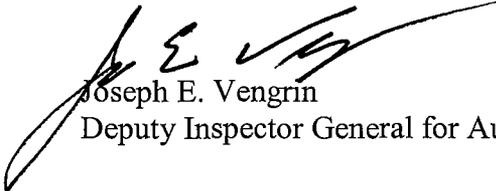




APR 14 2008

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

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

SUBJECT: Review of Duke University Medical Center's Reported Fiscal Year 2006 Wage Data (A-01-07-00511)

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

Under the 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.

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

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2006 Medicare cost report. Specifically, the Hospital overstated its wage data by \$9,283,605 and 50,857 hours. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent. The errors in reported wage data occurred because the Hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate, supportable, and in compliance with Medicare requirements. If the Hospital does not revise the wage data in its FY 2006 cost report, the FY 2009 wage index for the Hospital's core-based statistical area will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

We recommend that the Hospital:

- submit a revised FY 2006 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$9,283,605 and 50,857 hours and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

In its written comments on our draft report, the Hospital agreed with our findings related to overstated fringe benefit costs, unallowable costs, and understated hours. The Hospital disagreed, in part, with our finding that it had included in its wage data unsupported costs for Part B services provided by nurse practitioners. Because the Hospital provided additional information showing that about 80 percent of these costs were in support of Part A Hospital services, we revised this finding.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or Michael J. Armstrong, Regional Inspector General for Audit Services, Region I, at (617) 565-2689 or through e-mail at Michael.Armstrong@oig.hhs.gov. Please refer to report number A-01-07-00511.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

Office of Audit Services
Region I, Room 2425
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

APR 16 2008

Report Number: A-01-07-00511

Mr. Stuart Smith
Assistant Vice President for Reimbursement
and Revenue Accounting
Duke University Medical Center
615 Douglas Street
Durham, North Carolina 27708

Dear Mr. Smith:

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

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

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

If you have any questions or comments about this report, please do not hesitate to call me, or contact David Lamir, Audit Manager, at (617) 565-2704 or through e-mail at David.Lamir@oig.hhs.gov. Please refer to report number A-01-07-00511 in all correspondence.

Sincerely,

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

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management and Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
DUKE UNIVERSITY
MEDICAL CENTER'S
REPORTED FISCAL YEAR 2006
WAGE DATA**



Daniel R. Levinson
Inspector General

April 2008
A-01-07-00511

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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The Office of Audit Services (OAS) provides 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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Notices

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

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Under the inpatient prospective payment system for acute-care hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. The Centers for Medicare & Medicaid Services (CMS) adjusts prospective payments by the wage index applicable to the area in which each hospital is located. CMS calculates a wage index for each metropolitan area, known as a core-based statistical area (CBSA), as well as a statewide rural wage index for each State. These calculations use hospital wage data (which include wages, salaries, and related hours) collected 4 years earlier to allow time for the collection of complete cost report data from all inpatient prospective payment system hospitals and for reviews of hospital wage data by CMS's fiscal intermediaries. For example, CMS will base the fiscal year (FY) 2009 wage indexes on wage data collected from hospitals' Medicare cost reports for their FYs that began during Federal FY 2005 (October 1, 2004, through September 30, 2005).

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

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

Duke University Medical Center (the Hospital) is a 1,050-bed hospital in Durham, North Carolina. The Hospital is one of five hospitals in a North Carolina CBSA. The Hospital reported wage data of \$439 million and 13.9 million hours in its FY 2006 Medicare cost report, which resulted in an average hourly wage rate of \$31.51.

OBJECTIVE

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

SUMMARY OF FINDINGS

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

- overstated fringe benefit costs totaling \$5,258,178,

- unsupported costs related to wages for Part B services totaling \$2,968,724 and 99,789 hours,
- unallowable salary costs totaling \$1,056,703, and
- understated hours totaling 48,932.

These errors occurred because the Hospital did not sufficiently review and reconcile its reported wage data to supporting documentation to ensure that the data were accurate, supportable, and in compliance with Medicare requirements. As a result, the Hospital overstated its wage data by \$9,283,605 (numerator) and 50,857 hours (denominator) for the FY 2006 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent from \$31.51 to \$30.96. If the Hospital does not revise the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

RECOMMENDATIONS

We recommend that the Hospital:

- submit a revised FY 2006 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$9,283,605 and 50,857 hours and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

DUKE UNIVERSITY MEDICAL CENTER COMMENTS

In its written comments on our draft report, the Hospital agreed with our findings related to overstated fringe benefit costs, unallowable costs, and understated hours. The Hospital disagreed, in part, with our finding that it had included in its wage data unsupported costs for Part B services provided by nurse practitioners.

In response to our first recommendation, the Hospital suggested that a more effective approach would be for it to work directly with the intermediary to correct the data in CMS's public use file. In response to our second recommendation, the Hospital stated that it had already begun to improve its review procedures.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

After we concluded our fieldwork, the Hospital provided additional information showing that about 80 percent of its nurse practitioner costs were in support of Part A Hospital services and thus allowable for wage index purposes. Accordingly, we revised the finding to allow

\$722,633 in salaries and benefits and 15,090 hours for services provided by nurse practitioners, which reduced the total wage data overstatement by \$731,848 and 15,460 hours after overhead was factored in. This change increased by \$0.02 the average hourly wage rate that we initially calculated.

We agree that working with the intermediary to correct the wage data overstatements is an acceptable alternative to submitting a revised cost report.

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INTRODUCTION

BACKGROUND

Medicare Inpatient Prospective Payment System

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

Wage Indexes

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

To calculate wage indexes, CMS uses hospital wage data (which include wages, salaries, and related hours) collected 4 years earlier to allow time for CMS to collect complete cost report data from all inpatient prospective payment system hospitals and for CMS's fiscal intermediaries to review these data. For example, CMS will base the wage indexes for FY 2009, which will begin October 1, 2008, on wage data collected from hospitals' Medicare cost reports for their FYs that began during Federal FY 2005 (October 1, 2004, through September 30, 2005). A hospital's wage rate is the quotient of dividing total dollars (numerator) by total hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations. Inaccuracies in either the dollar amounts or hours reported can have varying effects on the final rate computation.

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

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

costs in wage data could produce an inaccurate market basket index for updating prospective payments to hospitals.

Duke University Medical Center

Duke University Medical Center (the Hospital) is a 1,050-bed hospital in Durham, North Carolina. The Hospital is one of five hospitals in a North Carolina CBSA. The Hospital submitted to CMS its FY 2006 Medicare cost report covering the period July 1, 2005, through June 30, 2006.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our review covered the \$439,006,674 in salaries and 13,932,897 in hours that the Hospital reported to CMS on Worksheet S-3, part II, of its FY 2006 Medicare cost report, which resulted in an average hourly wage rate of \$31.51. We limited our review of the Hospital's internal controls to the procedures that the Hospital used to accumulate and report wage data for its cost report.

We performed our fieldwork at the Hospital in Durham, North Carolina, from April through June 2007.

Methodology

To accomplish our objective, we:

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

- selected for testing wage data in the FY 2006 Medicare cost report from cost centers that accounted for at least 2 percent of the total Hospital wages;
- tested a sample of transactions from these cost centers and reconciled wage data to payroll records;
- interviewed Hospital staff regarding the nature of services that employees and contracted labor provided to the Hospital; and
- determined the effect of the reporting errors by recalculating, as shown in Appendix A, the Hospital's average hourly wage rate using the CMS methodology for calculating the wage index, which includes an hourly overhead factor, in accordance with instructions published in the Federal Register.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

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

- overstated fringe benefit costs totaling \$5,258,178,
- unsupported costs related to wages for Part B services totaling \$2,968,724 and 99,789 hours,
- unallowable salary costs totaling \$1,056,703, and
- understated hours totaling 48,932.

These errors occurred because the Hospital did not sufficiently review and reconcile its reported wage data to supporting documentation to ensure that the data were accurate, supportable, and in compliance with Medicare requirements. As a result, the Hospital overstated its wage data by \$9,283,605 (numerator) and 50,857 hours (denominator) for the FY 2006 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent from \$31.51 to \$30.96. If the Hospital does not revise the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.²

²The extent of overpayments cannot be determined until CMS finalizes its FY 2009 wage indexes.

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.

Overstated Fringe Benefit Costs

The “Medicare Provider Reimbursement Manual” (the Manual), part I, section 2105.11, states that costs incurred by providers for the education of spouses or other dependents of the providers or their employees are not allowable when the dependents are not active employees. Furthermore, the Manual, part II, section 3605.2, states that hospitals should ensure that the wage data reported on their Medicare cost reports are accurate.

The Hospital incorrectly reported fringe benefit costs totaling \$5,323,592. Specifically, the Hospital included in its Part A wage data the following fringe benefit costs that were not in compliance with Federal requirements:

- \$4,399,596 in unallowable tuition reimbursement incurred for employees’ family members who were not active employees of the Hospital,
- \$545,200 in fringe benefit costs related to Part B nonphysician anesthetist services that was included because of a calculation error, and
- \$378,796 in duplicate Part A fringe benefit costs for nurses assigned to multiple units that was included because of an incorrect adjustment.

As a result, after overhead was factored in, the Hospital overstated its wage data by \$5,258,178, which overstated its average hourly wage rate by \$0.39.

Unsupported Costs for Part B Services

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

The Manual, part II, section 3605, requires hospitals to exclude from their reported wage index information those nurse practitioner and other services that hospitals claim for Part B reimbursement as patient services. Under Medicare, these services are related to patient care and are billed separately under Part B.

The Hospital could not provide supporting documentation for \$2,905,776 in salaries and related fringe benefits and 98,193 in hours recorded as Part A wages for services provided by nurse

³Section 1861(s)(2)(K)(ii) of the Act and 42 CFR § 410.75 include care by nurse practitioners as covered Part B services; section 1861(b)(4) of the Act and 42 CFR § 409.10(b)(5) exclude nurse practitioners from Part A inpatient hospital services. Section 1861(s)(2)(N) of the Act and 42 CFR § 410.73 include care by clinical social workers as covered Part B services.

practitioners and clinical social workers that are generally covered under Part B, in compliance with Federal requirements.

As a result, after overhead was factored in, the Hospital overstated its wage data by \$2,968,724 and 99,789 hours, which overstated its average hourly wage rate by \$0.01.

Unallowable Costs

The Manual, part II, section 3605.2, states that hospitals should record wages and salaries paid to employees increased by amounts paid for vacation, holiday, sick leave, paid time off, severance pay, and bonus pay. This section also requires hospitals to record the number of paid hours corresponding to the amounts reported as regular time, paid holidays, vacations, sick leave, paid time off, and severance pay. Furthermore, the section states that hospitals should not report costs for excluded areas and Part B services.

The Hospital's cost reports included the following Part A wage data that were not in compliance with Federal requirements:

- \$883,967 in yearend salary accruals for paid time off without the related hours and
- \$172,736 in bonuses from the Hospital's home office for Part B excluded areas.

As a result, the Hospital overstated its wage data by \$1,056,703 and overstated its average hourly wage rate by \$0.07.

Understated Hours

The Manual, part II, section 3605.2, states that hospitals should ensure that the wage data reported on their Medicare cost reports are accurate. Further, it states: "Paid hours include regular hours (including paid lunch hours), overtime hours, paid holiday, vacation and sick leave hours, paid time-off hours, and hours associated with severance pay."

The Hospital did not include 51,798 hours associated with its wages. Specifically, the Hospital omitted:

- 32,804 hours for the laboratory department because it mistakenly reported 257,779 hours, rather than the 290,583 hours that were supported by wages;
- 12,956 hours that should have been allocated to the Hospital from its home office, including hours for home office salaries related to severance pay, resulting in 10,090 understated hours; and
- 6,038 Part A physician hours for the radiology department.

As a result, after overhead was factored in, the Hospital understated hours by 48,932 and overstated its average hourly wage rate by \$0.10.

CAUSES OF WAGE DATA REPORTING ERRORS

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

OVERSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS

As a result of the reporting errors, the Hospital overstated its Part A wage data by \$9,283,605 (numerator) and 50,857 hours (denominator) for the FY 2006 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent from \$31.51 to \$30.96. If the Hospital does not revise the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

RECOMMENDATIONS

We recommend that the Hospital:

- submit a revised FY 2006 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$9,283,605 and 50,857 hours and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

DUKE UNIVERSITY MEDICAL CENTER COMMENTS

In its written comments on our draft report, the Hospital agreed with our findings related to overstated fringe benefit costs, unallowable costs, and understated hours. The Hospital disagreed, in part, with our finding that it had included in its wage data unsupported costs for Part B services. It stated that, as indicated by job descriptions and billing records, the services of a majority of nurse practitioners employed by the Hospital were technical in nature (i.e., in support of Hospital services) and did not qualify for Part B billing. The Hospital maintained that it did not submit Part B claims for the services provided by these nurse practitioners and that the related costs were allowable for wage index purposes.

In response to our first recommendation, the Hospital suggested that a more effective approach would be for it to work directly with the intermediary to correct the data in CMS's public use file. In response to our second recommendation, the Hospital stated that it had already begun to improve its review procedures.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

After we concluded our fieldwork, the Hospital provided additional information showing that about 80 percent of its nurse practitioner costs were in support of Hospital services (e.g., procurement, nurse education, and liaison to Hospital vendors). We agree that these were technical and administrative services that are allowable for wage index purposes. Accordingly, we modified the finding to allow \$722,633 in salaries and benefits and 15,090 hours for services provided by nurse practitioners, which reduced the total wage data overstatement by \$731,848 and 15,460 hours after overhead was factored in. This change increased by \$0.02 the average hourly wage rate that we initially calculated. Because the remaining 20 percent of nurse practitioner costs were for clinical services, we maintain that these costs should be removed from the wage index costs.

We agree that working with the intermediary to correct the wage data overstatements is an acceptable alternative to submitting a revised cost report so long as these adjustments are accurately reflected in the data that CMS uses to calculate wage indexes.

APPENDIXES

CUMULATIVE EFFECT OF FINDINGS

	Reported FY 2006 Wage Data	Understated Hours			Unsupported Part B Services	Unallowable Costs			Fringe Benefits			Adjusted FY 2006 Wage Data
		Laboratory Department	Home Office - Phys Pt A Services	Home Office Hours		PTO Accrual	Home Office Bonus Reported for Excluded Centers	Children Tuition Reimbursement	Anesthetist Part B	Float Position		
Duke University - FY 2009 Wage Index												
Worksheet S - 3, Part III												
OVERHEAD(OH) ALLOCATION												
line13/col. 3	Total Overhead Wages	\$ 74,176,123.12										\$ 74,176,123.12
line13/col. 4	Total Overhead Hours	\$ 2,760,235.70										\$ 2,760,235.70
	Total Hours	\$ 11,038,310.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	\$ 11,038,310.40
	Less:											\$ -
	Nonphysician Anest Part B - Line 3	\$ 144,893.00										\$ 144,893.00
	Teaching Physician - Line 4.01	\$ -										\$ -
	Physician Part B - Line 5	\$ 13,520.00	0.00		98,193.00		0.00		0.00	0.00	0.00	\$ 111,713.00
	I&R - Line 6	\$ 926,536.00										\$ 926,536.00
	Contracted Services, I&R	\$ 14,726.00										\$ 14,726.00
Line 6.01	Total Overhead Hours	\$ 2,760,235.70	0.00		0.00		0.00		0.00	0.00	0.00	\$ 2,760,235.70
	Subtotal -->	\$ 3,859,910.70	0.00	0.00	0.00	98,193.00	0.00		0.00	0.00	0.00	\$ 3,958,103.70
	Revised Hours	\$ 7,178,399.70										\$ 7,080,206.70
	Overhead Reduction for Excluded Areas- Hours											\$ -
	SNF Hours	\$ -										\$ -
	Excluded Area Hours	\$ 299,312.00										\$ 299,312.00
	SUBTOTAL -->	\$ 299,312.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	\$ 299,312.00
	Excluded Overhead Rate [(SNF - Excluded Area Hours)/Revised Hours]	\$ 0.0417	0.0000		0.0000	0.0006			0.0000	0.0000	0.0000	\$ 0.0417
	Excluded Overhead Wages	\$ 3,093,144.33	0.00	0.00	0.00	42,893.87		0.00	0.00	0.00	0.00	\$ 3,093,144.33
	Excluded Overhead Hours	\$ 115,101.83	0.00	0.00	0.00	1,596.16		0.00	0.00	0.00	0.00	\$ 115,101.83
	Overhead Rate (OH Hrs/(Revised Hrs - SNF - Excluded Hrs))	0.4013	0.0000		0.0000				0.0000	0.0000	0.0000	0.4013
	WAGE-RELATED COST (CORE)	\$ 57,726,647.38	0.00		0.00	(436,977.49)			(2,985,840.81)	(545,200.00)	0.00	\$ 53,758,629.08
	WAGE-RELATED COST(OTHER)	\$ -	0.00		0.00				0.00	0.00	(378,796.00)	\$ (378,796.00)
	PHYSICIAN PART A	\$ -	0.00	0.00	0.00				0.00	0.00	0.00	\$ -
	SUBTOTAL	\$ 57,726,647.38	0.00	0.00	0.00	(436,977.49)			(2,985,840.81)	(545,200.00)	(378,796.00)	\$ 53,379,833.08
	Overhead Work Wage-Related Cost	\$ 23,165,703.59	0.00		0.00	157,541.15			(1,198,069.39)	(218,761.64)	(151,991.99)	\$ 21,421,327.02
	Excluded Work Wage-Related Cost	\$ 966,009.84	0.00	0.00	0.00	20,054.36			(49,954.94)	(9,121.53)	(6,337.49)	\$ 893,269.34
	Adjusted Salaries	\$ 443,065,827.55	0.00	0.00	0.00	(2,905,776.00)	(883,966.82)	(172,736.00)	(4,399,596.27)	(545,200.00)	(378,796.00)	\$ 433,779,755.97
	Less: Excluded Overhead Salaries	\$ 3,093,144.33	0.00	0.00	0.00	42,893.87	0.00		0.00	0.00	0.00	\$ 3,093,144.33
	Excluded Work-Related Cost	\$ 966,009.84	0.00	0.00	0.00	20,054.36	0.00		(49,954.94)	(9,121.53)	(6,337.49)	\$ 893,269.34
WAGES -		\$ 439,006,673.38	0.00	0.00	0.00	(2,968,724.23)	(883,966.82)	(172,736.00)	(4,349,641.33)	(536,078.47)	(372,458.51)	\$ 429,793,342.30
	MULTIPLY BY : INFLATION FACTOR											\$ 1.00
	Assume 1 - However based on cost report end date	\$ 1.00										\$ 1.00
	ADJUSTED WAGES	\$ 439,006,673.38	0.00	0.00	0.00	(2,968,724.23)	(883,966.82)	(172,736.00)	(4,349,641.33)	(536,078.47)	(372,458.51)	\$ 429,793,342.30
	REVISED HOURS	\$ 13,932,896.70	32,804.00	6,038.00	10,090.00	(99,789.16)		0.00	0.00	0.00	0.00	\$ 13,883,635.70
	Average hourly wage	\$ 31.51	-0.07	-0.01	-0.02	0.01	-0.06	-0.01	-0.32	-0.04	-0.03	\$ 30.96
	Rounded	31.51	(\$0.07)	(\$0.01)	(\$0.02)	\$0.01	(\$0.06)	(\$0.01)	(\$0.32)	(\$0.04)	(\$0.03)	30.96
	Total Wage Data Revisions:											Totals
	Inflated Wages	0.00	0.00	0.00	(2,968,724.23)	(883,966.82)	(172,736.00)	(4,349,641.33)	(536,078.47)	(372,458.51)		(9,283,605.36)
	Revised Hours	32,804.00	6,038.00	10,090.00	(99,789.16)	0.00	0.00	0.00	0.00	0.00		(50,857.16)
	Cost Report Revisions											Totals
	Salaries	\$0.00	\$0.00	\$0.00	-\$2,905,776.49	-\$883,966.82	-\$172,736.00	-\$4,399,596.27	-\$545,200.00	-\$378,796.00		(9,286,071.58)
	Hours	32,804.00	6,038.00	10,090.00	-98,193.00	0.00	0.00	0.00	0.00	0.00		(49,261.00)
	Understated Hours-											
	Salaries	0.00	Salaries	(2,968,724.23)	Salaries	(1,056,702.82)	Salaries	(5,258,178.31)	Percentage Change -->			1.81%
	Hours	48,932.00	Hours	(99,789.16)	Hours	0.00	Hours	0.00				



January 25, 2008

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

RE: Report Number A-01-07-00511
Duke University Hospital

Dear Mr. Armstrong:

Thank you for the opportunity to respond to the Draft report entitled Review of Duke University Hospital's Reported Fiscal Year 2006 Wage Data. Our response below follows the same order as the findings and recommendations in your draft report.

Overstated Fringe Benefit Costs

Unallowable Tuition Benefit – The allocation of fringe benefits from Duke University to Duke University Hospital (the Hospital) includes an amount for tuition payment for dependents of qualified employees. The Hospital agrees that this amount is non-allowable and should be removed from Worksheet A expenses and from the fringe benefits reflected in Worksheet S-3 Part II. The amount removed should reflect the actual benefit used for Hospital employees, which will differ somewhat from the amount identified in the audit.

Fringe Benefit related to CRNA – The Hospital agrees with this finding.

Duplicated Fringe Benefit for Nurses – The Hospital agrees with this finding to the extent that duplicate fringe costs should not be allowed. However, our records show that the duplicate fringe benefits recorded for “multiple-assignment” nurses are offset by a corresponding reduction in salary expense. While there was no overstatement to the average hourly wage, we will work with the intermediary to properly classify our expenses.

Unsupported Costs for Part B Services

Nurse Practitioners/Clinical Social Workers – In part, the Hospital disagrees with this finding. As stated in the Report, the Manual requires removal of the services from wage data when the Hospital claims those services under Part B. As indicated by job descriptions and billing records, the services of a majority of nurse practitioners employed by the Hospital are technical (i.e., in support of Hospital services) in nature and do not qualify for Part B billing. Therefore no professional claim is submitted to Part B for the services they provide. Thus we believe that the related costs are allowable for wage index purposes.

Unallowable Costs

Paid-Time-Off Accrual – The Hospital agrees with this finding.

Home Office Bonuses - The Hospital agrees with this finding.

Understated Hours

Departmental Lab Hours - The Hospital accepts this finding. The previous methodology had been developed for the fiscal intermediary and yielded an estimate of related party hours deemed acceptable for these departments. At the OIG request, we requested that the University develop an improved identification of hours for this Hospital activity. We will use this improved methodology in the future.

Severance Pay Hours - The Hospital agrees with this finding.

Part A Physician Hours - The Hospital agrees with this finding.

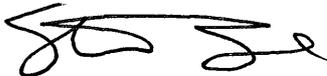
Recommendations

Submit Revised FY 2006 Medicare Cost Report - Given that the wage-index data from FY 2006 is currently under review by the fiscal intermediary, we suggest that a more effective approach to correcting our submission would be to work directly with the intermediary to correct the data in the public use file. We have already initiated discussions on these specific topics and we will ensure that they are addressed in the final FY 2009 wage index factors.

Implement Review and Reconciliation Controls – The Hospital has already begun enhancing existing controls, policy and procedure documentation and work-product review procedures. We will continue to improve our internal controls and reimbursement filings.

Thank you for your attention to these matters. Please feel free to contact me at (919) 613-8995 if you have any questions.

Sincerely,



Stuart Smith
Assistant Vice President
Reimbursement and Revenue Accounting
Duke University Health System