



FEB 28 2008

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

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

**SUBJECT:** Review of St. Peter's University Hospital's Reported Fiscal Year 2005 Wage Data (A-02-07-01047)

Attached is an advance copy of our final report on St. Peter's University 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 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 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 understated its wage data by \$572,108 and 110,107 hours. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent from \$36.51 to \$35.76. 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. If the Hospital does not revise the wage data in its 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 2005 Medicare cost report to the fiscal intermediary to correct the wage data understatements totaling \$572,108 and 110,107 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 written comments on our draft report, the Hospital concurred with our findings and recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at [George.Reeb@oig.hhs.gov](mailto:George.Reeb@oig.hhs.gov) or James P. Edert, Regional Inspector General for Audit Services, Region II, at (212) 264-4620 or through e-mail at [James.Edert@oig.hhs.gov](mailto:James.Edert@oig.hhs.gov). Please refer to report number A-02-07-01047.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

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

FEB 29 2008

Report Number: A-02-07-01047

Mr. Garrick Stoldt  
Chief Financial Officer  
St. Peter's University Hospital  
254 Easton Avenue  
New Brunswick, New Jersey 08903

Dear Mr. Stoldt:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of St. Peter's University 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, 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 Richard Schlitt, Audit Manager, at (212) 264-4817 or through e-mail at [Richard.Schlitt@oig.hhs.gov](mailto:Richard.Schlitt@oig.hhs.gov). Please refer to report number A-02-07-01047 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "James P. Edert". The signature is written in a cursive style.

James P. Edert  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Mr. Tom Lenz  
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 ST. PETER'S  
UNIVERSITY HOSPITAL'S  
REPORTED FISCAL YEAR 2005  
WAGE DATA**



Daniel R. Levinson  
Inspector General

February 2008  
A-02-07-01047

# ***Office of Inspector General***

<http://oig.hhs.gov>

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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.

St. Peter's University Hospital (the Hospital) is a 478-bed hospital in New Brunswick, New Jersey. The Hospital is 1 of 16 hospitals in a New Jersey CBSA. The Hospital reported wage data of \$163.2 million and 4.47 million hours in its FY 2005 Medicare cost report, which resulted in an average hourly wage rate of \$36.51.

### **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 FINDINGS**

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report. Specifically, the Hospital reported the following inaccurate wage data, which affected the numerator and/or denominator of its wage rate calculation:

- misstated contract labor costs, which understated wage data by \$1,095,525 and 15,591 hours, and

- misstated and misclassified hours, which overstated wage data by \$523,417 and understated wage data by 94,516 hours.

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 understated its wage data by \$572,108 (numerator) and 110,107 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent from \$36.51 to \$35.76. 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 understatements totaling \$572,108 and 110,107 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.

## **AUDITEE'S COMMENTS**

In written comments on our draft report, the Hospital concurred with our findings and recommendations. The Hospital's comments appear in their entirety as Appendix B.

# TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTION</b> .....	1
<b>BACKGROUND</b> .....	1
Medicare Inpatient Prospective Payment System.....	1
Wage Indexes.....	1
Saint Peter’s University Hospital.....	2
<b>OBJECTIVE, SCOPE, AND METHODOLOGY</b> .....	2
Objective.....	2
Scope.....	2
Methodology.....	2
<b>FINDINGS AND RECOMMENDATIONS</b> .....	3
<b>ERRORS IN REPORTED WAGE DATA</b> .....	4
Misstated Contract Labor Costs.....	4
Misstated and Misclassified Wages .....	4
<b>CAUSES OF WAGE DATA REPORTING ERRORS</b> .....	5
<b>OVERSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS</b> .....	5
<b>RECOMMENDATIONS</b> .....	5
<b>AUDITEE’S COMMENTS</b> .....	5
<b>APPENDIXES</b>	
A – CUMULATIVE EFFECT OF FINDINGS	
B – AUDITEE’S COMMENTS	

## 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 \$113 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.<sup>1</sup> 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

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<sup>1</sup>The 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.

### **St. Peter's University Hospital**

St. Peter's University Hospital (the Hospital) is a 478-bed hospital in New Brunswick, New Jersey. The Hospital is 1 of 16 hospitals in a New Jersey 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 \$163,152,771 in salaries and 4,468,311 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 \$36.51. 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 New Brunswick, New Jersey, from May through September 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 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;

- selected for testing wage data in the FY 2005 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 2005 Medicare cost report. Specifically, the Hospital reported the following inaccurate wage data, which affected the numerator and/or denominator of its wage rate calculation:

- misstated contract labor costs, which understated wage data by \$1,095,525 and 15,591 hours, and
- misstated and misclassified hours, which overstated wage data by \$523,417 and understated wage data by 94,516 hours.

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 understated its wage data by \$572,108 (numerator) and 110,107 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent from \$36.51 to \$35.76. 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.<sup>2</sup>

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<sup>2</sup>The 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.

### **Misstated Contract Labor Costs**

The “Medicare Provider Reimbursement Manual” (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, the Manual instructs hospitals to report the amount paid for services provided under contract for direct patient care services (including nursing, diagnostic, therapeutic, and rehabilitative services) and for certain management services, together with the number of corresponding paid hours.

The Hospital did not report a total of \$1,095,525 in contract labor costs and 15,591 hours. Specifically, the Hospital did not include all contract labor costs, which understated wage data by \$1,110,243 and 15,591 hours. In addition, the Hospital included duplicate physician Part A contract labor costs, which overstated the Hospital’s labor costs by \$14,718.

As a result, the Hospital understated its wage data by \$1,095,525 (\$1,110,243 minus \$14,718) and 15,591 hours, which understated its average hourly wage rate by \$0.12.

### **Misstated and Misclassified Wages**

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, hospitals are required to record the number of paid hours corresponding to the amounts reported as regular time, overtime, paid holidays, vacation and sick leave, paid time off, and severance pay. The Manual, part II, section 3605.2, also 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 . . . . [I]f the hours cannot be determined, then the associated salaries must not be included.”

The Hospital reported \$779,910 without the corresponding hours and understated its wage data by 89,470 hours. Specifically, the following wage data were not in compliance with Federal requirements:

- accrued vacation salaries without related hours,<sup>3</sup> which overstated wage data by \$779,910;
- salaries without corresponding hours, which understated wage data by a total of 79,777 hours; and

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<sup>3</sup>The Hospital did not determine the accrued vacation hours when it submitted the cost report. However, the Hospital included the associated salaries.

- wage hours that were misclassified as excluded area hours, which understated wage data by 9,693 hours.

As a result, the Hospital overstated its wage data by \$779,910 and understated the data by 89,470 hours (79,777 plus 9,693). After overhead was factored in, the Hospital overstated its wage data by \$523,417 and understated the data by 94,516 hours, which overstated its average hourly wage rate by \$0.87.

## **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 understated its Part A wage data by \$572,108 (numerator) and 110,107 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 2 percent from \$36.51 to \$35.76. 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 understatements totaling \$572,108 and 110,107 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.

## **AUDITEE'S COMMENTS**

In its January 14, 2008, written comments on our draft report, the Hospital concurred with our findings and recommendations and outlined the remedial actions being taken. The Hospital's comments appear in their entirety as Appendix B.

# **APPENDIXES**

CUMULATIVE EFFECT OF FINDINGS

Components		Reported Fiscal Year (FY) 2005 Wage Data	Misstated Contract Labor		Misstated and Misclassified Wages			Adjusted FY 2005 Wage Data
			Understated Contract Labor	Overstated Physician Part A	Accrued Vacation Salaries	Understated Hours	Misclassified Hours	
St. Peter's Univ. Hosp.-FY 2009 Wage Index <i>Schedule S-3, Part II</i>								
<b>Total Salaries</b>								
line1/col. 3	Total Salaries	\$152,613,005.00			-\$792,108.00			\$151,820,897.00
<b>Excluded Salaries</b>								
line 3/col. 3	Nonphysician Anesthetist Part B	441,664.00						\$441,664.00
line 4.01/col. 3	Teaching Physician	4,527,374.00						\$4,527,374.00
line5/col. 3	Physician Part B	13,685,241.00						\$13,685,241.00
line6/col. 3	Interns and Residents (I&R)	1,512,645.00			1,944.00			\$1,514,589.00
line 6.01/col. 3	Contracted Services, I&R	2,889,067.00						\$2,889,067.00
line 8/col. 3	Skilled Nursing Facility (SNF)	1,189,834.00						\$1,189,834.00
line8.01/col. 3	Excluded Area	3,541,078.00			-14,142.00			\$3,526,936.00
line 10.01/col. 3	CONTRACT SERVICES-Teaching Physician	722,025.00						\$722,025.00
subtotal (subtract)		28,508,928.00	\$0.00	0.00	-12,198.00	\$0.00	\$0.00	\$28,496,730.00
<b>Additional Salaries</b>								
line9/col. 3	Contract Labor	\$5,742,042.00	1,110,243.42					\$6,852,285.42
line 10/col. 3	Contract Labor: Physician Part A	\$717,797.00		-14,718.00				\$703,079.00
line 10.01/col. 3	CONTRACT SERVICES-Teaching Physician	\$722,025.00						\$722,025.00
line13/col. 3	Wage-Related Cost (Core)	\$32,801,119.00						\$32,801,119.00
line 14/col. 3	Wage-Related Cost (Other)	\$0.00						\$0.00
line 18/col. 3	Physician Part A	\$1,329,017.00						\$1,329,017.00
subtotal (add)		\$41,312,000.00	1,110,243.42	(14,718.00)	\$0.00	\$0.00	\$0.00	\$42,407,525.42
<b>Adjusted Salaries</b>		\$165,416,077.00	1,110,243.42	(14,718.00)	(\$779,910.00)	\$0.00	\$0.00	\$165,731,692.42
<b>Total Paid Hours</b>								
line1/col. 4	Total Hours	4,911,649.00				82,832.00		4,994,481.00
<b>Excluded Hours</b>								
line 3/col. 4	Nonphysician Anesthetist Part B	8,892.00						\$8,892.00
line 4.01/col. 4	Teaching Physician	44,932.00				3,061.00		\$47,993.00
line5/col. 4	Physician Part B	145,853.00						\$145,853.00
line6/col. 4	I&R Hours	63,845.00				-6.00		\$63,839.00
line 6.01/col. 3	Contract Services, I&R	88,686.00						\$88,686.00
line 8/col. 4	SNF Hours	47,755.00						\$47,755.00
line8.01/col. 4	Excluded Area	120,445.00					-9,693.00	\$110,752.00
line 10.01/col. 3	CONTRACT SERVICES-Teaching Physician	8,661.00						\$8,661.00
subtotal (subtract)		529,069.00	0.00	0.00	0.00	3,055.00	-9,693.00	522,431.00
<b>Additional Hours</b>								
line9/col. 4	Contract Labor	132,273.00	15,591.25					147,864.25
line 10/col. 4	Contract Labor - Physician Part A	9,263.00						9,263.00
line 10.01/col. 3	CONTRACT SERVICES-Teaching Physician	8,661.00						8,661.00
subtotal (add)		150,197.00	15,591.25	0.00	0.00	0.00	0.00	165,788.25
<b>Adjusted Hours</b>		4,532,777.00	15,591.25	0.00	0.00	79,777.00	9,693.00	4,637,838.25

CUMULATIVE EFFECT OF FINDINGS

Components	Reported Fiscal Year (FY) 2005 Wage Data	Misstated Contract Labor		Misstated and Misclassified Wages			Adjusted FY 2005 Wage Data
		Understated Contract Labor	Overstated Physician Part A	Accrued Vacation Salaries	Understated Hours	Misclassified Hours	
<b>St. Peter's Univ. Hosp.-FY 2009 Wage Index</b>							
<i>Schedule S-3, Part III</i>							
<b>Overhead Allocation</b>							
line13/col. 3	Total Overhead Salaries	\$30,568,613.00					\$30,568,613.00
line13/col. 4	Total Overhead Hours	1,263,302.00					1,263,302.00
	Total Hours	4,911,649.00	0.00	0.00		82,832.00	4,994,481.00
	Less:						
	Nonphysician Anesthetist Part B	8,892.00					8,892.00
	Teaching Physician Hours	44,932.00				3,061.00	47,993.00
	Physician Part B Hours	145,853.00					145,853.00
	I&R Hours	63,845.00				-6.00	63,839.00
	Contract Services - I&R	88,686.00					88,686.00
	Total Overhead Hours	1,263,302.00					1,263,302.00
	Subtotal -	1,615,510.00	0.00	0.00	0.00	3,055.00	1,618,565.00
	Revised Hours	3,296,139.00	0.00	0.00	0.00	79,777.00	3,375,916.00
	Overhead Reduction For Excluded Area Hours						
	SNF Hours	47,755.00					47,755.00
	Excluded Area Hours	120,445.00		0.00		(9,693.00)	110,752.00
	Subtotal -	168,200.00	0.00	0.00	0.00	(9,693.00)	158,507.00
	Excluded Overhead Rate [(SNF+Excluded Area Hours)/Revised Hours]	0.051029401				(0.0011)	0.046952294
	Excluded Overhead Salaries (Overhead Salaries * Excluded Overhead Rate)	1,559,898.02				(34,796.64)	1,435,266.50
	Excluded Overhead Hours (Overhead Hours * Excluded Overhead Rate)	64,465.54				(1,438.03)	59,314.93
	Overhead Rate (Overhead Hours/(Revised Hours - SNF - Excluded Area Hours))	0.40387680	0.0000			(0.0252)	0.39264576
	Wage-Related Cost (Core)	\$32,801,119.00				(\$283,876.00)	\$32,801,119.00
	Wage-Related Cost (Other)	\$0.00				\$0.00	\$0.00
	Wage-Related Cost - Physician Part A	\$1,329,017.00				\$0.00	\$1,329,017.00
	Total Wage-Related Cost -	\$34,130,136.00				(\$283,876.00)	\$34,130,136.00
	Overhead Wage-Related Cost	\$13,784,370.18				(\$858,464.37)	\$13,401,053.17
	Excluded Wage-Related Cost	\$703,408.16				(\$66,582.84)	\$629,210.19
	Adjusted Salaries	\$165,416,077.00	\$1,110,243.42	(\$14,718.00)	(\$779,910.00)	\$0.00	\$165,731,692.42
	Less: Excluded Overhead Salaries	\$1,559,898.02				(\$34,796.64)	\$1,435,266.50
	Excluded Wage-Related Cost	\$703,408.16				(\$66,582.84)	\$629,210.19
	Revised Wages -	163,152,770.82	\$1,110,243.42	(\$14,718.00)	(\$779,910.00)	\$101,379.47	163,667,215.73
	Multiply By : Inflation Factor	1.00000					1.00000
	Inflated Wages (Adjusted Wages Used In Report) -	163,152,770.82	\$1,110,243.42	(\$14,718.00)	(\$779,910.00)	\$101,379.47	163,667,215.73
	Revised Hours (Adjusted Hours Used In Report) -	4,468,311.46	15,591.25			81,215.03	4,578,523.32
	[Adjusted Hours - Excluded Overhead Hours]						
	Average Hourly Wage (Rounded)	36.51	0.12	0.00	-0.17	-0.63	\$35.76

Total Wage Data Revisions:						Totals
Inflated Wages	\$1,110,243.42	(\$14,718.00)	(\$779,910.00)	\$101,379.47	\$155,113.40	\$572,108.29
Revised Hours	15,591.25	0.00	0.00	81,215.03	13,301.19	110,107.48

Misstated Contract Labor -	\$1,095,525.42	Misstated and Misclassified Wages -	(\$523,417.13)
	15,591.25		94,516.23

Cost Report Revisions						Totals
Salaries	\$1,110,243.42	(\$14,718.00)	(\$779,910.00)	\$0.00	\$0.00	\$315,615.42
Hours	15,591.25	0.00	0.00	79,777.00	9,693.00	105,061.25

Percentage Change - -2.06%



254 Easton Avenue, PO Box 591  
New Brunswick, NJ 08903-0591  
732-745-8600 • www.saintpetersuh.com

January 14, 2008

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

Dear Mr. Edert,

We are pleased to respond to your letter dated December 11, 2007 regarding St. Peter's University Hospital 2005 Wage Data. We have reviewed your recommendation outlined in your report and performed our own analysis of all relevant data (See exhibit A hereto). The differences between your findings and ours are immaterial and, therefore, we concur with your findings.

To maintain compliance with Medicare regulations, St. Peter's University Hospital is taking the following remedial action:

- (1) Revising its 2005 Medicare Cost Report Wage Index based on your findings.
- (2) Enhancing internal control procedures to ensure that all salary and wage expenses have associated hours reported and that all Wage Index worksheets are reviewed by a supervisor before the Medicare Cost Report is submitted.
- (3) Expanding the scope of our contract with an independent auditing firm to review all future Medicare Cost Report Wage Indices as part of the auditor's compliance review.

If you have any questions, please feel free to contact me at (732) 745-6651.

Sincerely,

A handwritten signature in black ink, appearing to read "Garrick Støldt".

Garrick Støldt  
Chief Financial Officer

cc: Al Glover  
Angela Melillo  
Cathy Wuestefeld

Enc:



St. Peter's University Hospital

Exhibit A  
Page 2 of 2

	Equipped/Fiscal Year 10/1/2005 Wage Data	Misclassified Contract Labor Understated Contract Labor Part A	Misclassified Contract Labor Overstated Physician Part A	Misclassified and Misclassified Wages	Misclassified Hours
	Accrued Vacation Salaries	Understated Hours	Overstated Hours	Understated Hours	Misclassified Hours
<b>Total Paid Hours</b>	4,911,649	82,832			
line1/col. 4					4,994,481
<b>Excluded Hours</b>					
line 3/col. 4	8,892				8,892
line 4.01/col. 4	44,932	3,061			47,993
line5/col. 4	145,853				145,853
line6/col. 4	63,845	(6)			63,839
line 6.01/col. 3	88,686				88,686
Subtotal Hours	352,208	3,055			355,263
Net Salaries Hours	4,559,441	79,777			4,639,218
<b>SNF Hours</b>					
line 8/col. 4	47,755				47,755
line8.01/col. 4	120,445			(9,693)	110,752
Subtotal Hours	168,200			(9,693)	158,507
<b>Subtotal Salaries Hours</b>	4,391,241	79,777			4,480,711
<b>Additional Hours</b>					
line9/col. 4	132,273				147,864
line 10/col. 4	9,263		15,591		9,263
line 10.01/col. 3	8,661				8,661
subtotal (add)	150,197		15,591		165,788
<b>Total Hours</b>	4,541,438	79,777	15,591		4,646,499
<b>Average Hourly Wage</b>	36.48				35.72