTE 1)	19991001	20000930	-	-	-
			\$125,709,093.87	3,971,854	\$31.6500
			NATIONAL WAGE RATE - Oct. 6, 2003 FEDERAL REGISTER		\$24.7072
			Revised Wage Index		1.2810

NOTE 1 - HOSPITAL RECLASSIFIED IN MSA BUT WAGES NOT USED FOR WAGE INDEX.



## CAPE COD HEALTHCARE

---

9/21/04

Mr. Michael J. Armstrong  
 Regional Inspector General  
 For Audit Services, Region 1  
 Office of Audit Services  
 John F. Kennedy Federal Building, Rm 2425  
 Boston, MA 02203

Re: Report Number A-01-04-00501

Dear Mr. Armstrong :

In response to the OIG audit report entitled "Cape Cod Hospital Review of Controls to Ensure Accuracy of Wage Data Used for Calculating IPPS Wage Indices", we offer the following response.

### **Overstated Contract Labor Services**

Cape Cod Hospital (CCH) has incurred reasonable and medically necessary costs for contract labor due to labor shortages in key areas such as nursing and radiology. The accounting for the expenses of contract labor have been accurately recorded on the hospital's internal general ledger. The hours incurred are recorded on individual invoices and approved by responsible managers.

For purposes of calculating the wage index hours, CCH agrees with the OIG recommendations and has initiated a new accounting procedure for recording contract labor hours on the hospital's labor and distribution report.

### **Overstated Home Office Salaries and Wage Related Benefits Core Cost**

CCH agrees with this finding and recommendation. It should be noted that a portion of these expenses were brought on the Medicare cost report through an adjustment made by the Medicare intermediary.

### **Understated Overhead Exclusion Cost**

This recommendation would pertain to the Medicare audit as these expenses for employee bonuses were recorded by Medicare auditors. CCH will comply with this recommendation in future cost report filings.

### **Unallowable Physician Part B Salaries**

CCH agrees with this finding and recommendation.

In summary, CCH agrees to adopt the recommendations in the audit report.

Very truly yours,

Stephen J. Guimond  
 Senior Vice President  
 And CFO