



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 632
Dallas, Texas 75242

May 9, 2006

Report Number: A-06-06-00038

Mr. Tom Johansen
Baylor University Medical Center
2001 Bryan Street
Suite 2300
Dallas, Texas 75201

Dear Mr. Johansen:

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 the Hospital Wage Index at Baylor University Medical Center." 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-06-06-00038 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Gordon L. Sato", with a stylized flourish at the end.

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Mr. James R. Farris, M.D.
Regional Administrator
Centers for Medicare & Medicaid Services
1301 Young Street, Room 714
Dallas, Texas 75202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE HOSPITAL WAGE
INDEX AT BAYLOR UNIVERSITY
MEDICAL CENTER**



Daniel R. Levinson
Inspector General

May 2006
A-06-06-00038

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

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

OAS FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

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

CMS calculates a wage index for each core-based statistical area (CBSA) and one statewide rural wage index per State for areas that lie outside CBSAs. CMS will base the fiscal year (FY) 2007 wage indexes on wage data collected from hospitals' Medicare cost reports for the FYs that began between October 1, 2002, and September 30, 2003. 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.

Baylor University Medical Center (the hospital) reported wage data of \$278.5 million and 9.42 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 \$29.57. The \$29.57 average hourly rate is the quotient of \$278.5 million (numerator) divided by 9.42 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 Texas CBSA applied to the hospital and 34 other hospitals.

OBJECTIVE

Our objective 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 wage-related benefit costs, which overstated wages by \$6,043,579;
- unallowable contract labor services totaling \$140,892 and overstated reportable contract labor hours totaling 5,514;
- unallowable salary and Medicare Part B costs, which overstated wage data by \$3,152,468 and 87,409 hours;

- misclassified services, which overstated wage data by \$2,151,089 and 31,850 hours;
- severance payments without the associated hours, which overstated wage data by \$165,743; and
- misstated total hours, which overstated wage data by \$19,055 and 77,996 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 \$11,672,828 (numerator) and 202,768 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 2.1 percent from \$29.57 to \$28.95. If the hospital does not revise the wage data in its cost report, the wage index for the Dallas-Plano-Irving, Texas, urban CBSA will be inflated, which will result in overpayments to this hospital and the other 34 hospitals that use this wage index.

RECOMMENDATIONS

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

BAYLOR UNIVERSITY MEDICAL CENTER'S COMMENTS

In its written comments on our draft report, the hospital disagreed with our findings that physician services should be classified as contracted physician services and that marketing costs should be removed from Worksheet S-3, part II. The hospital noted that the finding on wage-related benefit costs had already been corrected by the fiscal intermediary and was not included in the wage data submitted to CMS. The hospital also noted that the wage data from its FY 2003 cost report was used to calculate the FY 2006 wage index that is currently in effect. For these reasons, the hospital said that it does not need to resubmit its FY 2003 Medicare cost report. The full text of the hospital's comments is presented in Appendix B.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After reviewing the documentation for physician services, we agree with the hospital that some of the physicians should be considered employees because their contracts stated that they were employees and were paid a salary. However, the general ledger shows invoices for other physicians' services whose contracts stated that they were contracted physicians and not to be considered employees. Therefore, we continue to believe that some physicians are contracted and should be reported accordingly. We also continue to believe that the marketing costs should be removed from the calculation of the wage index. Since there is no mechanism for the adjustments on Worksheet A-8 to flow to Worksheet S-3, part II, the hospital should work with the fiscal intermediary and CMS to develop a way to exclude these costs from the calculation of the wage index. We agree with the hospital that the fiscal intermediary has already made corrections to the wage data that were used to calculate the FY 2006 wage index. Therefore, we

removed the recommendation to resubmit the FY 2003 Medicare cost report. The corrections that have been made need to be carried forward and the remaining errors corrected, to ensure that future wage index calculations are correct.

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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.

For 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. Prior to 2003, CMS used 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 for the FYs that began between October 1, 2002, and September 30, 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.

Baylor University Medical Center

Baylor University Medical Center (the hospital) is an 841-bed hospital located in Dallas, Texas. As of FY 2005, the wage index for this Texas CBSA applied to this hospital and 34 other hospitals.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective 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 \$278.5 million and 9.42 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 \$29.57. 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 Dallas, Texas.

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;
- 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 and 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; 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).

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 wage-related benefit costs, which overstated wage data by \$6,043,579;
- unallowable contract labor services totaling \$140,892 and overstated reportable contract labor hours totaling 5,514;
- unallowable salary and Medicare Part B costs, which overstated wage data by \$3,152,468 and 87,409 hours;
- misclassified services, which overstated wage data by \$2,151,089 and 31,850 hours;
- severance payments without the associated hours, which overstated wage data by \$165,743; and
- misstated total hours, which overstated wage data by \$19,055 and 77,996 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 \$11,672,828 (numerator) and 202,768 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 2.1 percent, from \$29.57 to \$28.95. If the hospital does not revise the wage data in its cost report, the wage index for the Dallas-Plano-Irving, Texas, urban area CBSA will be inflated, which will result in overpayments to this hospital and the other 34 hospitals that use this wage index.

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 Wage-Related Benefit Costs

The Provider Reimbursement Manual (the Manual), part II, section 3605.2, requires providers to report wage-related benefit costs on Exhibit 7 of Form CMS 339. Exhibit 7 is a standardized

core list of allowable wage-related benefit costs. Exceptions to the core list of wage-related costs may be reported if (1) the cost is not listed on Exhibit 7, part I, of Form CMS-339, (2) the wage-related cost exceeds 1 percent of total salaries after removing the excluded portion of salaries, and (3) it is a fringe benefit as defined by the Internal Revenue Service.

The wage-related benefit costs reported on Exhibit 7 of Form CMS 339 included \$6,127,563 of unallowable benefits consisting of:

- wage-related costs for excluded salaries and,
- unallowable fringe benefits that did not exceed the 1-percent threshold for reporting on part II of Exhibit 7.

As a result of the unallowable, wage-related benefit costs reported on Exhibit 7, the hospital overstated wage data by \$6,043,579 when the overhead factor is included in the calculation.

Unallowable Contract Labor Services

The Manual, part II, section 3605.2, states that the amounts paid for services furnished under contract are allowable if they are for direct patient care and do not include the cost of 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 hospital overstated its wage data by \$140,892 and 5,514 hours by including consulting services and art therapy. These services are not allowable for wage index purposes.

Unallowable Salary and Medicare Part B Costs

The Act and CMS regulations generally provide that, care by physicians and nurse practitioners is a service covered by Medicare Part B, not Part A.¹ As such, the Manual, part II, section 3605.2, states that hospitals should exclude from their reported wage index information those physician and nurse practitioner salaries that the hospitals claim for reimbursement as patient services under Medicare Part B.

Further, section 2136.2 of the Manual states that certain advertising costs should be excluded from the wage index calculation. These unallowable advertising costs include the costs of recruiting physicians, selling stock, and increasing the use of services.

Contrary to these requirements, the hospital included in its Medicare cost report \$2,344,018 in unallowable costs and 79,062 associated hours consisting of:

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

- nurse practitioner costs totaling \$1,624,333 and hours totaling 53,022, which were covered as Medicare Part B patient services; and
- advertising salary costs totaling \$719,685 and hours totaling 26,040.

As a result, after overhead costs were factored in, the hospital overstated its wage data by \$3,152,468 in salaries and 87,409 related hours.

Misclassified Services

The Manual, part II, section 3605.2, states that the wage data reported on S-3, part II, should be accurate. Furthermore, 1861(b) of the Act excludes the services of certified registered nurse anesthetists and teaching physicians from wage reporting.

The hospital reported \$1,824,196 and 17,452 hours on line 4 of S-3, part II, as Medicare Part A physician services, which were actually contracted services. Of these amounts, \$13,000 in salaries and 1,208 hours were for teaching physicians. Pursuant to the Manual, contracted physician services and teaching services should be reported on S-3, part II, lines 10 and 10.01, respectively. Furthermore, the Manual states that the amounts reported on S-3, part II, line 10.1, are not added for wage-reporting purposes because they are excluded costs. Additionally, the hospital did not report nurse anesthetist services of \$2,090,944 and 30,348 hours on S-3, part II, line 2, as nonphysician anesthetist services. Because this cost was not properly identified, it was not included in the wage reporting.

As a result of these misclassified services, the hospital's wage data was overstated by \$2,151,089 and 31,850 hours.

Severance Payments Without Associated Hours

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 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 \$165,743 in employees' severance pay but did not include the related hours. Hospital officials informed us that they did not record severance pay hours. If the hospital cannot determine the number of hours, it should not report the associated severance pay. Our exclusion of severance payments decreased the hospital's average hourly wage rate by \$0.02 per hour.

Misstated Hours

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 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. Additionally, pursuant to the Manual, on-call hours are considered regular hours for calculating the wage index rate.

The hospital overstated on-call hours by 201,812. In addition, the hospital included overhead salaries totaling \$1,784,163 but did not include the related hours. A total of 131,596 overhead hours were associated with these salaries. Not including these hours affects the calculation of the wage index.

As a result of these misstated hours, the hospital overstated its wage data by \$19,055 and 77,996 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 \$11,672,828 (numerator) and 202,768 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate 2.1 percent, from \$29.57 to \$28.95. If the hospital does not revise the wage data in its cost report, the wage index for the Dallas-Plano-Irving, Texas, urban area CBSA will be inflated, which will result in overpayments to this hospital and the 34 other hospitals that use this wage index.

RECOMMENDATIONS

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

BAYLOR UNIVERSITY MEDICAL CENTER'S COMMENTS

In its written comments on our draft report, the hospital disagreed with our findings that physician services should be classified as contracted physician services and that marketing costs should be removed from Worksheet S-3, part II. The hospital noted that the finding on wage-related benefit costs had already been corrected by the fiscal intermediary and was not included in the wage data submitted to CMS. The hospital also noted that the wage data from its FY 2003 cost report was used to calculate the FY 2006 wage index that is currently in effect. For these reasons, the hospital said that it does not need to resubmit its FY 2003 Medicare cost report. The full text of the hospital's comments is presented in Appendix B.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After reviewing the documentation for physician services, we agree with the hospital that some of the physicians should be considered employees because their contracts stated that they were

employees and were paid a salary. However, the general ledger shows invoices for other physicians' services whose contracts stated that they were contracted physicians and not to be considered employees. Therefore, we continue to believe that some physicians are contracted and should be reported accordingly. We also continue to believe that the marketing costs should be removed from the calculation of the wage index. Since there is no mechanism for the adjustments on Worksheet A-8 to flow to Worksheet S-3, part II, the hospital should work with the fiscal intermediary and CMS to develop a way to exclude these costs from the calculation of the wage index. We agree with the hospital that the fiscal intermediary has already made corrections to the wage data that were used to calculate the FY 2006 wage index. Therefore, we removed the recommendation to resubmit the FY 2003 Medicare cost report. The corrections that have been made need to be carried forward and the remaining errors corrected, to ensure that future wage index calculations are correct.

APPENDIXES

CUMULATIVE EFFECT OF FINDINGS

Components	Reported Fiscal Year 2003 Wage Data	Misstated Total Hours		Unallowable Salary and Medicare Part B Costs	Severance Payments without Associated Hours	Unallowable Contract Labor Services	Unallowable Wage-Related Benefit Costs	Missclassified Services		Adjusted FY 2003 Wage Data
		On-call Hours	Understated Overhead Hours					Nonphysician Anesthetist	Physician Part A	
Baylor University Medical Center										
<i>Work Sheet S - 3, Part II</i>										
Total Salaries										
line 1/col. 3	Total Salaries	\$218,871,550.00								
	Excluded Salaries									
line 2.0/col. 3	Nonphysician Anesthetist	\$0.00						\$2,090,944.00		\$2,090,944.00
line 4.01/col. 3	Teaching Physician	0.00								0.00
line 5/col. 3	Physician - Part B	0.00		1,624,333.00						1,624,333.00
line 6/col. 3	Interns and Residents	8,643,685.00								8,643,685.00
	Contract services - Interns and Residents									
line 6.01/col. 3	Residents	0.00								0.00
line 7/col. 3	Home Office	0.00								0.00
line 8/col. 3	Skilled Nursing Facility	0.00								0.00
line 8.01/col. 3	Excluded Area	9,630,285.00		719,685.00						10,349,970.00
subtotal (subtract)		\$18,273,970.00	\$0.00	\$0.00	\$2,344,018.00	\$0.00	\$0.00	\$0.00	\$2,090,944.00	\$0.00
	Additional Salaries									
line 9/col. 3	Contract Labor	\$3,934,958.00								
line 10/col. 3	Contract Labor - Physician Part A	0.00							1,811,196.00	1,811,196.00
line 11/col. 3	Home Office	19,995,137.00								19,995,137.00
line 13/col. 3	Wage-Related Cost (Core)	56,927,688.00								
line 14/col. 3	Wage-Related Cost (Other)	0.00								0.00
	Wage-Related Cost - Physician Part A									
line 18/col. 3	A	0.00								0.00
subtotal (add)		\$80,857,783.00	\$0.00	\$0.00	(\$598,597.43)	\$0.00	(\$140,892.00)	(\$6,127,563.44)	\$0.00	\$1,772,301.43
	Adjusted Salaries	\$281,455,363.00	\$0.00	\$0.00	(\$2,942,615.43)	(\$165,743.22)	(\$140,892.00)	(\$6,127,563.44)	(\$2,090,944.00)	(\$51,894.57)
Total Paid Hours										
line 1/col. 4	Total Hours	9,520,901.00	(219,184.61)	131,596.00						
	Excluded Hours									
Line 2.0/col. 4	Nonphysician Anesthetist	0.00							30,348.00	30,348.00
line 4.01/col. 4	Teaching Physician	0.00								0.00
line 5/col. 4	Physician Part B	0.00		53,022.00						53,022.00
line 6/col. 4	Intern and Residents	343,413.00								343,413.00
	Contract services - Interns and Residents									
line 6.01/col. 4	Residents	0.00								0.00
line 7/col. 4	Home Office Personnel	0.00								0.00
line 8/col. 4	Skilled Nursing Facility	0.00								0.00
line 8.01/col. 4	Excluded Area	422,538.00	(14,632.39)		26,040.00					433,945.61
subtotal (subtract)		765,951.00	(14,632.39)	0.00	79,062.00	0.00	0.00	0.00	30,348.00	0.00
	Additional Hours									
line 9/col. 4	Contract Labor	92,045.00								
line 10/col. 4	Contract Labor - Physician Part A	0.00							16,244.00	16,244.00
line 11/col. 4	Home Office	689,782.00								689,782.00
subtotal (add)		781,827.00	0.00	0.00	0.00	0.00	(5,514.00)	0.00	0.00	16,244.00
	Adjusted hours	9,536,777.00	(204,552.22)	131,596.00	(79,062.00)	0.00	(5,514.00)	0.00	(30,348.00)	(1,208.00)

CUMULATIVE EFFECT OF FINDINGS

Components	Reported Fiscal Year 2003 Wage Data	Misstated Total Hours		Unallowable Salary and Medicare Part B Costs	Severance Payments without Associated Hours	Unallowable Contract Labor Services	Unallowable Wage-Related Benefit Costs	Misclassified Services		Adjusted FY 2003 Wage Data
		On-call Hours	Understated Overhead Hours					Nonphysician Anesthetist	Physician Part A	
Baylor University Medical Center										
<i>Work Sheet S - 3, Part III</i>										
Overhead Allocation										
line 13/col. 3	Total Overhead Salaries	\$38,137,291.00			\$0.00					\$38,137,291.00
line 13/col. 4	Total Overhead Hours	2,029,832.00	(29,673.00)	131,596.00	0.00					2,131,755.00
	Total Hours	9,520,901.00	(219,184.61)	131,596.00	0.00	0.00	0.00	0.00	0.00	9,415,860.39
	Less:									
	Physician Part B Hours	0.00	0.00	0.00	53,022.00	0.00	0.00	0.00	0.00	53,022.00
	Intern and Residents Hours	343,413.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	343,413.00
	Total Overhead Hours	2,029,832.00	(29,673.00)	131,596.00	0.00	0.00	0.00	0.00	0.00	2,131,755.00
	SUBTOTAL -->	2,373,245.00	(29,673.00)	131,596.00	53,022.00	0.00	0.00	0.00	0.00	2,528,190.00
	Revised Hours	7,147,656.00	(189,511.61)	0.00	(53,022.00)	0.00	0.00	0.00	(17,452.00)	6,887,670.39
	Overhead Reduction For Excluded Area Hours									
	SNF Hours	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Excluded Area Hours	422,538.00	(14,632.39)	0.00	26,040.00	0.00	0.00	0.00	0.00	433,945.61
	Subtotal -	422,538.00	(14,632.39)	0.00	26,040.00	0.00	0.00	0.00	0.00	433,945.61
	[(SNF+Excluded Area Hours)/Revised Hours]	0.059115604	(0.00)	0.00000	0.0041	0.0000	0.0000	0.00	0.0001	0.06
	Excluded Overhead Rate									
	Excluded Overhead Salaries (Overhead Salaries * Excluded Overhead Rate)	\$2,254,508.98	(\$18,795.83)	\$0.00	\$156,827.49	\$0.00	\$0.00	\$0.00	\$5,518.17	\$2,398,058.82
	Excluded Overhead Hours (Overhead Hours * Excluded Overhead Rate)	119,994.74	(\$2,739.91)	\$7,779.38	8,347.04	0.00	0.00	0.00	293.70	133,674.95
	(Overhead Hours/(Revised Hours + Overhead Hours))	0.22117512	0.00	0.0110	0.0021	0.0000	0.00	0.00	0.0004	0.236818
	Overhead Rate									
	Wage-Related Cost (Core)	\$56,927,688.00	0.00	\$0.00	(\$598,597.43)	\$0.00	\$0.00	(\$6,127,563.44)	\$0.00	(\$38,894.57)
	Wage-Related Cost (Other)	\$0.00	0.00	\$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	\$0.00	\$0.00
	Total Wage-Related Cost	\$56,927,688.00	0.00	\$0.00	(\$598,597.43)	\$0.00	\$0.00	(\$6,127,563.44)	\$0.00	(\$38,894.57)
	Overhead Wage-Related Cost	\$12,590,988.16	\$119,502.04	\$626,756.87	(\$19,771.98)	\$0.00	\$0.00	(\$1,420,673.37)	\$0.00	\$15,369.86
	Excluded Wage-Related Cost	\$744,323.87	\$800.12	\$37,051.11	\$53,025.17	\$0.00	\$0.00	(\$83,983.96)	\$0.00	\$2,732.64
	Excluded Overhead Salaries	\$281,455,363.00	0.00	\$0.00	(\$2,942,615.43)	(\$165,743.22)	(\$140,892.00)	(\$6,127,563.44)	(\$2,090,944.00)	(\$51,894.57)
	Less: Excluded Overhead Salaries	\$2,254,508.98	(\$18,795.83)	\$0.00	\$156,827.49	\$0.00	\$0.00	\$0.00	\$5,518.17	\$2,398,058.82
	Revised Wages	\$744,323.87	\$800.12	\$37,051.11	\$53,025.17	\$0.00	\$0.00	(\$83,983.96)	\$0.00	\$2,732.64
	Excluded Wage-Related Cost	\$278,456,530.15	\$17,995.71	(\$37,051.11)	(\$3,152,468.09)	(\$165,743.22)	(\$140,892.00)	(\$6,043,579.48)	(\$2,090,944.00)	(\$60,145.38)
	Multiply By : Inflation Factor	1.00000								1.00000
	Inflated Wages (Adjusted Wages Used In Report) -	\$278,456,530.15	\$17,995.71	(\$37,051.11)	(\$3,152,468.09)	(\$165,743.22)	(\$140,892.00)	(\$6,043,579.48)	(\$2,090,944.00)	(\$60,145.38)
	Revised Hours (Adjusted Hours Used In Report) -	9,416,782.26	(201,812.31)	123,816.62	(87,409.04)	0.00	(5,514.00)	0.00	(30,348.00)	(1,501.70)
	Adjusted Hourly Wage	\$29.57	\$0.65	(\$0.39)	(\$0.06)	(\$0.02)	\$0.00	(\$0.64)	(\$0.13)	(\$0.00)
	Average Hourly Wage									
	Total Wage Data Revisions:									Totals
	Inflated Wages	\$17,995.71	(\$37,051.11)	(\$3,152,468.09)	(\$165,743.22)	(\$140,892.00)	(\$6,043,579.48)	(\$2,090,944.00)	(\$60,145.38)	(\$11,672,827.57)
	Revised Hours	(201,812.31)	123,816.62	(87,409.04)	0.00	(5,514.00)	0.00	(30,348.00)	(1,501.70)	(202,768.43)



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April 7, 2006

Mr. Gordon L. Sato
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Inspector General
Office of Audit Services
1100 Commerce Street, Room 632
Dallas, Texas 75242

RE: Baylor University Medical Center
OIG Report Number A-06-06-00038

Dear Mr. Sato:

We have received and reviewed the Office of Inspector General's ("OIG") draft report entitled "Review of the Hospital Wage Index at Baylor Medical Center." The OIG reviewed our filed cost report for the FYE June 30, 2003, and determined that we overstated our wage data by \$11,672,828 and 202,768 hours. These amounts represent approximately 4.2 percent of the total wages and 2.2 percent of the total hours reflected on the cost report. The OIG, after adjusting our wage data, determined that our average hourly wage rate was \$28.95. As explained below, the average hourly wage rate that was actually submitted to CMS for use in calculating the wage index was \$28.90. We have prepared the comments herein in response to the recommendations and findings in the draft report.

We take our responsibility to the Medicare program very seriously and it has always been our objective to fully comply with all applicable Medicare laws, regulations, and guidelines. Prior to the OIG's review, we believed that we had prepared and filed our Medicare cost reports in compliance with the Medicare authorities governing the reporting of wage data.

We note that the wage data on the cost report is only the starting point in the wage index calculation. After a review and audit process whereby hospitals and the fiscal intermediaries make adjustments to the wage data, the data is forwarded to CMS, and CMS then calculates the wage index. The wage index is calculated for a core-based statistical area ("CBSA") based upon the average hourly wage rate of the hospitals in the CBSA divided by the national average hourly wage rate.

As part of our ongoing efforts to better ensure compliance with the Medicare requirements, during the review and audit process we participate in a project sponsored by the Dallas - Ft. Worth Hospital Council, whereby a consulting firm with extensive

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wage index experience, is engaged to review the wage data of all hospitals in the CBSA. During the review and audit process, we worked closely with our Medicare fiscal intermediary, TrailBlazer Health Enterprises ("TrailBlazer") and they determined that our average hourly wage rate was \$28.90. This amount, not the amount from the filed cost report, was submitted to CMS to be used in calculating the wage index for the Dallas - Ft. Worth CBSA. This is 5 cents less than the average hourly wage rate as calculated by the OIG.

Discussion of Recommendations

Recommendation 1.

The OIG recommended that we submit a revised FYE 2003 Medicare cost report to the fiscal intermediary to correct the wage data overstatement so that the revisions will be included in the determination of the FY 2007 wage index.

Response

We respectfully request that this recommendation not be included in the final report. The wage data in our FY 2003 cost report, which began in Federal FY 2002, was included in the 2006 wage index determination. 70 Fed. Reg. 47278, 47368 (Aug. 12, 2005). The 2006 wage index has already been determined and is being used to calculate reimbursement for Federal FY 2006.

The wage data from our FY 2004 cost report will be used to calculate the 2007 wage index. The FY 2004 cost report wage data that was submitted to TrailBlazer in December 2005 did not include wage data related to CRNAs or the wage-related benefit costs that the OIG determined to be unallowable. We will submit revisions to exclude the wage data related to nurse practitioners.

Recommendation 2.

The OIG recommended that we implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports is accurate, supportable and complies with Medicare requirements.

Response

We will strengthen our review and reconciliation procedures related to the reporting of wage data in an attempt to ensure that the wage data included on our cost report is accurate and complies with Medicare requirements.

We currently engage in practices designed to result in accurate wage data on our cost report. Further, a significant amount of time and effort is expended during the audit and review process described above in an attempt to ensure that the wage data submitted to

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CMS is accurate and complies with Medicare requirements. Finally, we will continue to participate in the project sponsored by the Dallas - Ft. Worth Hospital Council, whereby a consulting firm is engaged to review the wage data of all hospitals in the CBSA.

In addition, we would like to comment on three of the specific findings in the draft report. First, the OIG determined that we included \$6,043,579 of unallowable wage-related benefit costs in our wage data. We note that, after the review and audit process, these wage-related benefit costs were not included in the wage data submitted to CMS for purposes of calculating the wage index.

Second, the OIG determined that we misclassified \$1,824,196 and 17,452 hours of contracted services as Part A physician services. This wage data is attributable to our medical directors and although they have contracts, they are employees for purposes of providing these Part A services. They are paid through our payroll system and their payments are processed as any other employee. Accordingly, we contend that we appropriately classified these costs and hours.

Third, the OIG determined that we inappropriately included \$719,685 and 26,040 hours related to marketing in the wage index data on Worksheet S-3, Part II. The wages on Worksheet S-3, Part II, flow from Worksheet A (total wages) and Worksheet A-6 (reclassifications of wages and costs). The marketing costs were removed from the cost report through an adjustment on Worksheet A-8. These adjustments do not flow to Worksheet S-3, Part II, and there is no mechanism to manually input these Worksheet A-8 adjustments on Worksheet S-3, Part II. Further, there is nothing in the cost report instructions to indicate that the adjustments on Worksheet A-8 are to be incorporated into the wage index data. Accordingly, we contend that we have appropriately included these costs and hours on Worksheet S-3, Part II.

We appreciate the opportunity to respond to the OIG draft report. As set forth above, we intend to ensure that future wage related data is submitted in accordance to Medicare regulations.

We would also like to take this opportunity to compliment your staff on the professional and courteous manner in which they conducted themselves during the audit.

If you have any questions, please do not hesitate to contact me at (214) 820-7268.

Respectfully submitted,



Pam Barnes
Vice President of Reimbursement