



AUG - 3 2009

TO: Charlene Frizzera
Acting Administrator
Centers for Medicare & Medicaid Services

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

SUBJECT: Review of the Altoona Regional Health System's Reported Fiscal Year 2006 Wage Data (A-03-08-00019)

Attached is an advance copy of our final report on the Altoona Regional Health System's (the Hospital) reported fiscal year (FY) 2006 wage data. We will issue this report to the Hospital within 5 business days. This review is one in a series of reviews of the accuracy of hospitals' wage data, which the Centers for Medicare & Medicaid Services (CMS) uses in developing 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 statistical area in which a hospital is located.

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

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2006 Medicare cost report. Specifically, the Hospital overstated its wage data by \$1,114,822 and 1,977 hours. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 0.83 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. Because the Hospital did not revise the wage data in its cost report before CMS computed the FY 2009 wage indexes, the FY 2009 wage index for the Hospital's statistical area was overstated, which will result in overpayments to both of the hospitals that use this wage index.

We recommend that the Hospital implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

In its comments on our draft report, the Hospital stated that it would implement procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with our recommendation.

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 email at George.Reeb@oig.hhs.gov or Stephen Virbitsky, Regional Inspector General for Audit Services, Region III, at (215) 861-4470 or through email at Stephen.Virbitsky@oig.hhs.gov. Please refer to report number A-03-08-00019.

Attachment



Office of Audit Services, Region III
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106-3499

AUG - 5 2009

Report Number: A-03-08-00019

Mr. Charles R. Zorger
Senior Vice President and Chief Financial Officer
of Financial Operations
Altoona Regional Health System
620 Howard Avenue
Altoona, Pennsylvania 16601-4899

Dear Mr. Zorger:

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

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

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (215) 861-4470, or contact Bernard Siegel, Audit Manager, at (215) 861-4484 or through email at Bernard.Siegel@oig.hhs.gov. Please refer to report number A-03-08-00019 in all correspondence.

Sincerely,

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE ALTOONA
REGIONAL HEALTH SYSTEM'S
REPORTED FISCAL YEAR 2006
WAGE DATA**



Daniel R. Levinson
Inspector General

August 2009
A-03-08-00019

Office of Inspector General

<http://oig.hhs.gov>

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Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, Office of Inspector General reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act.

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 and Medicare administrative contractors. For example, CMS based 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.

The Altoona Regional Health System (the Hospital) was formed when the Altoona and Bon Secours-Holy Family Hospitals merged on November 1, 2004. Acute-care services are provided at two campuses, Altoona and Bon Secours. The Hospital is licensed for a combined total of 497 beds and is one of two hospitals in the Altoona CBSA. The Hospital reported consolidated wage data of \$126 million and 4.5 million hours in its FY 2006 (July 1, 2005, through June 30, 2006) Medicare cost report, which resulted in an average hourly wage rate of \$27.72.

OBJECTIVE

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

SUMMARY OF FINDINGS

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

- misstated salaries and hours, which overstated wage data by \$546,576 and understated hours by 17,841;
- unallowable and misstated contract service costs, which overstated wage data by \$440,626 and 10,488 hours;
- unallowable and misstated wage-related benefit costs, which overstated wage data by \$167,831; and
- misstated excluded salaries and hours, which understated wage data by \$40,211 and overstated hours by 9,330.

These errors occurred because the Hospital did not sufficiently review and reconcile its reported wage data to supporting documentation to ensure that the data were accurate, supportable, and in compliance with Medicare requirements. As a result, the Hospital overstated its wage data by a total of \$1,114,822 (numerator) and 1,977 hours (denominator) for its FY 2006 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 0.83 percent from \$27.72 to \$27.49. Because the Hospital did not revise the wage data in its cost report before CMS computed the FY 2009 wage indexes, the FY 2009 wage index for the Hospital's CBSA was overstated, which will result in overpayments to both of the hospitals that use this wage index.

RECOMMENDATION

We recommend that the Hospital 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.

ALTOONA REGIONAL HEALTH SYSTEM COMMENTS

In its comments on our draft report, the Hospital stated that it would implement procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with our recommendation. The Hospital's comments are included as the Appendix.

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INTRODUCTION

BACKGROUND

Medicare Inpatient Prospective Payment System

Under the inpatient prospective payment system for acute-care hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. In fiscal year (FY) 2009, the Centers for Medicare & Medicaid Services (CMS) expects Medicare Part A to pay inpatient hospitals approximately \$138.3 billion.

Wage Indexes

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

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

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

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

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

Altoona Regional Health System

The Altoona Regional Health System (the Hospital) was formed when the Altoona and Bon Secours–Holy Family Hospitals merged on November 1, 2004. Acute-care services are provided at two campuses, Altoona and Bon Secours. The Hospital is licensed for a combined total of 497 beds and is one of two hospitals in the Altoona CBSA.² The Hospital submitted to CMS a consolidated FY 2006 Medicare cost report covering the period July 1, 2005, through June 30, 2006.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our review covered the \$126,004,471 in salaries and 4,544,800 in hours that the Hospital reported to CMS on Worksheet S-3, part II, of its FY 2006 Medicare cost report, which resulted in an average hourly wage rate of \$27.72. 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 Altoona, Pennsylvania, from August through September 2008.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidance;
- obtained an understanding of the Hospital's procedures for reporting wage data;
- verified that wage data on the Hospital's trial balance reconciled to its audited financial statements;
- reconciled the total reported wages in the Hospital's FY 2006 Medicare cost report to its trial balance;

²The Altoona CBSA comprises the Hospital and Nason Hospital.

- reconciled the wage data from selected cost centers to detailed support, such as payroll registers or accounts payable invoices;
- selected for testing wage data in the FY 2006 Medicare cost report from cost centers that accounted for at least 2 percent of the total Hospital wages;
- tested a sample of transactions from these cost centers and reconciled wage data to payroll records;
- obtained assistance from the CMS pension actuary to determine the allowable portion of the claimed pension costs;
- interviewed Hospital staff regarding the nature of services that employees and contracted labor provided to the Hospital; and
- determined the effect of the reporting errors by recalculating the Hospital's average hourly wage rate using the CMS methodology for calculating the wage index, which includes an hourly overhead factor, in accordance with instructions published in the Federal Register.

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

FINDINGS AND RECOMMENDATION

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

- misstated salaries and hours, which overstated wage data by \$546,576 and understated hours by 17,841;
- unallowable and misstated contract service costs, which overstated wage data by \$440,626 and 10,488 hours;
- unallowable and misstated wage-related benefit costs, which overstated wage data by \$167,831; and
- misstated excluded salaries and hours, which understated wage data by \$40,211 and overstated hours by 9,330.

These errors occurred because the Hospital did not sufficiently review and reconcile its reported wage data to supporting documentation to ensure that the data were accurate, supportable, and in

compliance with Medicare requirements. As a result, the Hospital overstated its wage data by a total of \$1,114,822 (numerator) and 1,977 hours (denominator) for the FY 2006 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 0.83 percent from \$27.72 to \$27.49. Because the Hospital did not revise the wage data in its cost report before CMS computed the FY 2009 wage indexes, the FY 2009 wage index for the Hospital's CBSA was overstated, which will result in overpayments to both of the hospitals that use this wage index.

ERRORS IN REPORTED WAGE DATA

The errors in reported wage data are discussed below. We provided the Hospital with details on these errors and on our calculations under separate cover.

Misstated Salaries and Hours

The "Medicare Provider Reimbursement Manual" (the Manual), part II, section 3605.2, states that hospitals should ensure that the wage data reported in their Medicare cost reports are accurate. 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 a total of \$557,808 in overstated salaries and 17,506 understated hours, as follows:

- The Hospital overstated salaries for sick and vacation accruals by \$557,808 because it did not include related hours. We asked the Hospital to provide the related hours; however, the Hospital elected not to determine the actual related hours. Consequently, we did not allow the reported salaries for sick and vacation pay.
- The Hospital understated hours for reported yearend salary accruals and retirement sick bonus payments that were included in reported salaries. We determined that the Hospital understated wage-related hours by 17,506 for these salaries and adjusted the number of hours accordingly.

As a result, after overhead was factored in, the Hospital overstated its wage data by \$546,576 and understated its hours by 17,841, which overstated its average hourly wage rate by \$0.23.

Unallowable and Misstated Contract Service Costs

The Manual, part II, section 3605.2, requires that hospitals ensure that wage data reported in their Medicare cost reports are accurate. The Manual also requires hospitals to report separately the amounts paid under contract for Part A physician services, excluding teaching physician services, and for direct patient care and management services.

The Hospital misstated contract service costs by a total of \$440,626 and 10,488 hours by:

- including unallowable teaching costs for the Hospital's pregnancy care center (overstated by \$494,450 and 9,958 hours),
- making calculation errors for contract services (understated by \$53,824 and 259 hours), and
- making calculation errors for paid contract hours (overstated by 789 hours).

As a result, the Hospital overstated its wage data by a net of \$440,626 and 10,488 hours, which overstated its average hourly wage rate by \$0.03.

Unallowable and Misstated Wage-Related Benefit Costs

The Hospital reported \$204,939 in unallowable and misstated benefit costs. This amount included \$247,432 in unallowable pension benefit costs, \$16,206 in overstated health insurance fringe benefit costs, and \$58,699 in understated employee tuition reimbursement costs. The Hospital allocated \$170,517 of the \$204,939 to wage-related benefit costs.

Unallowable Pension Benefit Costs

Pursuant to Federal regulations (42 CFR § 413.100(c)(2)(vii)(B)), “[a]ccrued 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.” The regulations further state that “Postretirement benefit plans . . . are deferred compensation arrangements and thus are subject to provisions of this section regarding deferred compensation and to applicable program instructions . . .” (42 CFR § 413.100(c)(2)(vii)(C)). The Manual, part I, section 2142.5, allows reimbursement of certain pension plan costs, including normal costs, provided that certain requirements are met. A hospital must “make payment of its current liability for both normal costs and actuarial accrued liability costs to the fund established for the pension plan” (section 2142.6(A)). When the payment made is “more than the lesser of the tax deductible maximum or the total normal cost plus ratable amortization of the unfunded actuarial accrued liability, the excess may be carried forward and considered as payment against the liability to the fund of the future period” (section 2142.6(C)). (Emphasis added.)

For the year ended June 30, 2006, the Hospital's cost report initially included \$5.2 million in pension benefit costs for its funded deferred compensation plan. In accordance with the Manual, part I, section 2142.6(C), the fiscal intermediary reduced the allowable pension benefit costs. However, the fiscal intermediary used contribution amounts from a prior year in its calculation and added an inaccurate amortization amount to the normal cost. As a result, the fiscal intermediary's calculation of the allowable pension benefit amount, \$4.6 million, was incorrect.

Using corrected contribution and amortization amounts, CMS's pension actuary calculated the Hospital's normal cost plus amortization (the maximum pension expense that the Hospital could include in its pension benefit costs) and determined that \$4,352,568 of the Hospital's original reported contribution was allowable. Because the fiscal intermediary overstated allowable

pension benefit costs by \$247,432, the amount allocated to wage-related benefit costs continued to overstate the Hospital's wage data by \$205,873. The remaining \$41,559 in pension costs was not included in the wage-related benefit costs because it was not allocable for wage rate purposes.

Overstated Health Insurance Fringe Benefit Costs

The Manual, part II, section 3605.2, states that hospitals should ensure that the wage data reported in their Medicare cost reports are accurate. The Manual, part II, section 1102.3, requires hospitals to report wage-related benefit costs, both core costs and costs for allowable exceptions, on Exhibit 6 of Form CMS-339. Part I of Exhibit 6 is a standardized core list of wage-related benefit costs.

The Hospital reported \$19,315 for miscellaneous fringe benefits on Exhibit 6, Line 8, "Health Insurance." Because of accounting and clerical errors, the Hospital overstated miscellaneous fringe benefits by \$16,206, which overstated its wage data by \$13,484.

Understated Employee Education Costs

The Manual, part I, section 2144.4, states that provider-paid educational courses benefiting the employee's interest are includable as a provider's cost. The Hospital did not include \$58,699 for tuition costs for Bon Secours employees, which understated the Hospital's wage data by \$48,840.

Resulting Overstated Wage-Related Benefit Costs

In reporting pension, health insurance, and education costs, the Hospital overstated its wage data by \$170,517 (\$205,873 plus \$13,484 less \$48,840) in salaries. As a result, after overhead was factored in, the Hospital overstated its wage data by a total of \$167,831, which overstated its average hourly wage rate by \$0.04.

Misstated Excluded Salaries and Hours

The Manual, part II, section 3605.2, states that hospitals should ensure that the wage data reported in their Medicare cost reports are accurate, including excluded salaries and hours.

Because of clerical errors, the Hospital overstated direct personnel costs associated with excluded salaries for services provided by the rehabilitation cost center by \$100,000. Also, the Hospital overstated excluded hours for the Bon Secours skilled nursing facility by 3,850 and understated excluded hours by 11,083 because it misstated total hours related to excluded areas.

As a result, after overhead was factored in, the Hospital understated its wage data by \$40,211 and overstated its hours by 9,330, which understated its average hourly wage rate by \$0.07.

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.

MISSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS

As a result of the reporting errors, the Hospital overstated its Part A wage data by \$1,114,822 (numerator) and 1,977 hours (denominator) for the FY 2006 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 0.83 percent from \$27.72 to \$27.49. Because the Hospital did not revise the wage data in its cost report before CMS computed the FY 2009 wage indexes, the FY 2009 wage index for the Hospital's CBSA was overstated, which will result in overpayments to both of the hospitals that use this wage index.

RECOMMENDATION

We recommend that the Hospital 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.

ALTOONA REGIONAL HEALTH SYSTEM COMMENTS

In its comments on our draft report, the Hospital stated that it would implement procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with our recommendation. The Hospital's comments are included as the Appendix.

APPENDIX



Altoona Hospital Campus
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June 10, 2009

Office of Audit Services Office of Inspector General
U.S. Department of Health & Human Services
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106-3499

Re: Comments on FY 2006 Wage Data

Altoona Regional Health System (ARHS) has reviewed the Office of Inspector General draft report entitled "Review of ARHS Reported Fiscal Year 2006 Wage Data."

ARHS appreciates the time by the OIG to assure that the calculation of the wage index was being completed as required by the "Medicare Provider Reimbursement Manual." ARHS will implement procedures to ensure that the wage data reported in future Medicare costs reports are accurate, supportable, and in compliance with the OIG recommendations.

Thank you again for this valuable information.

Sincerely,



Charles R. Zorger