



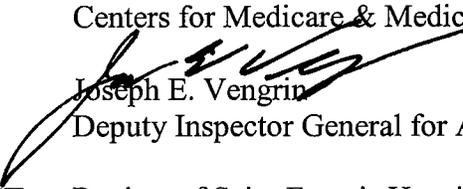
DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

APR 20 2006

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

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

SUBJECT: Review of Saint Francis Hospital's Controls to Ensure Accuracy of Wage Data Used for Calculating Inpatient Prospective Payment System Wage Indexes (A-02-05-01004)

Attached is an advance copy of our final report on Saint Francis 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 one 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 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.

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 \$310,562 and understated its hours by 10,940. Our correction of the hospital's errors reduced the average hourly wage rate by 1 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 2003 Medicare cost report, the applicable FY 2007 New York urban wage index will be inflated, which will result in overpayments to this hospital and the other eight hospitals that use this wage index.

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the wage data that overstated salaries by \$310,562 and understated hours by 10,940 and
- implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

In its comments on our draft report, the hospital concurred with four of our findings, but disagreed with our finding on unfunded pension and postretirement benefit costs. After reviewing applicable Federal regulations and guidelines, and the hospital's comments on our draft report, we continue to believe that our findings and recommendations are valid.

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 James P. Edert, Regional Inspector General for Audit Services, Region II at (212) 264-4620. Please refer to report number A-02-05-01004.

Attachment



OFFICE OF AUDIT SERVICES
Region II
Jacob K. Javits Federal Building
New York, New York 10278
(212) 264-4620

APR 25 2006

Report Number A-02-05-01004

Mr. Frank Mask
Chief Financial Officer
Saint Francis Hospital
241 North Road
Poughkeepsie, New York 12601-1399

Dear Mr. Mask:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Saint Francis 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 on the next 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 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. § 522, 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-02-05-01004 in all correspondence.

Sincerely yours,

James P. Edert
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Mr. James T. Kerr
Regional Administrator
Centers for Medicare & Medicaid Services
Department of Health and Human Services
26 Federal Plaza, 38th Floor
New York, New York 10278

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF SAINT FRANCIS
HOSPITAL'S CONTROLS TO
ENSURE ACCURACY OF WAGE
DATA USED FOR CALCULATING
INPATIENT PROSPECTIVE
PAYMENT SYSTEM WAGE
INDEXES**



Daniel R. Levinson
Inspector General

April 2006
A-02-05-01004

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 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

Office of Investigations

The 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. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. 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 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.

Saint Francis Hospital (the hospital) reported wage data of \$51.3 million and 1.92 million hours on its FY 2003 Medicare cost report, which resulted in an average hourly wage rate of \$26.73. The \$26.73 average hourly wage rate is the quotient of \$51.3 million (numerator) divided by 1.92 million hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations. Therefore, inaccuracies in either the dollar amounts or hours reported may have varying effects on the final rate computation.

As of FY 2005, the wage index for a New York State urban CBSA applied to the hospital and eight other acute care hospitals.

OBJECTIVE

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

SUMMARY OF FINDINGS

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

- unfunded pension and postretirement benefit costs, which overstated wage data by \$522,268;
- misstated total hours, which overstated salaries by \$453,873 and understated hours by 8,429;

- misstated contract labor services, which overstated salaries by \$358,128 and understated hours by 6,348;
- overstated physician Part A wage-related benefit costs, which overstated wage data by \$76,313; and
- unallowable Part B services, which understated salaries by \$1,100,020 and overstated hours by 3,837.

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 salaries by \$310,562 (numerator) and understated its hours by 10,940 (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 1 percent, from \$26.73 to \$26.42. If the hospital does not revise the wage data in its FY 2003 Medicare cost report, the applicable FY 2007 New York urban wage index will be inflated, which will result in overpayments to the hospital and the 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 that overstated salaries by \$310,562 and understated hours by 10,940 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 its comments on our draft report, the hospital concurred with four of our findings, but disagreed with our finding on unfunded pension and postretirement benefit costs. The hospital asserted that, for purposes of the wage index computation, it appropriately accounted for these costs in accordance with the CMS 339 questionnaire, Exhibit 7. The hospital contended that Medicare intended it to follow generally accepted accounting principles (GAAP) when reporting pension expense and postretirement benefit costs.

The full text of the hospital's comments is included as Appendix B.

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

OFFICE OF INSPECTOR GENERAL'S RESPONSE

While we agree that the hospital computed these costs in accordance with GAAP, the costs were not reported in accordance with Medicare requirements. We continue to believe that our findings and recommendations are valid.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Medicare Inpatient Prospective Payment System.....	1
Wage Index	1
Saint Francis Hospital.....	2
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective	2
Scope	2
Methodology	2
FINDINGS AND RECOMMENDATIONS	3
ERRORS IN REPORTED WAGE DATA	3
Unfunded Pension and Postretirement Benefit Costs	4
Misstated Total Hours.....	4
Misstated Contract Labor Services	5
Overstated Physician Part A Wage-Related Benefit Costs.....	6
Unallowable Part B Services	6
CAUSES OF WAGE DATA REPORTING ERRORS	7
OVERSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS	7
RECOMMENDATIONS	7
HOSPITAL’S COMMENTS	7
OFFICE OF INSPECTOR GENERAL’S RESPONSE	7
 APPENDIXES	
A – CUMULATIVE EFFECT OF FINDINGS	
B – SAINT FRANCIS HOSPITAL’S COMMENTS	

INTRODUCTION

BACKGROUND

Medicare Inpatient Prospective Payment System

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

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

Wage Index

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

To calculate wage indexes, CMS uses hospital wage data (which include wages, salaries, and related hours) collected 4 years earlier to allow time for the cost report settlement process and CMS's data review. Accordingly, wage data collected from hospitals' Medicare cost reports in FY 2003 will be used to calculate wage index values in FY 2007. A hospital's wage rate is the quotient of dividing total dollars (numerator) by total hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations. Therefore, inaccuracies in either the dollar amounts or hours reported may have varying effects on the final rate computation.

Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and ensure the appropriate level of funding to cover hospitals' costs of furnishing services. Section 1886(d)(3)(E) of the Social Security Act (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.

Saint Francis Hospital

Saint Francis Hospital (the hospital) is a 400-bed hospital located in Poughkeepsie, New York. As of FY 2005, the wage index for a New York State urban CBSA applied to the hospital and eight other acute care hospitals.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our review covered the \$51.3 million and 1.92 million hours that the hospital reported to CMS on Worksheet S-3, part II, of its FY 2003 Medicare cost report, which resulted in an average hourly wage rate of \$26.73. 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 Poughkeepsie, New York, from February through June 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;
- determined the effect of the reporting errors by recalculating the hospital's average hourly wage rate using the CMS methodology for calculating the wage index, which includes an hourly overhead factor in accordance with instructions published in the Federal Register. (See Appendix A.)

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

FINDINGS AND RECOMMENDATIONS

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

- unfunded pension and postretirement benefit costs, which overstated wage data by \$522,268;
- misstated total hours, which overstated salaries by \$453,873 and understated hours by 8,429;
- misstated contract labor services, which overstated salaries by \$358,128 and understated hours by 6,348;
- overstated physician Part A wage-related benefit costs, which overstated wage data by \$76,313; and
- unallowable Part B services, which understated salaries by \$1,100,020 and overstated hours by 3,837.

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 salaries by \$310,562 (numerator) and understated its hours by 10,940 (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 1 percent, from \$26.73 to \$26.42. If the hospital does not revise the wage data in its FY 2003 Medicare cost report, the applicable FY 2007 New York urban wage index will be inflated, which will result in overpayments to the hospital and the 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.

Unfunded Pension and Postretirement Benefit Costs

The “Medicare Provider Reimbursement Manual” (the Manual), part II, section 3605.2, states:

For purposes of determining the wage related costs for the wage index, a hospital must use generally accepted accounting principles (GAAP) . . . Although hospitals should use GAAP in developing wage related costs, the amount reported for wage index purposes must also meet the reasonable cost provisions of Medicare.

The principles of reasonable cost reimbursement are found in 42 CFR Part 413. 42 CFR § 413.100(c)(2)(vii)(A) states, “Reasonable provider payments made under unfunded deferred compensation plans are included in allowable costs only during the cost reporting period in which actual payment is made to the participating employee.” In addition, 42 CFR § 413.100(c)(2)(vii)(B) states, “Accrued liability related to contributions to a funded deferred compensation plan must be liquidated within 1 year after the end of the cost reporting period in which the liability is incurred.” Further, 42 CFR § 413.100(c)(2)(vii)(C) states, “Postretirement benefit plans . . . are deferred compensation arrangements and thus are subject to the provisions of this section regarding deferred compensation and to applicable program instructions”

Unfunded Pension Costs

In accordance with GAAP, in FY 2003 the hospital established a pension cost of \$1,619,685 for its deferred compensation plan. During the year, the hospital funded \$900,000 of this total pension obligation. Pursuant to Medicare regulations, the unfunded \$526,413 that the hospital allocated to Part A wage-related benefit costs should not have been reported. As a result, after the overhead factor was included in the calculation, the hospital overstated its wage data by \$475,390.

Unfunded Postretirement Benefit Costs

In accordance with GAAP, in FY 2003 the hospital also recorded postretirement benefit costs of \$105,594. During the year, the hospital paid only \$34,627 of these costs, as the costs were incurred, rather than fund the total compensation plan. Pursuant to Medicare regulations, the \$51,909 reported as Part A wage-related benefit costs should not have been reported. As a result, after the overhead factor was included in the calculation, the hospital overstated its wage data by \$46,878.

Misstated Total Hours

The Manual, part II, section 3605.2, requires hospitals to ensure that the wage data reported on the 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, paid holiday, vacation and sick leave, paid time off, and severance pay.

Year-End Salaries Without Associated Hours

The hospital included \$530,373 in year-end salaries and related benefits, including costs for paid time-off, without the related hours. Because the hospital could not easily identify the hours associated with these salaries, we removed the salaries. The removal of these salaries resulted in the hospital's wage data being overstated by \$519,644 after the overhead factor was included in the calculation.

Overstated Part B Excluded Area Hours

When reclassifying 5,720 hours from Part B excluded areas to nonreimbursable areas, the hospital did not remove the hours from Part B excluded areas. The additional Part B excluded area hours understates the hospital's total Part A hours. As a result, after the overhead factor was included in the calculation, the hospital's wage data was understated by \$65,770 and 8,429 hours.

As a result of these misstated total hours, the hospital overstated salaries by a total of \$453,873² and understated hours by a total of 8,429.

Misstated Contract Labor Services

The Manual, part I, section 2182, states that 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 (Part A) and to individual patients (Part B). This section also states that allocation of the physician's time to hospital services must be supported by adequate documentation. In the absence of an allocation agreement between the hospital and the physician, the hospital should allocate 100 percent of the physician's compensation costs to Part B as patient services.

Overstated Physician Part A Contract Labor Services

The hospital used physician contracts to support its allocation of physician contract labor services between Medicare Part A and Part B. However, the hospital contracts did not support \$358,128 and 4,472 hours of physician Part A contract labor services that the hospital reported on its Medicare cost report. Therefore, the hospital should identify these physician contract labor services as Part B patient services in its Medicare cost report. As a result, the hospital overstated its wage data by \$358,128 and 4,472 hours.

Understated Contract Labor Hours

The hospital recorded 33,463 contract labor service hours, but supporting documentation indicated that the hospital should have reported 44,283 hours. Correcting the understatement of 10,820 contract labor service hours will increase the hospital's average hourly wage rate.

As a result of these misstatements of contract labor services, the hospital's salaries were overstated by a total of \$358,128 and understated by a total of 6,348 hours.

²Difference due to rounding, see Appendix A

Overstated Physician Part A Wage-Related Benefit Costs

The Manual, part II, section 3605.2, requires hospitals to report wage-related benefit costs on Exhibit 7 of Form CMS 339. Exhibit 7 is a standardized core list of wage-related benefit costs.

The hospital reported wage-related benefit costs for its physicians on Exhibit 7 that included \$86,105 of costs associated with unallowable patient Part B services. (See the following section.) As a result, the hospital overstated its wage data by \$76,313 after the overhead factor was included in the calculation.

Unallowable Part B Services

The Act and CMS regulations specifically provide that, as a general matter, care by physicians and nurse practitioners is a service covered by Part B, not Part A.³ As such, the Manual, part II, section 3605.2, states that hospitals should exclude from their reported wage index information those physician and nurse practitioner salaries that hospitals claim for reimbursement under Medicare Part B as patient services.

Part B Services Reported as Part A

Contrary to these requirements, the hospital included \$700,127 and 16,349 hours for nurse practitioners and physician assistants as Part A services in its Medicare cost report. As a result, after the overhead factor was included in the calculation, the hospital overstated its wage data by \$894,497 and 18,579 hours.

Overstated Physician Part B Services and Related Benefits

The hospital mistakenly overstated its physician Part B services. The error occurred because the hospital reported \$1,947,384 and 12,998 hours as physician Part B services twice, once as physician Part B services and once as physician Part B services related to the hospital's excluded areas. By recording Part B services twice, the hospital reduced the wages reported under Part A. As a result, after the overhead factor was included in the calculation, the hospital understated its wage data by \$1,994,516 and 14,742 hours.

The hospital's Part B reporting errors resulted in salaries being understated by a total of \$1,100,020 and hours being overstated by a total of 3,837.⁴

³Section 1861(s)(1) of the Act and 42 CFR §§ 410.10(a) and 410.20 include care by physicians as covered Part B services; section 1861(b)(4) of the Act and 42 CFR §§ 409.10(b)(3) and 415.102(a) exclude physician services from Part A inpatient hospital services. Section 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) of the Act and 42 CFR § 409.10(b) exclude nurse practitioners from Part A inpatient hospital services.

⁴Difference due to rounding, see Appendix A

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 these reporting errors, the hospital overstated its salaries by \$310,562 (numerator) and understated its hours by 10,940 (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced its average hourly wage rate about 1 percent, from \$26.73 to 26.42. If the hospital does not revise the wage data in its cost report, the applicable FY 2007 New York urban wage index will be inflated, which will result in overpayments to this hospital and the other hospitals that use this wage index.

RECOMMENDATIONS

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the wage data that overstated salaries by \$310,562 and understated hours by 10,940 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 its comments on our draft report, the hospital concurred with four of our findings, but disagreed with our finding on unfunded pension and postretirement benefit costs. The hospital asserted that, for purposes of the wage index computation, it appropriately accounted for these costs in accordance with the CMS 339 questionnaire, Exhibit 7. The hospital contended that Medicare intended it to follow GAAP principles when reporting pension expense and postretirement benefit costs.

The full text of the hospital's comments is included as Appendix B.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

While we agree that the hospital computed these costs in accordance with GAAP, the costs were not reported in accordance with Medicare requirements. Section 3605.2 of the Manual states that hospitals should use GAAP to develop wage related costs, and that the amount reported for wage index purposes must also meet Medicare reasonable cost principles.

Medicare reasonable cost principles found at 42 CFR § 413.100 require hospitals to fund the pension expense and postretirement benefit costs shown on their Medicare cost reports within 1 year of the end of the cost reporting period. Medicare does not pay for deferred compensation

plans accrued during a cost reporting period unless the costs are liquidated, or funded, within the required period. Because pension and postretirement benefit plans are deferred compensation arrangements, they are, for reasonable cost purposes, subject to these provisions.

APPENDIXES

CUMULATIVE EFFECT OF FINDINGS

Components	Reported FY 2003 Wage Data	Unfunded Pension and Postretirement Benefit Costs		Unallowable Part B Services		Overstated Wage Related Benefit Costs	Misstated Total Hours		Misstated Contract Labor Services		Adjusted FY 2003 Wage Data	
		Pension Cost	Postretirement Cost	Nurse Practitioners and Physician Assistants as Part A	Overstated Physician Part B Allocation		Year-End Salaries without Associated hours	Overstated Part B Excluded Area Hours	Overstated Part A Physician Contract Labor Services	Understated Contract Labor Hours		
<i>Schedule S-3, Part II</i>												
Total Salaries												
line1/col. 3	Total Salaries	\$60,217,866.00										\$59,781,836.00
Excluded Salaries												
line 4.01/col. 3	Teaching Physician											
line5/col. 3	Physician- Part B	\$3,464,424.00										\$1,517,040.00
line 5.01/col.3	Non-physician Part B			\$700,127.00								\$700,127.00
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	\$12,338,553.00										\$12,338,553.00
subtotal (subtract)		\$15,802,977.00	\$0.00	\$0.00	\$700,127.00							\$14,555,720.00
Additional Salaries												
line9/col. 3	Contract Labor	\$2,031,908.00										\$2,031,908.00
line 10/col. 3	Contract Labor - Physician Part A	\$752,292.00										\$394,164.00
line 10.01/col. 3	Contract Labor -Teaching Physician											
line11/col. 3	Home Office											
line13/col. 3	Wage-Related Cost (Core)	\$9,530,228.00	(\$526,412.98)	(\$51,908.75)	(\$151,507.00)							\$8,706,056.17
line 14/col. 3	Wage-Related Cost (Other)											
line 18/col. 3	Wage-Related Cost - Physician Part A	\$180,659.00	(\$9,978.91)	(\$984.00)								\$83,591.09
subtotal (add)		\$12,495,087.00	(\$536,391.89)	(\$52,892.75)	(\$151,507.00)	\$0.00						\$11,215,719.26
Adjusted Salaries												
		\$56,909,976.00	(\$536,391.89)	(\$52,892.75)	(\$851,634.00)	\$1,947,384.00						\$56,441,835.26
Total Paid Hours												
line1/col. 4	Total Hours	2,657,358.00										2,657,358.00
Excluded Hours												
line 4.01/col. 4	Teaching Physician											
line5/col. 4	Physician Part B	29,862.00			16,349.00							33,213.00
line 5.01/col. 4	Non-physician Part B											0.00
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	508,833.44										503,113.44
subtotal (subtract)		538,695.44	0.00	0.00	16,349.00							536,326.44
Additional Hours												
line9/col. 4	Contract Labor	33,463.27										44,283.16
line 10/col. 4	Contract Labor - Physician Part A	8,527.00										4,055.00
line 10.01/col. 4	Contract Labor -Teaching Physician											
line11/col. 4	Home Office											
subtotal (add)		41,990.27	0.00	0.00		0.00						48,338.16
Adjusted Hours												
		2,160,652.83	0.00	0.00	(16,349.00)	12,998.00						2,169,369.72

CUMULATIVE EFFECT OF FINDINGS

APPENDIX A

Components	Reported FY 2003 Wage Data	Unfunded Pension and Postretirement Benefit Costs		Unallowable Part B Services		Overstated Wage Related Benefit Costs	Misstated Total Hours		Misstated Contract Labor Services		Adjusted FY 2003 Wage Data	
		Pension Cost	Postretirement Cost	Nurse Practitioners and Physician Assistants as Part A	Overstated Physician Part B Allocation		Year-End Salaries without Associated hours	Overstated Part B Excluded Area Hours	Overstated Part A Physician Contract Labor Services	Understated Contract Labor Hours		
St. Francis Hospital												
<i>Schedule S-3, Part II</i>												
Overhead Allocation												
line13/col. 3	Total Overhead Salaries	\$15,716,401.00										\$15,716,401.00
line13/col. 4	Total Overhead Hours	844,361.10										844,361.10
	Total Hours	2,657,358.00	0.00	0.00	0.00							2,657,358.00
	Less:											
	Teaching Physician Hours											
	Physician Part B Hours	29,862.00			16,349.00	(12,998.00)						33,213.00
	Non-physician Part B											0.00
	Intern and Residents Hours											
	Total Overhead Hours	844,361.10										844,361.10
	Subtotal -	874,223.10	0.00	0.00	16,349.00	(12,998.00)						877,574.10
	Revised Hours	1,783,134.90	0.00	0.00	(16,349.00)	12,998.00						1,779,783.90
	Overhead Reduction For Excluded Area Hours											
	SNF Hours											
	Excluded Area Hours	508,833.44			0.00			(5,720.00)				503,113.44
	Subtotal -	508,833.44	0.00	0.00	0.00			(5,720.00)				503,113.44
	Excluded Overhead Rate [(SNF+Excluded Area Hours)/Revised Hours]	0.2854	0.0000	0.0000	0.0026	(0.0021)		(0.0032)				0.2827
	Excluded Overhead Salaries (Overhead Salaries * Excluded Overhead Rate)	\$4,484,815.13			\$41,500.36	(\$32,455.07)		(\$50,415.60)				\$4,443,444.82
	Excluded Overhead Hours (Overhead Hours * Excluded Overhead Rate)	240,945.97			2,229.60	(1,743.64)		(2,708.57)				238,723.36
	OVERHEAD RATE (oh hrs/(revised hrs + oh hrs - snf hrs - excluded area hrs) **Revised per August 12, 2005 Federal Register**)	0.3985	0.0000	0.0000	0.0031	(0.0024)		(0.0011)				0.3981
	Wage-Related Cost (Core)	\$9,530,228.00	(\$526,412.98)	(\$51,908.75)	(\$151,507.00)			(\$94,343.10)				\$8,706,056.17
	Wage-Related Cost (Other)											
	Wage-Related Cost - Physician Part A	\$180,659.00	(\$9,978.91)	(\$984.00)			(\$86,105.00)					\$83,591.09
	Total Wage-Related Cost -	\$9,710,887.00	(\$536,391.89)	(\$52,892.75)	(\$151,507.00)		(\$86,105.00)	(\$94,343.10)				\$8,789,647.26
	Overhead Wage-Related Cost	\$3,870,127.97	(\$213,770.92)	(\$21,079.61)	(\$30,753.69)	(\$23,598.47)	(\$34,315.85)	(\$37,599.02)	(\$10,420.50)			\$3,498,589.91
	Excluded Wage-Related Cost	\$1,104,375.52	(\$61,001.44)	(\$6,015.25)	\$1,362.32	(\$14,677.29)	(\$9,792.33)	(\$10,729.22)	(\$15,354.88)			\$988,167.43
	Adjusted Salaries	\$56,909,976.00	(\$536,391.89)	(\$52,892.75)	(\$851,634.00)	\$1,947,384.00	(\$86,105.00)	(\$530,373.10)	\$0.00	(\$358,128.00)		\$56,441,835.26
	Less: Excluded Overhead Salaries	\$4,484,815.13			\$41,500.36	(\$32,455.07)			(\$50,415.60)			\$4,443,444.82
	Excluded Wage-Related Cost	\$1,104,375.52	(\$61,001.44)	(\$6,015.25)	\$1,362.32	(\$14,677.29)	(\$9,792.33)	(\$10,729.22)	(\$15,354.88)			\$988,167.43
	Revised Wages -	\$51,320,785.35	(\$475,390.45)	(\$46,877.50)	(\$894,496.68)	\$1,994,516.36	(\$76,312.67)	(\$519,643.88)	\$65,770.48	(\$358,128.00)		\$51,010,223.01
	Multiply By : Inflation Factor	1.00000										1.00000
	Inflated Wages (Adjusted Wages Used In Report) -	\$51,320,785.35	(\$475,390.45)	(\$46,877.50)	(\$894,496.68)	\$1,994,516.36	(\$76,312.67)	(\$519,643.88)	\$65,770.48	(\$358,128.00)		\$51,010,223.01
	Revised Hours (Adjusted Hours Used In Report) -	1,919,706.86	0.00	0.00	(18,578.60)	14,741.64	0.00	0.00	8,428.57	(4,472.00)	10,819.89	1,930,646.36
	Average Hourly Wage	\$26.73	(\$0.25)	(\$0.02)	(\$0.21)	\$0.83	(\$0.04)	(\$0.27)	(\$0.08)	(\$0.12)	(\$0.15)	\$26.42

Unfunded pension and postretirement cost		Unallowable Part B Services		Misstated Total Hours		Misstated Contract Labor Services	
Inflated Wages	(\$522,268)	Understated Wages	\$1,100,019.68	Inflated Wages	(\$453,873.40)	Inflated Wages	(\$358,128.00)
Revised Hours	0	Revised Hours	(3,836.96)	Revised Hours	8,428.57	Revised Hours	6,347.89

Total Wage Data Revisions:										Totals
Inflated Wages	(\$475,390.45)	(\$46,877.50)	(\$894,496.68)	\$1,994,516.36	(\$76,312.67)	(\$519,643.88)	\$65,770.48	(\$358,128.00)	\$0.00	(\$310,562.34)
Revised Hours	0.00	0.00	(18,578.60)	14,741.64	0.00	0.00	8,428.57	(4,472.00)	10,819.89	10,939.50



www.sfhc.org

241 North Road
Poughkeepsie, New York
12601-1399
845-483-5000

11 Hastings Drive
Beacon, New York
12508-2026
845-838-4500

March 17, 2006

James P. Edert
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services
Region II
Jacob K. Javits Federal Building
26 Federal Plaza
New York, New York 10278

Re: St. Francis Hospital
FY 12/31/2003
Report #A-02-05-01004

Dear Mr. Edert:

In response to the Review of the Saint Francis Hospital's Controls to Ensure Accuracy of Wage Data Used for Calculating Inpatient Prospective Payment System Wage Indexes, our responses are as follows:

Unfunded Pension and Post Retirement Costs

The Hospital believes that it appropriately accounted for the pension costs and post retirement costs in accordance with the completion of the HCFA 339 questionnaire, Exhibit 7, for purposes of the wage-index computation. We believe that Medicare intended for the Hospital to follow GAAP principles when reporting pension expense and post retirement costs and as such, the Hospital believes it reported these amounts accurately and correctly and does not agree with this adjustment.

Misstated Total Hours

The Hospital agrees with this adjustment. Due to software issues, we were unable to identify the hours associated with the salary accruals, therefore, in the future, we will manually calculate the salaries that should be backed out of the calculation, ensuring appropriate reporting. The Hospital will also ensure that it captures all reclasses.

Misstated Contract Labor Services

The Hospital agrees with this adjustment. The Hospital is developing processes and procedures to ensure that it gathers the appropriate Part A and Part B data from the physicians. The Hospital will also ensure that it verifies all data sources used for wage index preparation.

Overstated Physician Part A Wage-Related Benefit Costs

The Hospital agrees with this adjustment. The Hospital will ensure that any benefits reported are for allowable services.

Unallowable Part B Services

The Hospital agrees with this adjustment. The Hospital will develop processes to ensure that nurse practitioners and physician assistants get excluded from the wage index calculation. The Hospital has revised the form that it uses to calculate Physician Part B services to ensure that the costs are not excluded twice.

The Hospital wants to assure you that it is committed to being compliant with the Medicare rules related to the Wage Index calculations. If you have any questions or wish further clarifications, please do not hesitate to call.

Sincerely,



Deborah Breen
Vice President of Finance