



Office of Audit Services – Region III
Public Ledger Building, Room 316
150 South Independence Mall West
Philadelphia, PA 19106-3499

April 10, 2006

Report Number: A-03-05-00003

Mr. Vaughn Gower
Sr. Vice President and Chief Financial Officer
Lehigh Valley Hospital
Cedar Crest Boulevard and I-78
P.O. Box 689
Allentown, Pennsylvania 18105-1556

Dear Mr. Gower:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled “Review of Medicare Inpatient Wage Rate Assignment at Lehigh Valley Hospital, Allentown, Pennsylvania.” A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

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

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If you have any questions or comments about this report, please do not hesitate to contact me, or your staff may contact Bernard Siegel, Audit Manager, at (215) 861-4484, or through e-mail at bernard.siegel@oig.hhs.gov. Please refer to report number A-03-05-00003 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky", with a long horizontal flourish extending to the right.

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosures – as stated

cc: Leon Sokolosky, Audit Manager
Veritus Medicare Services
Suite 325
1301 Virginia Drive
Fort Washington, PA 19034

Direct Reply to HHS Action Official:

Nancy B. O'Connor
Regional Administrator
Centers for Medicare & Medicaid Services, Region III
Public Ledger Building, Room 216
150 South Independence Mall West
Philadelphia, PA 19106-3499

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE INPATIENT
WAGE RATE ASSIGNMENT
AT LEHIGH VALLEY HOSPITAL,
ALLENTOWN, PENNSYLVANIA**



**Daniel R. Levinson
Inspector General**

**APRIL 2006
A-03-05-00003**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

BACKGROUND

Under the inpatient prospective payment system for acute care hospitals, Medicare Part A pays hospitals at predetermined, diagnosis-related rates for patient discharges. The Centers for Medicare & Medicaid Services (CMS) adjusts hospital payments through a 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. 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.

Lehigh Valley Hospital (the hospital) reported wage data of \$174.2 million and 6.1 million hours on its FY 2003 (July 1, 2002 through June 30, 2003) Medicare cost report, which resulted in an average hourly wage rate of \$28.39.¹ The \$28.39 average hourly wage rate is the quotient of \$174.2 million (numerator) divided by 6.1 million hours (denominator). Arriving at the final numerator and denominator in this rate calculation involves a series of calculations. Therefore, inaccuracies in either the dollar amounts or hours may have varying effects on the final rate computation.

As of FY 2005, the hospital and seven other acute care hospitals (two in New Jersey and five in Pennsylvania) make up the Allentown-Bethlehem-Easton, PA-NJ, urban area CBSA. Pursuant to 42 U.S.C. § 1395ww (note), the two New Jersey hospitals in the CBSA used the New Jersey statewide rural wage index because the CBSA wage index was lower than the rural wage index.

OBJECTIVE

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

SUMMARY OF FINDINGS

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

- misstated salaries and hours, which understated wage data by \$37,798 and 15,326 hours;
- understated excluded area salaries and hours, which overstated wage data by \$37,069 and 1,363 hours;

¹The wage rate discussed in this report does not include an inflation factor or occupational mix that CMS applies to determine the final wage rates used for Medicare inpatient payment calculations.

- overstated excluded contract services for intern and resident costs, which understated wage data by \$326; and
- overstated physician Part A hours, which overstated wage data by 52 hours.

These errors occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate, supportable, and in compliance with Medicare regulations and guidance. As a result, the hospital understated its wage data by \$1,055 (numerator) and 13,911 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 0.23 percent from \$28.39 to \$28.32.

If the hospital does not submit accurate wage data in its cost report, the wage index for the Allentown-Bethlehem-Easton, PA-NJ, urban area CBSA will be inflated, and this misstatement will result in overpayments to the six Pennsylvania hospitals, including Lehigh Valley, that use this wage index. However, both New Jersey hospitals in the CBSA used the higher New Jersey statewide rural wage index rather than the lower wage index for the CBSA in FY 2005. As long as the New Jersey statewide rural wage index remains higher than the CBSA wage index, the New Jersey hospitals will continue to use the statewide rural wage index. Therefore, the hospital's misstated wage data would not change payments to the two New Jersey hospitals.

RECOMMENDATION

We recommend that the hospital 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.

LEHIGH VALLEY HOSPITAL AND CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

The hospital concurred with the findings and recommendation. The hospital submitted revised cost report data to the fiscal intermediary and stated that it would improve controls during its review process.

CMS noted that the wage index findings resulting from our review of the hospital's FY 2003 Medicare cost report would not change the wage index currently in effect. However, CMS noted that, according to the fiscal intermediary's audit staff, the hospital had already incorporated our findings into its subsequent Medicare cost report submission and the updated cost report data would be used to calculate the wage index.

Based on the comments by CMS and the fiscal intermediary, we revised the report and deleted the first recommendation. A copy of the hospital comments is provided in Appendix B and a copy of the CMS, Region III, comments is provided in Appendix C.

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INTRODUCTION

BACKGROUND

Medicare Inpatient Prospective Payment System

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

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

Wage 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. A hospital's wage rate is the quotient of dividing the 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 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.

Lehigh Valley Hospital

Lehigh Valley Hospital (the hospital) is a 483-bed teaching hospital located in Allentown, PA. As of FY 2005, the hospital and seven other acute care hospitals (two in New Jersey and five in Pennsylvania) make up the Allentown-Bethlehem-Easton, PA-NJ, urban area CBSA. Pursuant

to 42 U.S.C. § 1395ww (note), the two New Jersey hospitals in the CBSA used the higher New Jersey statewide rural wage index rather than the lower wage index for the CBSA during FY 2005.

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 \$174.2 million and 6.1 million hours that the hospital reported to CMS on Schedule S-3, part II, of its FY 2003 (July 1, 2002 through June 30, 2003) Medicare cost report, which resulted in an average hourly wage rate of \$28.39.¹ 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 Allentown, PA, from January through April 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 and cost report 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 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;

¹The wage rate discussed in this report does not include an inflation factor or occupational mix that CMS applies to determine the final wage rates used for Medicare inpatient payment calculations.

- interviewed hospital staff regarding hospital wage data and supporting documentation;
- reviewed the fiscal intermediary's audit reimbursement adjustments to the wage data that the hospital reported in its FY 2003 Medicare cost report; and
- determined the effect of the reporting errors by recalculating the hospital's average hourly wage rate 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 RECOMMENDATION

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:

- misstated salaries and hours, which understated wage data by \$37,798 and 15,326 hours;
- understated excluded area salaries and hours, which overstated wage data by \$37,069 and 1,363 hours;
- overstated excluded contract services for intern and resident costs, which understated wage data by \$326; and
- overstated physician Part A hours, which overstated wage data by 52 hours.

These errors occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate, supportable, and in compliance with Medicare regulations and guidance. As a result, the hospital understated its wage data by \$1,055 (numerator) and 13,911 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 0.23 percent from \$28.39 to \$28.32.

If the hospital does not submit accurate wage data in its cost report, the wage index for the Allentown-Bethlehem-Easton, PA-NJ, urban area CBSA will be inflated, and this misstatement will result in overpayments to the six Pennsylvania hospitals, including Lehigh Valley, that use this wage index. However, both New Jersey hospitals in the CBSA used the higher New Jersey statewide rural wage index rather than the lower wage index for the CBSA in FY 2005. As long as the New Jersey statewide rural wage index remains higher than the CBSA wage index, the New Jersey hospitals will continue to use the statewide rural wage index. Therefore, the hospital's misstated wage data would not change payments to the two New Jersey hospitals.

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 Salaries and Hours

The “Medicare Provider Reimbursement Manual” (the Manual), part II, section 3605.2, requires hospitals to ensure that the wage data on their Medicare cost reports are accurate. Section 3605.2 also requires hospitals to report the number of paid hours corresponding to the amounts reported as salaries. Paid hours include regular time, overtime, paid holidays, vacation and sick leave, paid time off, and severance pay. When the hospital cannot determine the number of hours, it should not report the associated salaries.

The hospital did not include 14,467 hours associated with salaries for eight of its medical vice presidents. The hospital also overstated reported salaries by \$2,129 and 280 hours for one of its subsidiary departments. Because of these misstated salaries and hours, when the overhead factor in the calculation is included, the hospital understated wage data by \$37,798 and 15,326 hours.

Understated Excluded Area Salaries and Hours

The Manual, part II, section 3605.2, requires hospitals to report salaries for all nonreimbursable categories other than skilled nursing facilities as excluded area salaries. The Manual, part I, section 2136, defines allowable advertising costs as costs concerned with the presentation of a good public image and directly or indirectly related to patient care. All nonallowed costs, including marketing and advertising costs not relating directly or indirectly to a good public image and patient care, should be reported as excluded area salaries.

Because of a clerical miscalculation, the hospital did not exclude \$25,156 in salaries and 976 hours for nonreimbursable marketing and public affairs. Those marketing and public affairs salaries were not allowed and should have been reported as excluded area salaries. Because of these understated excluded area salaries, when the overhead factor in the calculation is included, the hospital overstated wage data by \$37,069 and 1,363 hours.

Overstated Excluded Contract Services for Intern and Resident Costs

The Manual, part II, section 3605.2, requires that hospitals report direct personnel costs for intern and resident contract services as excluded salaries. The direct personnel costs should not include costs for equipment, supplies, travel, and miscellaneous or overhead items.

The hospital included \$326 for unallowable overhead expenses associated with contract services for intern and resident salaries. Because of these overstated excluded contract services for intern and resident salaries, wage data were understated by \$326.

Overstated Physician Part A Hours

Section 2182 of the Manual requires that hospitals allocate physician compensation costs to either hospital services or individual patient services. The allocation of physician time must be supported by adequate documentation, and when no documentation exists, 100 percent of the physician compensation is allocated to patient services.

The hospital overstated physician Part A hours for two physicians employed by a related organization. Using physician time studies, the hospital should have reported 52 fewer hours than it reported. As a result, wage data for physician Part A hours were overstated by 52 hours.

CAUSES OF MISSTATED WAGE DATA

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 regulations and guidance.

EFFECT OF MISSTATED WAGE DATA

As a result of the reporting errors, the hospital understated its wage data by \$1,055 (numerator) and 13,911 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 0.23 percent from \$28.39 to \$28.32.

If the hospital does not submit accurate wage data in its cost report, the wage index for the Allentown-Bethlehem-Easton, PA-NJ, urban area CBSA will be inflated, and this misstatement will result in overpayments to the six Pennsylvania hospitals, including Lehigh Valley, that use this wage index. However, both New Jersey hospitals in the CBSA used the higher New Jersey statewide rural wage index rather than the lower wage index for the CBSA in FY 2005. As long as the New Jersey statewide rural wage index remains higher than the CBSA wage index, the New Jersey hospitals will continue to use the statewide rural wage index. Therefore, the hospital's misstated wage data would not change payments to the two New Jersey hospitals.

RECOMMENDATION

We recommend that the hospital 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.

LEHIGH VALLEY HOSPITAL AND CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

The hospital concurred with the findings and recommendation. The hospital submitted revised cost report data to the fiscal intermediary and stated that it would improve controls during its review process.

CMS noted that the wage index findings resulting from our review of the hospital's FY 2003 Medicare cost report would not change the wage index currently in effect. However, CMS noted that, according to the fiscal intermediary's audit staff, the hospital has already incorporated our findings into its subsequent Medicare cost report submission and the updated cost report data would be used to calculate the wage index.

Based on the comments by CMS and the fiscal intermediary, we revised the report and deleted the first recommendation. A copy of the hospital comments is included in Appendix B and a copy of the CMS, Region III, comments is included in Appendix C.

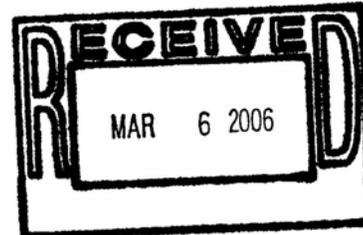
APPENDIXES

CHANGES IN HOURLY WAGE RATE FOR FY 2003 - LEHIGH VALLEY HOSPITAL

	Reported FY 2003 Wage Data	Missstated Salaries and Hours	Understated Excluded Area Salaries and Hours	Overstated Excluded Contract Services for Interns & Residents	Overstated Physician Part A Hours	Audited FY 2003 Wage Data
Total Salaries	\$166,952,191	(\$2,129)	\$0	\$0	\$0	\$166,950,062
Excluded Salaries						
Teaching Physicians	\$376,637	\$0	\$0	\$0	\$0	\$376,637
Physician Part B	\$146,363	\$0	\$0	\$0	\$0	\$146,363
Interns and Residents	\$5,311,257	\$0	\$0	\$0	\$0	\$5,311,257
Contract Services - Interns and Residents	\$63,565	\$0	\$0	(\$326)	\$0	\$63,239
Skilled Nursing Facilities	\$2,013,524	\$0	\$0	\$0	\$0	\$2,013,524
Excluded Area	\$19,901,283	\$0	\$25,156	\$0	\$0	\$19,926,439
Total Excluded Salaries	\$27,812,629	\$0	\$25,156	(\$326)	\$0	\$27,837,459
Additional Salaries						
Contract Labor	\$2,680,861	\$0	\$0	\$0	\$0	\$2,680,861
Contract labor - Physician Part A	\$1,318,503	\$0	\$0	\$0	\$0	\$1,318,503
Home Office Salaries and Wages	\$0	\$0	\$0	\$0	\$0	\$0
Home Office - Physician Part A	\$2,827,573	\$0	\$0	\$0	\$0	\$2,827,573
Wage-Related Cost (CORE)	\$41,138,992	\$0	\$0	\$0	\$0	\$41,138,992
Wage-Related Costs - Other	\$0	\$0	\$0	\$0	\$0	\$0
Physician Part A	\$19,993	\$0	\$0	\$0	\$0	\$19,993
Total Additional Salaries	\$47,985,922	\$0	\$0	\$0	\$0	\$47,985,922
Adjusted Salaries	\$187,125,484	(\$2,129)	(\$25,156)	\$326	\$0	\$187,098,525
Total Hours	7,827,027	14,187	0	0	0	7,841,214
Excluded Hours						
Teaching Physicians	1,910	0	0	0	0	1,910
Physician Part B	2,274	0	0	0	0	2,274
Interns and Residents	245,732	0	0	0	0	245,732
Contract Services - Interns and Residents	2,348	0	0	0	0	2,348
Skilled Nursing Facilities	110,112	0	0	0	0	110,112
Excluded Area	991,466	0	976	0	0	992,442
Total Excluded Hours	1,353,842	0	976	0	0	1,354,818
Additional Hours						
Contract Labor	43,572	0	0	0	0	43,572
Contract Labor - Physician Part A	22,521	0	0	0	0	22,521
Home Office Hours	0	0	0	0	0	0
Home Office - Physician Part A	32,202	0	0	0	(52)	32,150
Total Additional Salaries	98,295	0	0	0	(52)	98,243
Adjusted Hours	6,571,480	14,187	(976)	0	(52)	6,584,639

LEHIGH VALLEY
HOSPITAL AND
HEALTH NETWORK

March 3, 2006



Mr. Stephen Virbitsky
Regional Inspector General for Audit Services
Office of Audit Services – Region III
Public Ledger Building, Room 316
150 South Independence Mall West
Philadelphia, PA 19106-3499

RE: Response to the Review of Medicare Inpatient Wage Rate Assignment at Lehigh Valley Hospital, Allentown,
Pennsylvania Report Number: A-03-05-00003

Dear Mr. Virbitsky:

This letter is Lehigh Valley Hospital's response to your letter of February 14, 2006. For each of the four recommendations (attached two pages) I have indicated Lehigh Valley Hospital's concurrence with the finding and have described the corrective actions taken.

For convenience, my responses include the OIG description of the finding. The items are addressed in the same order they are found in the OIG draft report.

The statement on page ii of the executive summary that the findings resulted 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" is correct since a small number of inadvertent errors were found by audit. The OIG audit was conducted by three auditors over a one-year period auditing the FY03 cost report wage and hour data. This lengthy effort resulted in OIG identifying a wage understatement of \$1,055 and a 13,911 understatement of paid hours. The \$1,055 understatement of wages is 0.000006 of the \$174.2M of total wages. The 13,911 understatement of hours is .002 of total paid hours of 6.1m.

In brief, we agree with your recommendations. We continue to have controls in place to comply with all Medicare regulations and policies. None of the identified issues result from misapplication of regulations. After each cost report compilation, we compare every line of Schedule S-3 Part II with that of the prior year and explain every line variance on support work papers. We include these comparative work papers as part of the supporting work papers that we provide the intermediary. We will improve the controls on these comparative work papers.

Lehigh Valley Hospital also agrees with your recommendation to submit revised cost report data to the fiscal intermediary.

Both of these steps have already occurred.

If you have questions concerning the responses, please contact me at (610) 402-7535.

Sincerely,

Vaughn Gower
Senior Vice President & Chief Financial Officer

CC: Glenn Guanowsky
Joseph Magee
James Rotherham

**LEHIGH VALLEY HOSPITAL RESPONSES TO OIG AUDIT FINDINGS
REPORT NUMBER: A-03-05-00003**

Misstated Salaries and Hours (page 4)

Finding – The hospital did not include 14,467 hours associated with salaries for eight of its medical vice presidents. The hospital also overstated reported salaries by \$2,129 and 280 hours for of its subsidiary departments. Because of these misstated salaries and hours, when the overhead factor in the calculation is included, the hospital understated wage data by \$37,798 and 15,326 hours.

Response – Lehigh Valley Hospital agrees that the hours for the eight medical and surgical division chairpersons were not included on the FY03 Medicare cost report and that wages and hours related to the Pediatric Specialty Center were incorrectly included in the cost report. OIG’s quantification of the findings above is not precise. The \$37,798 and 15,326 hours also include the impact of another finding, Understated Excluded Area Salaries and Hours.

The eight chairpersons were employees of Lehigh Valley Physicians Group, a component of Lehigh Valley Health Network. The hospital purchased the chairpersons’ services from the Lehigh Valley Physician Group. When preparing the hospital wage data for inclusion in the cost report, the wage cost for the physicians was correctly included but the related hours were inadvertently excluded. The exclusion of 14,467 hours was an unintentional error. The FY04 and FY05 cost reports, already filed, did not have these errors.

The corrective action is to prepare a single worksheet that lists all wages and hours purchased from outside entities and match the wage and hour totals to the cost report.

The cost of Pediatric Specialty Center staff employed by Lehigh Valley Hospital in FY03 was reimbursed by Children’s Hospital of Philadelphia (CHOP), the provider of the Pediatric Specialty Center services. Costs for these staff should not be included from the Lehigh Valley Hospital hourly wage information because CHOP is the provider of service and should include the wages and hours on its cost report. For each pay period the wage and benefit costs were billed to CHOP and a corresponding amount of wages and hours was offset in the records of Lehigh Valley Hospital. The amount billed to CHOP and therefore removed from Lehigh Valley Hospital’s cost did not include beginning of the year and end of the year wage and hour accruals because the amount billed to CHOP was actual wage and hours for each of the 26 pay periods. This approach resulted in a small amount of wages and hours remaining on the hospital general ledger and included on the cost report. This error represents .69% of the total cost of \$304,500 which was billed to CHOP. This is the only arrangement of this kind at Lehigh Valley Hospital.

The corrective action is to place a reminder in the cost report preparation file to eliminate total wage and benefit costs for this program.

Understated Excluded Area Salaries and Hours (page 4)

Finding – Because of a clerical miscalculation, the hospital did not exclude \$25,156 in salaries and 976 hours for non-reimbursable marketing and public affairs. Those marketing and public affairs salaries were not allowed and should have been reported in the excluded areas salaries. Because of these understated excluded area salaries, when the overhead factor in the calculation is included, the hospital overstated wage data by \$37,069 and 1,363 hours.

Response – Lehigh Valley Hospital agrees with this finding. Total Marketing & Public Affairs wages for FY 2003 totaled to \$2,738,580 and 80,668 total paid hours. Not all of these costs are allowable, and each year as part of the cost report preparation, non-allowable costs are identified and moved to the non-reimbursable cost line of the cost report. The error was caused by a member of the cost report preparation staff reading across a report and inadvertently including an amount that was one line above the correct number, a visual misreading of a line item.

A corrective action was established after the FY 2003 cost report was filed. One person establishes a work paper and calculates allowable and unallowable ratios. A second person reviews that work paper and recalculates the allowable cost independently.

**LEHIGH VALLEY HOSPITAL RESPONSES TO OIG AUDIT FINDINGS
REPORT NUMBER: A-03-05-00003**

Overstated Excluded Contract Services for Intern and Resident Costs (page 5)

Finding - The hospital included \$326 of unallowable overhead expenses associated with contract services for intern and resident salaries. Because of these overstated excluded contract services for intern and resident salaries, wage data was understated by \$326.

Response – Lehigh Valley Hospital agrees with this finding. Lehigh Valley Hospital had a contractual arrangement with Hershey Medical Center under which Hershey residents rotate to Lehigh Valley Hospital. Hershey billed Lehigh Valley Hospital for the residents’ wages & fringe benefits for the time spent at Lehigh Valley Hospital. In FY 2003, Hershey billed Lehigh Valley Hospital \$63,565. We did not notice that on one invoice, Hershey included an additional cost of \$326 reported as “Overhead”. The 11 other invoices contained only wage and benefit expenses. Overlooking the \$326 was an inadvertent oversight by our personnel who compile the cost report.

After the FY 2003 cost report was filed a new step was added. We now review each invoice to look for such non-wage and benefit costs.

Overstated Physician Part A Hours (page 5)

Finding – The hospital overstated physician Part A hours for two physicians employed by a related organization. Using physician time studies, the hospital should have reported 52 fewer hours than it reported. As a result, wage data for physician Part A hours was overstated by 52 hours.

Response – Lehigh Valley Hospital agrees with this finding. Data entry errors in the physician time study data base resulted in Lehigh Valley Hospital incorrectly stating physician Part A hours. Lehigh Valley Hospital each quarter collects about 300 time studies from about 225 physicians or about 1,200 time studies annually. The OIG auditors completed an in depth review of many of the time studies and found 2 errors with a total impact of 52 hours.

Controls to eliminate 100% of every data entry error on every time study will be exceedingly time consuming and disproportionate to the benefits received. Existing review of data entry totals will remain in place. And, time study data entry staff will be given a copy of this finding and response.



Memorandum

Centers for Medicare & Medicaid Services

Region III

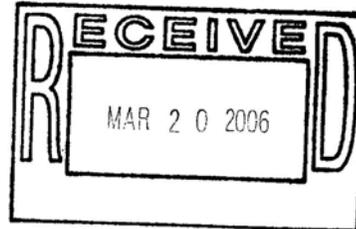
Suite 216, The Public Ledger Bldg
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Philadelphia, PA 19106-3499

Date: MAR 17 2006

To: Regional Inspector General for Audit Services
Philadelphia Regional Office

From: Regional Administrator

Subject: Draft Audit Report – Review of Medicare Inpatient Wage Rate Assignment at Lehigh Valley Hospital, Allentown, Pennsylvania



Thank you for the opportunity to comment on your recent audit of the 2003 wage rate assignment at Lehigh Valley Hospital (LVH). We reviewed the audit issues with both our CMS CO wage index personnel and Veritus Medicare Services (VMS) and determined that any wage index findings resulting from your review of the LVH FY 2003 Medicare cost report cannot **directly** impact the FY 2007 CMS wage index calculations. The LVH cost report that was audited, July 1, 2002 through June 30, 2003, was utilized by CMS for the FY 2006 wage calculations and will not be utilized for the FY 2007 calculations. The FY 2006 rates have already been finalized and published by CMS. These figures are now considered as locked by CMS.

For the FY 2007 wage index, CMS uses cost report data from cost reports that started in the period October 1, 2002 through September 30, 2003. For LHV, the cost report CMS is using for the FY 2007 wage index is the cost report that begins on July 1, 2003 and ends on June 30, 2004. Since your audit report involved the LVH Medicare cost report that began July 1, 2002 and ended June 30, 2003, any proposed exceptions / adjustments cannot directly impact either the FY 2006 or FY 2007 wage indices. According to your staff, LVH already concurred with the audit report findings and submitted an adjusted FY 2003 cost report. Due to the insignificance of the dollars involved and the current inpatient payment methodology, we will not instruct VMS to formally reopen the FY 2003 cost report to take these adjustments into account. According to the VMS audit staff, LVH has already incorporated your findings into their FY 2004 Medicare cost report submission and these figures will be subsequently utilized during the FY 2007 wage index compilations.

If you have any questions in the interim, please contact Dennis O'Hara at 215-861-4222.

Roseanne Egan for Nancy B. O'Connor
Nancy B. O'Connor

CC: Leon Sokolosky, Veritus Medicare Services

ACKNOWLEDGMENTS

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