



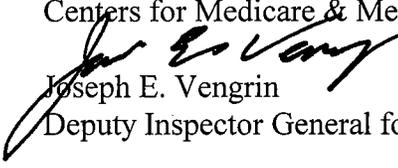
DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

MAR 20 2006

TO: Herb Kuhn
Director, Center for Medicare Management
Centers for Medicare & Medicaid Services

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

SUBJECT: Review of Riverside Medical Center's Reported Fiscal Year 2003 Wage Data (A-05-05-00022)

Attached is an advance copy of our final report on Riverside Medical Center's (the hospital) reported fiscal year (FY) 2003 wage data. We will issue this report to the hospital within 5 business days. This review is part of a series of reviews determining the accuracy of the wage data reported by inpatient prospective payment system (IPPS) hospitals that will be used by the Centers for Medicare & Medicaid Services (CMS) for developing the FY 2007 wage indexes.

Under the acute care hospital IPPS, Medicare payments for hospitals are made at predetermined rates for each hospital discharge. The payment system base rate is composed of a standardized amount that includes a labor-related share. CMS adjusts the labor-related share by the wage index applicable to the area in which the hospital is located.

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

The hospital did not fully comply with Medicare regulations for the reporting of wage data in its FY 2003 Medicare cost report. Specifically, the hospital overstated wage data by \$4,388,324 and 1,744 hours in its FY 2003 Medicare cost report.

Overstated wage data occurred because the hospital had not sufficiently reviewed and reconciled wage data to ensure that all amounts reported were accurate, supportable, and in compliance with Medicare regulations and guidance.

As a result, the hospital overstated its wage data by \$4,388,324 and 1,744 hours, or 6.4 percent, for its FY 2003 Medicare cost report period. If the hospital does not revise the wage data in its Medicare cost report, the applicable FY 2007 core-based statistical area wage index will be inflated, which will result in overpayments to this hospital and the other hospital that uses this wage index.

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$4,388,324 and 1,744 hours and
- implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

In its written comments on our draft report, the hospital concurred with our findings and adjustments to its FY 2003 cost report but did not address our recommendations. In addition, the hospital proposed three additional adjustments related to hours associated with the buyback of employees' earned vacation and sick time, wage-related costs, and overhead. Because these adjustments were not presented during the course of our review, we cannot render an opinion on them. We understand that the hospital has presented the adjustments to its Medicare fiscal intermediary for review.

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 Paul Swanson, Regional Inspector General for Audit Services, Region V, at (312) 353-2618. Please refer to report number A-05-05-00022.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

MAR 22 2006

Report Number: A-05-05-00022

Ms. Patt Marlinghaus
Director of Budget and Reimbursement
Riverside Medical Center
350 North Wall Street
Kankakee, Illinois 60901

Dear Ms. Marlinghaus:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Riverside Medical Center's Reported Fiscal Year 2003 Wage Data." A copy of this report will be forwarded to the HHS 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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-05-05-00022 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Regional Administrator
Centers for Medicare & Medicaid Services
Department of Health and Human Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
RIVERSIDE MEDICAL CENTER'S
REPORTED FISCAL YEAR 2003
WAGE DATA**



**Daniel R. Levinson
Inspector General**

**MARCH 2006
A-05-05-00022**

Office of Inspector General

<http://oig.hhs.gov>

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

BACKGROUND

Under the inpatient prospective payment system for acute care hospitals, Medicare Part A pays hospitals at predetermined, diagnosis-related rates for patient discharges. The Centers for Medicare & Medicaid Services (CMS) adjusts hospital payments by the wage index applicable to the area in which each hospital is located.

CMS calculates a wage index for each core-based statistical area (CBSA) and one statewide rural wage index per State for areas that lie outside CBSAs. CMS will base the fiscal year (FY) 2007 wage indexes on wage data collected from hospitals' FY 2003 Medicare cost reports. Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and ensure the appropriate level of funding to cover hospitals' costs of furnishing services.

Riverside Medical Center (the hospital) reported wage data of \$67.5 million and 2.16 million hours on its FY 2003 Medicare cost report, which resulted in an average hourly wage rate of \$31.25. The \$31.25 average hourly wage rate is the quotient of \$67.5 million (numerator) divided by 2.16 million hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations. Therefore, inaccuracies in either the dollar amounts or hours reported may have varying effects on the final rate computation.

As of FY 2005, the wage index for one Illinois CBSA applied to the hospital and one other hospital.

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:

- unallowable Part B salaries, which overstated wage data by \$3,829,368 and 43,267 hours;
- unallowable wage-related benefit costs, which overstated wage data by \$1,079,050;
- salaries without the associated hours, which understated wage data by \$37,182 and 24,280 hours;
- unallowable contract labor services totaling \$399,141 and understated reportable contract labor hours totaling 595;

- intern and resident hours without the associated salaries, which understated wage data by \$22,879 and 10,218 hours; and
- understated physician Part A contract labor, which understated wage data by \$859,174 and 6,430 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 overstated its wage data by \$4,388,324 (numerator) and 1,744 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 6.4 percent from \$31.25 to \$29.25. If the hospital does not revise the wage data in its cost report, the applicable FY 2007 CBSA wage index will be inflated, which will result in overpayments to this hospital and the other hospital that uses this wage index.¹

RECOMMENDATIONS

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$4,388,324 and 1,744 hours and
- implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

In its written comments on our draft report, the hospital concurred with our findings and adjustments to its FY 2003 cost report but did not address our recommendations. In addition, the hospital proposed three additional adjustments related to hours associated with the buyback of employees' earned vacation and sick time, wage-related costs, and overhead. Because these adjustments were not presented during the course of our review, we cannot render an opinion on them. We understand that the hospital has presented the adjustments to its Medicare fiscal intermediary for review. The portion of the hospital's comments related to our recommendations is included as Appendix B to this report.²

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

²The hospital's formal comments included detailed data supporting its three proposed adjustments. We did not include these data in Appendix B because they do not relate to the findings in our report and we are not rendering an opinion on the adjustments.

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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 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 Indexes

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

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

Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and ensure the appropriate level of funding to cover hospitals' costs of furnishing services. Section 1886(d)(3)(E) of the Social Security Act (the Act) requires that CMS update the wage indexes annually in a manner that ensures that aggregate payments to hospitals are not affected by changes in the indexes.

Riverside Medical Center

Riverside Medical Center (the hospital) is a 238-bed acute care provider in Kankakee, IL. As of FY 2005, the wage index for one Illinois CBSA applied to this hospital and one other hospital.

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 \$67.5 million and 2.16 million hours that the hospital reported to CMS on Schedule S-3, part II, of its FY 2003 Medicare cost report, which resulted in an average hourly wage rate of \$31.25. 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 Kankakee, IL, from February through June 2005.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidance;
- obtained an understanding of the hospital's procedures for reporting wage data;
- verified that wage data on the hospital's trial balance reconciled to its audited financial statements;
- reconciled the total reported wages on the hospital's FY 2003 Medicare cost report to its trial balance;
- reconciled the wage data from selected cost centers to detailed support, such as payroll registers or accounts payable invoices;
- selected for testing wage data in the FY 2003 Medicare cost report from cost centers that accounted for at least 2 percent of the total hospital wages;
- tested a sample of transactions from these cost centers and reconciled wage data to payroll records;

- interviewed hospital staff regarding the nature of services that employees and contracted labor provided to the hospital;
- reviewed the reasonableness of the hospital's methodology for wage data allocations; 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 RECOMMENDATIONS

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

- unallowable Part B salaries, which overstated wage data by \$3,829,368 and 43,267 hours;
- unallowable wage-related benefit costs, which overstated wage data by \$1,079,050;
- salaries without the associated hours, which understated wage data by \$37,182 and 24,280 hours;
- unallowable contract labor services totaling \$399,141 and understated reportable contract labor hours totaling 595;
- intern and resident hours without the associated salaries, which understated wage data by \$22,879 and 10,218 hours; and
- understated physician Part A contract labor, which understated wage data by \$859,174 and 6,430 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 overstated its wage data by \$4,388,324 (numerator) and 1,744 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 6.4 percent from \$31.25 to \$29.25. If the hospital does not revise the wage data in its cost report, the applicable FY 2007 CBSA wage index will be inflated, which will result in overpayments to this hospital and the other hospital that uses this wage index.¹

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

Unallowable Part B Salaries and Hours

The Act and CMS regulations specifically provide that, as a general matter, care by physicians and nurse practitioners is covered by Part B, not Part A.² As such, the “Medicare Provider Reimbursement Manual” (the Manual), part II, section 3605.2, states that hospitals should exclude from their reported wage index information those physician and nurse practitioner salaries that the hospitals claim for Part B reimbursement as patient services.

The hospital incorrectly included in its wage index information Part B salaries for physicians and nurse practitioners that totaled \$3,729,498 and 40,004 associated hours. After factoring in overhead costs, the hospital’s FY 2003 Medicare cost report overstated wage data by \$3,829,368 and related hours by 43,267.

Overstated Wage-Related Benefit Costs

Part II, section 3605.2, of the Manual requires hospitals to report wage-related benefit costs on Exhibit 7 of Form CMS 339. Exhibit 7 is a standardized core list of wage-related benefit costs. Hospitals may report costs as exceptions to the core list if, among other requirements, (1) the cost is not listed on Exhibit 7, part I, of Form CMS 339 and (2) the total cost of the particular wage-related benefit exceeds 1 percent of total salaries after removing direct excluded salaries.

The wage-related benefit costs that the hospital reported on Exhibit 7 of Form CMS 339 included \$1,139,765 in unallowable benefits:

- wage-related costs associated with the excluded Part B physician and nurse practitioner salaries, as explained in the previous finding;
- legal, accounting, and management fees, which were reported as pension-related costs but are not related to the administrative costs of the pension plan; and
- fringe benefits not exceeding the 1-percent threshold for reporting on Exhibit 7.

After various required adjustments, these errors overstated the wage data by \$1,079,050.

²Section 1861(s)(1) of the Act and 42 CFR §§ 410.10(a) and 410.20 include care by physicians as a covered Part B service; section 1861(b)(4) of the Act and 42 CFR §§ 409.10(b)(3) and 415.102(a) exclude physician services from Part A inpatient hospital services. Section 1861(s)(2)(K)(ii) of the Act and 42 CFR § 410.75 include care by nurse practitioners as a covered Part B services; section 1861(b) of the Act and 42 CFR § 409.10(b) exclude nurse practitioners from Part A inpatient hospital services.

Salaries Without Associated Hours

Part II, section 3605.2, of the Manual requires hospitals to ensure that the wage data reported on their Medicare cost reports are accurate. Section 3605.2 also requires hospitals to record the number of paid hours corresponding to the amounts reported as regular time, overtime, paid holidays, vacation and sick leave, paid time off, and severance pay. Accurate wage data hours are necessary to calculate correct overhead adjustments.

The hospital's wage data included \$477,126 in salaries without the 23,192 related hours. The unreported hours consisted of earned time, extended illness, jury duty, military duty, and severance pay. Our inclusion of the related hours decreased the overhead factor and thus increased reported wages by \$37,182 in salaries and related hours by 24,280. The understated hours overstated the hospital's average hourly wage rate by \$0.33 per hour.

Unallowable Contract Labor Services

Part II, section 3605.2, of the Manual states that the amounts paid for services furnished under contract are allowable if they are for direct patient care and do not include costs for equipment, supplies, travel expenses, or other miscellaneous or overhead items. Direct patient care services include nursing, diagnostic, therapeutic, and rehabilitative services and certain management services. The Manual limits allowable contract management services to personnel costs for hospital executive officers and nursing administrators. In addition, 42 CFR § 413.20 requires providers to maintain sufficient financial records and statistical data for proper determination of costs payable under the program.

The hospital reported \$399,141 in unallowable contract labor services and understated the overall contract labor hours by 595. The unallowable services related to costs that were:

- not supported because the documentation was either insufficient or unavailable;
- for mileage, supplies, and recruitment fees, which are not related to direct patient care or management services; or
- from a rehabilitation facility, excluded from the inpatient hospital prospective payment system pursuant to 42 CFR § 412.23.

The understated hours were a cumulative total of hours attributable to both the unallowable services and the hospital's procedure of calculating the number of hours per invoice based on an average contract wage rate rather than the actual hours identified on the invoice. The unallowable contract labor costs and understated hours associated with reportable contract labor services overstated the hospital's average hourly wage rate by \$0.19 per hour.

Misstated Interns' and Residents' Hours

Part II, section 3605.2, of the Manual requires hospitals to ensure that the wage data reported on their Medicare cost reports are accurate.

The hospital's wage data included 9,468 hours for interns and residents without any corresponding salaries. A flaw in a software program caused the hospital to erroneously include the 9,468 hours on the cost report, which understated salaries by \$22,879 and 10,218 hours. After factoring in overhead, this understatement in wage data overstated the hospital's average hourly rate by \$0.14 per hour.

Understated Physician Part A Contract Labor

Part II, section 3605.2, of the Manual states that the amounts paid for services furnished under contract are allowable if they are for direct patient care and do not include costs for equipment, supplies, travel expenses, or other miscellaneous or overhead items. Direct patient care services include nursing, diagnostic, therapeutic, and rehabilitative services and certain management services.

As a result of a clerical error, the hospital did not report allowable physician Part A contract labor services related to direct patient care. We determined that adequate documentation existed to support, as additional wage data, a total of \$859,174 and 6,430 corresponding hours.

CAUSES OF WAGE DATA REPORTING ERRORS

The errors in reported wage data occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate, supportable, and in compliance with Medicare regulations and guidance.

OVERSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS

As a result of the reporting errors, the hospital overstated its wage data by \$4,388,324 (numerator) and 1,744 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 6.4 percent from \$31.25 to \$29.25. If the hospital does not revise the wage data in its cost report, the applicable FY 2007 CBSA wage index will be inflated, which will result in overpayments to this hospital and the other hospital that uses this wage index.

RECOMMENDATIONS

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$4,388,324 and 1,744 hours and
- implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

HOSPITAL'S COMMENTS

The hospital concurred with our findings and the related adjustments to the wage index data on its FY 2003 report but did not address our recommendations. The hospital proposed three additional wage index data adjustments related to hours associated with buying back employees' earned vacation and sick time, wage-related costs, and overhead.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We cannot render an opinion on the hospital's three additional adjustments. These adjustments were not presented to us during our onsite review, and we have not audited the supporting documentation. We understand that the hospital has presented the adjustments to the Medicare fiscal intermediary for review. The portion of the hospital's comments related to our recommendations is included as Appendix B.³

³The hospital's formal comments included detailed data supporting its three proposed adjustments. We did not include these data in Appendix B because they do not relate to the findings in our report and we are not rendering an opinion on the adjustments.

APPENDIXES

CUMULATIVE EFFECT OF FINDINGS

Components		Reported FY 2003 Wage Data	Unallowable Part B Salaries and Hours	Overstated Wage-Related Benefit Costs	Salaries Without Associated Hours	Unallowable Contract Labor Services	Misstated Interns' and Residents' Hours	Understated Physician Part A Contract Labor	Adjusted FY 2003 Wage Data
RIVERSIDE MEDICAL CENTER									
Schedule S-3, Part II									
Total Salaries									
line1/col. 3	Total Salaries	\$57,773,009.00	\$0	\$0	\$0	\$0	\$0	\$0	\$57,773,009.00
Excluded Salaries									
line 4.01/col. 3	Teaching Physician	\$0.00							\$0.00
line5/col. 3	Physician - Part B	\$0.00	\$3,729,498.00	\$0.00					\$3,729,498.00
line 5.01/col.3	Non-physician Part B	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
line6/col. 3	Interns and Residents	\$0.00							\$0.00
line6.01/col. 3	Contract Services - Interns and Residents	\$0.00							\$0.00
line7/col. 3	Home Office Personnel	\$0.00							\$0.00
line 8/col. 3	Skilled Nursing Facility (SNF)	\$0.00							\$0.00
line8.01/col. 3	Excluded Area	\$6,669,136.00							\$6,669,136.00
subtotal (subtract)		\$6,669,136.00	\$3,729,498.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$10,398,634.00
Additional Salaries									
line9/col. 3	Contract Labor	\$2,588,883.00			\$0.00	-\$399,141.00			\$2,189,742.00
line 10/col. 3	Contract Labor - Physician Part A	\$0.00				\$0.00	\$859,174.00		\$859,174.00
line 10.01/col. 3	Contract Labor - Teaching Physician	\$0.00							\$0.00
line11/col. 3	Home Office	\$0.00							\$0.00
line13/col. 3	Wage-Related Cost (Core)	\$17,265,027.00	\$0.00	-\$1,139,765.00	\$0.00	\$0.00	\$0.00	\$0.00	\$16,125,262.00
line 14/col. 3	Wage-Related Cost (Other)	\$0.00	\$0.00						\$0.00
line 18/col. 3	Wage-Related Cost - Physician Part A	\$0.00							\$0.00
subtotal (add)		\$19,853,910.00	\$0.00	-\$1,139,765.00	\$0.00	-\$399,141.00	\$0.00	\$859,174.00	\$19,174,178.00
Total Paid Hours		\$70,957,783.00	-\$3,729,498.00	-\$1,139,765.00	\$0.00	-\$399,141.00	\$0.00	\$859,174.00	\$66,548,553.00
Total Hours									
line1/col. 4	Total Hours	2,531,273.00	0.00	0.00	24,981.00	0.00	0.00	0.00	2,556,254.00
Excluded Hours									
line 4.01/col. 4	Teaching Physician	0.00							0.00
line5/col. 4	Physician Part B	0.00	40,004.00	-					40,004.00
line 5.01/col. 4	Non-physician Part B	0.00							0.00
line6/col. 4	Interns and Residents	9468.00					(9,468.00)		0.00
line6.01/col. 4	Contract Services - Interns and Residents	0.00							0.00
line7/col. 4	Home Office Personnel	0.00							0.00
line 8/col. 4	Skilled Nursing Facility (SNF)	0.00							0.00
line8.01/col. 4	Excluded Area	261998.00			1,789.00				263,788.00
subtotal (subtract)		271467.00	40,004.00	0.00	1,789.00	0.00	-9,468.00	0.00	303,792.00
Additional Hours									
line9/col. 4	Contract Labor	33320.00				595.00			33,915.00
line 10/col. 4	Contract Labor - Physician Part A	0.00					6,430.00		6,430.00
line 10.01/col. 4	Contract Labor - Teaching Physician	0.00							0.00
line11/col. 4	Home Office	0.00							0.00
subtotal (add)		33320.00	0.00	0.00	0.00	595.00	0.00	6,430.00	40,345.00
Adjusted Hours		2,293,126.00	-40,004.00	0.00	23,192.00	595.00	9,468.00	6,430.00	2,292,807.00

CUMULATIVE EFFECT OF FINDINGS

Component	Reported FY 2003 Wage Data	Unreported Part B Salaries & Hours	Overstatement of Wage-Related Costs	Understatement of Total Hours	Unallowable Contract Labor Costs	Misstated Hours for Interns & Residents	Allowable Contract Labor Physician Part A	Adjusted FY 2003 Wage Data
RIVERSIDE MEDICAL CENTER								
<i>Schedule S-3, Part II</i>								
Overhead Allocation								
line13/col. 3	Total Overhead Salaries	\$15,951,080.00						\$15,951,080.00
line13/col. 4	Total Overhead Hours	\$834,816.00						834,816.00
	Total Hours	2,531,273.00	0.00	0.00	24,981.00	0.00	0.00	2,556,254.00
	Less:							
	Teaching Physician Hours	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Physician Part B Hours	0.00	40,004.00	0.00	0.00	0.00	0.00	40,004.00
	Non-physician Part B	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Intern and Residents Hours	9,468.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total Overhead Hours	834,816.00	0.00	0.00	0.00	0.00	0.00	834,816.00
	Subtotal -	844,284.00	40,004.00	0.00	0.00	0.00	0.00	874,820.00
	Revised Hours	1,686,989.00	-40,004.00	0.00	24,981.00	0.00	0.00	1,681,434.00
	Overhead Reduction For Excluded Area Hours							
	SNF Hours	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Excluded Area Hours	271,467.00	0.00	0.00	1,789.00	0.00	0.00	273,256.00
	Subtotal -	271,467.00	0.00	0.00	1,789.00	0.00	0.00	273,256.00
	Excluded Overhead Rate [(SNF+Excluded Area Hours)/Revised Hours]	0.160918062	0.0039	0.0000	-0.0013	0.0000	-0.0009	0.162513664
	Excluded Overhead Salaries Excluded Overhead Rate	2,566,816.88	62,346.01	0.00	(20,786.09)	0.00	(14,325.52)	2,592,268.45
	Excluded Overhead Hours Excluded Overhead Rate	134,336.97	3,262.94	0.00	(1,087.86)	0.00	(749.74)	135,669.01
	Overhead Rate (Overhead Hours/Revised Hours + Overhead Hours)	0.3310	0.0053	0.0000	-0.0032	0.0000	-0.0012	0.33176990
	Wage-Related Cost (Core)	17,265,027.00	0.00	(1,139,765.00)	0.00	0.00	0.00	16,125,262.00
	Wage-Related Cost (Other)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Wage-Related Cost - Physician Part A	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total Wage-Related Cost -	17,265,027.00	0.00	(1,139,765.00)	0.00	0.00	0.00	16,125,262.00
	Overhead Wage-Related Cost	5,715,398.61	92,128.16	(377,306.75)	(56,061.39)	0.00	(21,377.94)	5,349,876.49
	Excluded Wage-Related Cost	919,710.87	37,523.92	(60,715.47)	(16,396.06)	0.00	(8,553.84)	869,428.03
	Adjusted Salaries	70,957,783.00	(3,729,498.00)	(1,139,765.00)	0.00	(399,141.00)	859,174.00	66,548,553.00
	Less: Excluded Overhead Salaries	2,566,816.88	62,346.01	0.00	(20,786.09)	0.00	(14,325.52)	2,592,268.45
	Excluded Wage-Related Cost	919,710.87	37,523.92	(60,715.47)	(16,396.06)	0.00	(8,553.84)	869,428.03
	Revised Wages -	67,471,255.26	(3,829,367.93)	(1,079,049.53)	37,182.15	(399,141.00)	859,174.00	63,086,856.52
	Multiply By: Inflation Factor	1.00000						1.00000
	Inflated Wages (Adjusted Wages Used In Report)	\$67,471,255.26	-\$3,829,367.93	-\$1,079,049.53	\$37,182.15	-\$399,141.00	\$859,174.00	\$63,086,856.52
	Revised Hours (Adjusted Hours Used In Report)	2,158,789.03	43,266.94	0.00	24,279.86	595.00	10,217.74	2,157,137.99
	[Adjusted Hours - Excluded Overhead Hours]							
	Average Hourly Wage	\$31.25	-\$1.17	-\$0.50	-\$0.33	-\$0.19	\$0.30	\$29.25

Total Wage Data Revision	Total
Inflated Wages	(\$3,829,367.93) (\$1,079,049.53) \$37,182.15 (\$399,141.00) \$22,879.36 \$859,174.00 (\$4,388,322.94)
Revised Hours	(43,266.94) 0.00 24,279.86 595.00 10,217.74 6,430.00 (1,744.34)



Medical Center

350 N. Wall Street
Kankakee, IL 60901
815-933-1671
February 10, 2006

Mr. Paul Swanson
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, IL 60601

Dear Mr. Swanson:

Subject: Review of Riverside Medical Center Reported Fiscal Year 2003 Wage Data
Medicare Provider 14-0186

I am writing in response to your January 13, 2006 letter regarding the U.S. Department of Health and Human Services, Office of Inspector General draft report entitled "Review of Riverside Medical Center Reported Fiscal Year 2003 Wage Data."

The draft report, specifically the Cumulative Effect of Findings, matches the adjustments proposed by the Office of Inspector General during their audit of Riverside Medical Center, which occurred during February 2005 through August 2005.

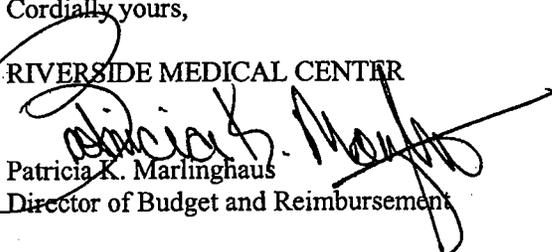
However, upon closer review of the data, I would like to propose three additional adjustments. Documentation supporting these adjustments is enclosed. The three adjustments relate to the following areas:

1. Hours
2. Wage Related Costs
3. Overhead

If you have any questions or comments about these adjustments, please do not hesitate to contact me. I can be reached via email at patt_marlinghaus@rsh.net or via telephone at 815/935-7256 extension 3544.

Cordially yours,

RIVERSIDE MEDICAL CENTER


Patricia K. Marlinghaus
Director of Budget and Reimbursement

Enclosures
Sent via Federal Express -- Tracking Number 8467-5293-1953

Photocopies provided to:
Stephen Slamar -- Office of Inspector General
Manny Rodriguez -- AdminaStar Federal, Inc.
Mike Matejevich -- Healthcare Affiliates, Inc.