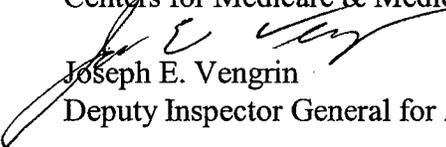




NOV - 2 2005

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 Day Kimball Hospital's Controls To Ensure Accuracy of Wage Data Used for Calculating Inpatient Prospective Payment System Wage Indexes (A-01-05-00506)

Attached is an advance copy of our final report on Day Kimball Hospital's (the hospital's) controls to ensure the accuracy of wage data used for calculating inpatient prospective payment system wage indexes. We will issue this report to the hospital within 5 business days. This review is the first in 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 prospective payment system for acute care hospitals, Medicare pays hospitals at predetermined 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 \$2,013,174 and 23,221 hours and its average hourly wage rate by about 3 percent. The overstatements 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 FY 2003 cost report, the FY 2007 Connecticut rural wage index will be inflated, which will result in overpayments to this hospital, 1 other hospital in the statewide rural area, and 13 additional hospitals in a Connecticut urban area.

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$2,013,174 and 23,221 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 response to our draft report, the hospital concurred with our findings and 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. Please refer to report number A-01-05-00506.

Attachment



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

NOV - 4 2005

Report Number: A-01-05-00506

Ms. Crista F. Durand
Sr. VP of Finance and CFO
Day Kimball Hospital
320 Pomfret Street
Putnam, Connecticut 06260

Dear Ms. Durand:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Day Kimball Hospital's Controls To Ensure Accuracy of Wage Data Used for Calculating Inpatient Prospective Payment System Wage Indexes." A copy of this report will be forwarded to the 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 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-01-05-00506 in all correspondence.

Sincerely yours,

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

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures

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
DAY KIMBALL HOSPITAL'S
CONTROLS TO ENSURE
ACCURACY OF WAGE DATA
USED FOR CALCULATING INPATIENT
PROSPECTIVE PAYMENT SYSTEM
WAGE INDEXES**



**Daniel R. Levinson
Inspector General**

**NOVEMBER 2005
A-01-05-00506**

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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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.

As of FY 2005, the Connecticut statewide rural wage index applied to Day Kimball Hospital (the hospital) and one other hospital. One urban CBSA encompassing 13 additional hospitals also used this 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:

- unallowable Part B physician salaries, which overstated wage data by \$1,376,114 and 12,030 hours;
- other unallowable costs, which overstated wage data by \$837,752 and 22,031 hours;
- severance payments without the associated hours, which understated wage data by \$37,991 and 9,883 hours; and
- understated contract labor services, which understated wage data by \$162,701 and 957 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 \$2,013,174 and 23,221 hours and its average hourly wage rate by about 3 percent for the FY 2003 Medicare cost report period. If the hospital does not revise the wage data in its cost report, the FY 2007

Connecticut rural wage index will be inflated, which will result in overpayments to the hospital and the 14 other hospitals that use this wage index.¹

RECOMMENDATIONS

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$2,013,174 and 23,221 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.

HOSPITAL'S COMMENTS

In written comments on our draft report, the hospital concurred with our findings and recommendations. The hospital's comments are included as Appendix B.

¹The 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 Indexes

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. 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 (the 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. Further, 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 that State.

Day Kimball Hospital

Day Kimball Hospital (the hospital) is a 103-bed community hospital in Putnam, CT. As of FY 2005, the Connecticut statewide rural wage index applied to this hospital and one other hospital. Because the calculated wage index for one Connecticut urban CBSA was below the statewide rural wage index, the 13 hospitals in this CBSA also used the statewide rural wage index pursuant to 42 U.S.C. § 1395ww (note).

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 \$37.9 million and 1.13 million hours that the hospital reported to CMS on Schedule S-3, part II, of its FY 2003 Medicare cost report. 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 Putnam, CT, from February through May 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 reconciled to its audited financial statements;
- reconciled the total reported wages on the hospital's FY 2003 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 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 fiscal intermediary's audit reimbursement adjustments to the wage data that the hospital reported in its FY 2003 Medicare cost report; and
- determined the effect of the reporting errors by recalculating the hospital's average hourly wage rate 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:

- unallowable Part B physician salaries, which overstated wage data by \$1,376,114 and 12,030 hours;
- other unallowable costs, which overstated wage data by \$837,752 and 22,031 hours;
- severance payments without the associated hours, which understated wage data by \$37,991 and 9,883 hours; and
- understated contract labor services, which understated wage data by \$162,701 and 957 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 \$2,013,174 and 23,221 hours and its average hourly wage rate by about 3 percent for the FY 2003 Medicare cost report period. If the hospital does not revise the wage data in its cost report, the FY 2007 Connecticut rural wage index will be inflated, which will result in overpayments to the hospital and the 14 other hospitals that use this wage index.¹

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.

¹The extent of overpayments cannot be determined until CMS finalizes its FY 2007 wage indexes.

Unallowable Part B Physician Salaries

According to the “Medicare Provider Reimbursement Manual” (the Manual), part I, section 2182, hospitals that incur physician compensation costs must allocate those costs in proportion to the time that the physicians spent in furnishing services to the hospital and to individual patients. Medicare Part B pays for the services that physicians furnish to hospital patients. The Manual states that allocation of a physician’s time to hospital services must be supported by adequate documentation. Further, the Manual states that in the absence of an allocation agreement between the hospital and the physician, the Part A fiscal intermediary will allocate 100 percent of the physician’s compensation costs to patient services.

The hospital did not maintain a written allocation agreement or adequate documentation supporting the distribution of physicians’ time for services provided to the hospital and to patients. Therefore, the hospital should have recorded all physicians’ salaries as patient services in its Medicare cost report. Although the hospital properly recorded a portion of salaries as patient services, it did not remove all of the unsupported physicians’ salaries (for employees and contracted physicians) from the wage data. Therefore, the hospital overstated physician wages by \$1,362,216 and 11,441 related hours. After factoring in overhead costs, the hospital’s FY 2003 Medicare cost report overstated physician wages by \$1,376,114 and related hours by 12,030.

Other Unallowable Costs

The Act and CMS regulations provide that, as a general matter, care by nurse practitioners is covered by Part B, not Part A. Section 1861(s)(2)(K)(ii) of the Act and 42 CFR § 410.75 include care by nurse practitioners as a covered Part B service; section 1861(b) of the Act and 42 CFR § 409.10(b) exclude nurse practitioners from Part A inpatient hospital services. As such, the Manual, part II, section 3605.2, states that hospitals should exclude from their reported wage index information those nurse practitioner salaries and other services that the hospitals claim for Part B reimbursement as patient services. Further, section 328 of the Manual, part I, states that charity costs are not reimbursable Medicare costs. Finally, the Manual, part II, 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.

Contrary to these requirements, the hospital included \$684,069 in unallowable costs and 16,572 associated hours in its Medicare cost report:

- nurse practitioner costs totaling \$428,666 in salaries and 8,832 in hours, which were covered as Part B patient services;
- fundraising expenses totaling \$193,023 in salaries and 4,840 in hours, which were not reimbursable; and
- community outreach program costs totaling \$62,380 in salaries and 2,900 in hours, which were not directly related to patient care.

As a result, the hospital overstated the wage data by \$837,752 in salaries and 22,031 related hours.

Severance Payments Without Associated Hours

The Manual, part II, section 3605.2, requires hospitals to ensure that the wage data reported on their Medicare cost reports are accurate. Section 3605.2 also requires hospitals to record the number of paid hours corresponding to the amounts reported as regular time, overtime, paid holidays, vacation and sick leave, paid time off, and severance pay. Accurate wage data hours are necessary to calculate correct overhead adjustments.

The hospital's wage data included employees' severance pay totaling \$391,861 without the related hours. During our fieldwork, hospital officials provided us with documentation for 8,796 hours that corresponded to the severance payments. Our inclusion of the additional hours for severance payments decreased the overhead factor and thus increased reported wages by \$37,991 and related hours by 9,883. The understated wages and unreported severance hours overstated the hospital's average hourly wage rate by \$0.26 per hour.

Understated Contract Labor Services

The Manual, part II, section 3605.2, states that the amounts paid for services furnished under contract are allowable if they are for direct patient care and do not include costs for equipment, supplies, travel expenses, or other miscellaneous or overhead items. Direct patient care services include nursing, diagnostic, therapeutic, and rehabilitative services and certain management services.

The hospital included in its FY 2003 wage data \$89,004 and 1,455 hours for contract services that pertained to another fiscal year. Subsequently, hospital officials provided documentation supporting \$251,705 in contract services (primarily nursing, anesthesiology, and other ancillary services) and 2,412 related hours that should have been included in its FY 2003 wage data. Therefore, the hospital's wage data were understated by \$162,701 and 957 hours.

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 requirements.

OVERSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS

As a result of the reporting errors, the hospital overstated its wage data by \$2,013,174 and 23,221 hours and its average hourly rate by about 3 percent for the FY 2003 Medicare cost report period.² If the hospital does not revise the wage data in its cost report, the FY 2007 Connecticut rural wage index will be inflated, which will result in overpayments to the hospital and the 14 other hospitals that use this wage index.

²We adjusted the average hourly wage rate from \$33.44 to \$32.34.

RECOMMENDATIONS

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$2,013,174 and 23,221 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.

HOSPITAL'S COMMENTS

In written comments on our draft report, the hospital concurred with our findings and recommendations. The hospital said that it would implement review and reconciliation procedures to ensure that wage data are reported in compliance with Medicare requirements. The hospital's comments are included as Appendix B.

APPENDIXES

CUMULATIVE EFFECT OF FINDINGS

Components	Reported FY 2003 Wage Data	Unallowable Part B Physician Salaries		Other Unallowable Costs	Severance Payments Without Associated Hours	Understated Contract Labor Services	Adjusted FY 2003 Wage Data
		Employee Physicians	Contracted Physicians				
DAY KIMBALL HOSPITAL							
<i>Schedule S-3, Part II</i>							
Total Salaries							
line1/col. 3	Total Salaries	\$36,055,464.00					\$36,055,464.00
Excluded Salaries							
line 4.01/col. 3	Teaching Physician						
line5/col. 3	Physician- Part B	\$1,932,988.00	\$550,295.00				\$2,483,283.00
line 5.01/col.3	Non-physician Part B	\$0.00		\$310,397.00			\$310,397.00
line6/col. 3	Interns and Residents						
line6.01/col. 3	Contract Services - Interns and Residents						
line7/col. 3	Home Office Personnel						
line 8/col. 3	Skilled Nursing Facility (SNF)						
line8.01/col. 3	Excluded Area	\$4,742,101.00		\$184,937.00			\$4,927,038.00
subtotal (subtract)		\$6,675,089.00	\$550,295.00	\$0.00	\$495,334.00	\$0.00	\$7,720,718.00
Additional Salaries							
line9/col. 3	Contract Labor	\$89,004.00					\$251,705.00
line 10/col. 3	Contract Labor - Physician Part A	\$728,931.00		(\$728,931.00)		\$162,701.00	\$0.00
line 10.01/col. 3	Contract Labor -Teaching Physician						
line11/col. 3	Home Office						
line13/col. 3	Wage-Related Cost (Core)	\$11,150,315.00		(\$188,735.00)			\$10,961,580.00
line 14/col. 3	Wage-Related Cost (Other)						
line 18/col. 3	Wage-Related Cost - Physician Part A	\$89,308.00	(\$82,990.00)				\$6,318.00
subtotal (add)		\$12,057,558.00	(\$82,990.00)	(\$728,931.00)	(\$188,735.00)	\$0.00	\$11,219,603.00
	Adjusted Salaries	\$41,437,933.00	(\$633,285.00)	(\$728,931.00)	(\$684,069.00)	\$0.00	\$39,554,349.00
Total Paid Hours							
line1/col. 4	Total Hours	1,473,826.90			8,796.00		1,482,622.90
Excluded Hours							
line 4.01/col. 4	Teaching Physician						
line5/col. 4	Physician Part B	21,707.00	4,696.00				26,403.00
line 5.01/col. 4	Non-physician Part B	0.00		8,832.00			8,832.00
line6/col. 4	Intern and Residents						
line6.01/col. 4	Contract Services - Interns and Residents						
line7/col. 4	Home Office Personnel						
line 8/col. 4	Skilled Nursing Facility (SNF)						
line8.01/col. 4	Excluded Area	209,177.00		7,740.00			216,917.00
subtotal (subtract)		230,884.00	4,696.00	0.00	16,572.00	0.00	252,152.00
Additional Salaries							
line9/col. 4	Contract Labor	1,455.40				957.35	2,412.75
line 10/col. 4	Contract Labor - Physician Part A	6,745.00		(6,745.00)			0.00
line 10.01/col. 4	Contract Labor -Teaching Physician						
line11/col. 4	Home Office						
subtotal (add)		8,200.40		(6,745.00)		0.00	2,412.75
	Adjusted Hours	1,251,143.30	(4,696.00)	(6,745.00)	(16,572.00)	8,796.00	1,232,883.65



DAY KIMBALL HOSPITAL

320 Pomfret Street Putnam, Connecticut 06260 860-928-6541 / 860-774-3366 www.daykimball.org

October 14, 2005

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

Re: Day Kimball Hospital
FY 9/30/03
Report Number A-01-05-00506

Dear Mr. Armstrong:

In response to your draft audit report entitled "Review of Day Kimball Hospital's Control to Ensure Accuracy of Wage Data Used for Calculating Inpatient Prospective Payment System Wage Indexes" our responses are as follows:

Unallowable Part B Physician Salaries

Day Kimball Hospital (DKH) agrees with the OIG findings that it did not maintain adequate documentation supporting the distribution of physician time for services provided to hospital and to patients according to the Medicare Provider Reimbursement Manual. DKH has implemented a procedure to record the information necessary to support the allocation between Part A and Part B in compliance with Medicare regulations.

Other Unallowable Costs

DKH agrees with the OIG findings that the Hospital inadvertently included unallowable costs and associated hours for nurse practitioner, fundraising, and community outreach program, which were not in compliance with the Medicare regulations. DKH will implement review and reconciliation procedures to ensure that the wage data reported on future costs reports are in compliance with Medicare requirements.

Severance Payments without Associated Hours

DKH agrees with the OIG findings that it inadvertently did not include the hours associated with the severance pay reported. DKH will implement review and reconciliation procedures to ensure that the wage data reported on future costs reports are in compliance with Medicare requirements.

Understated Contract Labor Services

DKH agrees with this finding that it incorrectly reported contract services that pertained to another fiscal year. DKH will implement review and reconciliation procedures to ensure that the wage data reported on future costs reports are in compliance with Medicare requirements.

In summary, DKH concurs with the OIG findings and recommendations in the audit report.

Sincerely,



Crista F. Durand
Sr. VP of Finance and CFO