



JUN 11 2008

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

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Review of East Jefferson General Hospital's Reported Fiscal Year 2005 Wage Data (A-01-08-00515)

Attached is an advance copy of our final report on East Jefferson General Hospital's (the Hospital) reported fiscal year (FY) 2005 wage data. We will issue this report to the Hospital within 5 business days. This review is one of a series of reviews of the accuracy of wage data reported by five New Orleans hospitals. In August 2007, officials from these hospitals testified before the House Committee on Energy and Commerce regarding operating losses experienced after Hurricane Katrina struck the New Orleans area in 2005.

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 payment system base rate includes a labor-related share. The Centers for Medicare & Medicaid Services (CMS) adjusts the labor-related share by the wage index applicable to the statistical area in which a hospital is located. To calculate wage indexes, CMS uses wage data collected from hospitals' Medicare cost reports 4 years earlier.

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report.

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report. Specifically, the Hospital overstated fringe benefit costs by \$4,472,284 (\$4,865,246 after factoring in overhead). Our correction of the Hospital's error decreased the average hourly wage rate approximately 4 percent. The error in reported wage data occurred because the Hospital did not sufficiently review and reconcile wage data to supporting documentation 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 2005 cost report, the FY 2009 wage index for the Hospital's 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 2005 Medicare cost report to the fiscal intermediary to correct the wage data overstatement totaling \$4,865,246 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 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-01-08-00515.

Attachment



JUN 16 2008

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

Report Number: A-01-08-00515

Mark J. Peters, M.D.
President and Chief Executive Officer
East Jefferson General Hospital
4200 Houma Boulevard
Metairie, Louisiana 70006

Dear Dr. Peters:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of East Jefferson General Hospital's Reported Fiscal Year 2005 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, this report 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-01-08-00515 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 & 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
EAST JEFFERSON
GENERAL HOSPITAL'S
REPORTED FISCAL YEAR 2005
WAGE DATA**



Daniel R. Levinson
Inspector General

June 2008
A-01-08-00515

Office of Inspector General

<http://oig.hhs.gov>

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

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THIS REPORT IS AVAILABLE TO THE PUBLIC
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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.

East Jefferson General Hospital (the Hospital) is a 354-bed acute-care hospital in Metairie, Louisiana. The Hospital is 1 of 24 hospitals in the New Orleans urban CBSA. The Hospital reported wage data of \$113.8 million and 5 million hours in its FY 2005 Medicare cost report, which resulted in an average hourly wage rate of \$28.99.

OBJECTIVE

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report.

SUMMARY OF FINDING

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report. Specifically, the Hospital overstated fringe benefit costs by \$4,472,284, which affected the numerator of its wage rate calculation. This error 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, after overhead was factored in, the Hospital overstated

its wage data by \$4,865,246 for the FY 2005 Medicare cost report period. Our correction of the Hospital's error decreased the average hourly wage rate approximately 4 percent from \$28.99 to \$27.85. 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 2005 Medicare cost report to the fiscal intermediary to correct the wage data overstatement totaling \$4,865,246 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.

EAST JEFFERSON GENERAL HOSPITAL COMMENTS

In its written comments on our draft report, the Hospital agreed with our finding. The Hospital's comments are included in their entirety as the Appendix.

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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) 2008, the Centers for Medicare & Medicaid Services (CMS) expects Medicare Part A to pay inpatient hospitals approximately \$120.5 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.

East Jefferson General Hospital

East Jefferson General Hospital (the Hospital) is a 354-bed acute-care hospital in Metairie, Louisiana. The Hospital is 1 of 24 hospitals in the New Orleans urban CBSA. The Hospital submitted to CMS its FY 2005 Medicare cost report covering the period January 1 through December 31, 2005.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report.

Scope

Our review covered the \$113,753,368 in salaries and 5,000,556 in hours that the Hospital reported to CMS on Worksheet S-3, part II, of its FY 2005 Medicare cost report, which resulted in an average hourly wage rate of \$28.99. 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 Metairie, Louisiana, from October 2007 through January 2008.

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 2005 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;

- 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 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 finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATIONS

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report. Specifically, the Hospital overstated fringe benefit costs by \$4,472,284, which affected the numerator of its wage rate calculation.

This error 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, after overhead was factored in, the Hospital overstated its wage data by \$4,865,246 for the FY 2005 Medicare cost report period. Our correction of the Hospital's error decreased the average hourly wage rate approximately 4 percent from \$28.99 to \$27.85. 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

OVERSTATED FRINGE BENEFIT COSTS

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

The Hospital reported \$33,292,704 in fringe benefit costs in its FY 2005 Medicare cost report. However, according to the Hospital's FY 2005 audited financial statements, the Hospital's fringe benefit costs totaled \$28,820,420. Thus, the Hospital overstated its fringe benefit costs by \$4,472,284. After overhead was factored in, the Hospital overstated its wage data by \$4,865,246, which overstated its average hourly wage rate by \$1.14. We provided the Hospital with details on this error and on our calculations under separate cover.

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

CAUSE OF WAGE DATA REPORTING ERROR

This reporting error 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 this reporting error, the Hospital overstated its Part A wage data by \$4,865,246 (numerator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's error decreased the average hourly wage rate approximately 4 percent from \$28.99 to \$27.85. 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 2005 Medicare cost report to the fiscal intermediary to correct the wage data overstatement totaling \$4,865,246 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.

EAST JEFFERSON GENERAL HOSPITAL COMMENTS

In its written comments on our draft report, the Hospital agreed with our finding. The Hospital's comments are included in their entirety as the Appendix.

APPENDIX

The logo for East Jefferson General Hospital (EJGH) features the letters "EJGH" in a large, white, serif font, centered within a solid black rectangular background.

Louisiana's
First Nurse Magnet Hospital

May 1, 2008

Mr. Michael J. Armstrong
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Audit Services- Region I
John F. Kennedy Federal Building
Boston, MA 02203

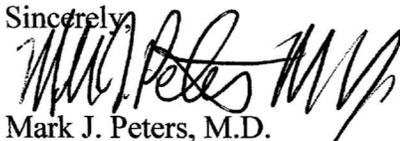
RE: East Jefferson General Hospital- Report Number: A-01-08-00515

Dear Mr. Armstrong:

I am writing in regards to the Office of Inspector General's (OIG) draft report dated April 23, 2008 on the review of East Jefferson General Hospital's Reported Fiscal Year 2005 Wage Index. East Jefferson General Hospital appreciates the work done by the OIG in regard to this matter.

Your report has been reviewed by Administration and our Finance Division. We are in agreement with your findings of the statistical input error relative to the overstatement of fringe benefit costs in the filed Medicare cost report. Please note that this error had no effect upon Medicare payments to East Jefferson General Hospital in the 2005 cost report, and is only used to compute future Wage Index factors for the period beginning October 1, 2008. Annually, our Finance Team works closely with outside wage index consultants which the hospital retains in our effort to reduce any potential adverse adjustments to the filed Medicare cost report. Also, we work very closely with our fiscal intermediary to ensure that accurate audited data is used to compute the final wage index calculations relative to East Jefferson General Hospital. Please note that the Wage Index Data in our Medicare cost report is always audited or reviewed by the fiscal intermediary before these amounts are reflected in the final Federal Registers in which the Medicare payment is based upon. Annually, our in house Reimbursement Team works very closely with our Fiscal Intermediary during the audit of the Wage Index to ensure the accuracy and consistency of the data relative to the Worksheet S series.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark J. Peters", is written over a faint, larger version of the same signature.

Mark J. Peters, M.D.
President and
Chief Executive Officer