



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

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

June 13, 2008

Report Number: A-06-07-00098

Mr. Jaime Wesolowski  
Chief Executive Officer  
Methodist Hospital  
8109 Fredericksburg Road  
San Antonio, Texas 78229

Dear Mr. Wesolowski:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Methodist Hospital Wage Data the for Fiscal Year 2009 Wage Indexes." We will forward a copy of this report to the HHS action official noted below.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any question or comments about this report, please direct them to the HHS action official. Please refer to report number A-06-07-00098 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "Gordon Sato".

Gordon Sato  
Regional Inspector General  
for Audit Services

Enclosure

**HHS Action Official:**

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

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF METHODIST  
HOSPITAL WAGE DATA FOR THE  
FISCAL YEAR 2009, WAGE  
INDEXES**



Daniel R. Levinson  
Inspector General

June 2008  
A-06-07-00098

# ***Office of Inspector General***

<http://oig.hhs.gov>

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Under the inpatient prospective payment system for acute-care hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. The Centers for Medicare & Medicaid Services (CMS) adjusts prospective payments by the wage index applicable to the area in which each hospital is located. CMS calculates a wage index for each metropolitan area, known as a core-based statistical area (CBSA), as well as a statewide rural wage index for each State. These calculations use hospital wage data (which include wages, salaries, and related hours) collected 4 years earlier to allow time for the collection of complete cost report data from all inpatient prospective payment system hospitals and for reviews of hospital wage data by CMS's fiscal intermediaries. For example, CMS will base the fiscal year (FY) 2009 wage indexes on wage data collected from hospitals' Medicare cost reports for their FYs that began during Federal FY 2005 (October 1, 2004, through September 30, 2005).

CMS bases each wage index on the average hourly wage rate of the applicable hospitals divided by the national average rate. A hospital's wage rate is the quotient of dividing total dollars (numerator) by total hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations.

CMS is required to update wage indexes annually in a manner that ensures that aggregate payments to hospitals are not affected by changes in the indexes. CMS is also required to update payments to hospitals by an applicable percentage based on the market basket index, which measures the inflationary increases in hospital costs. Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and ensure the appropriate level of funding to cover hospital costs.

Methodist Hospital (the Hospital), a partnership between Methodist Healthcare Ministries and Hospital Corporation of America, is a 683-bed hospital in San Antonio, Texas. The Hospital is 1 of 13 hospitals in a Texas CBSA. The Hospital reported wage data of \$378.8 million and 13.1 million hours in its FY 2006 Medicare cost report, which resulted in an average hourly wage rate of \$28.99.

### **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 FINDING**

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2006 Medicare cost report. Specifically, the Hospital overstated contract labor costs by \$616,577 and understated contract labor hours by 11,143, which affected the numerator and denominator of its wage rate calculation. The Hospital identified these errors while gathering the

requested data for the audit and reported them to the fiscal intermediary. The fiscal intermediary subsequently made the corrections to the Hospital's Medicare cost report.

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 \$616,577 (numerator) and understated its wage data by 11,143 hours (denominator) for the FY 2006 Medicare cost report period. The Hospital's correction of these errors decreased the average hourly wage rate less than 1 percent from \$28.99 to \$28.92. If the Hospital had not revised the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA would have been overstated, which would have resulted in overpayments to all of the hospitals that use this wage index.

## **CONCLUSION**

Because the fiscal intermediary corrected the Hospital's Medicare cost report, this report contains no recommendations.

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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) 2008, the Centers for Medicare & Medicaid Services (CMS) expects Medicare Part A to pay inpatient hospitals approximately \$120.5 billion.

#### Wage Indexes

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

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

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

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

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

## **Methodist Hospital**

Methodist Hospital (the Hospital), a partnership between Methodist Healthcare Ministries and Hospital Corporation of America, is a 683-bed hospital in San Antonio, Texas. The Hospital is 1 of 13 hospitals in a Texas CBSA. The Hospital submitted to CMS its 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 \$378,768,026 in salaries and 13,063,659 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 \$28.99. 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 San Antonio, Texas, from June through August 2007.

### **Methodology**

To accomplish our objective, we:

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

- tested a sample of transactions from the selected cost centers;
- interviewed Hospital staff regarding the nature of services that employees and contracted labor provided to the Hospital; and
- determined the effect of the reporting errors by recalculating, as shown in the Appendix, 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

## **FINDING AND CONCLUSION**

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2006 Medicare cost report. Specifically, the Hospital overstated contract labor costs by \$616,577 and understated contract labor hours by 11,143, which affected the numerator and denominator of its wage rate calculation. The Hospital identified these errors while gathering the requested data for the audit and reported them to the fiscal intermediary. The fiscal intermediary subsequently made the corrections to the Hospital's Medicare cost report.

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 \$616,577 (numerator) and understated its wage data by 11,143 hours (denominator) for the FY 2006 Medicare cost report period. The Hospital's correction of these errors decreased the average hourly wage rate less than 1 percent from \$28.99 to \$28.92. If the Hospital had not revised the wage data its cost report, the FY 2009 wage index for the Hospital's CBSA would have been overstated, which would have resulted in overpayments to all of the hospitals that use this wage index.<sup>2</sup>

### **MISSTATED CONTRACT LABOR COSTS**

The "Medicare Provider Reimbursement Manual" (the Manual), part II, section 3605.2, states that contract labor is reportable only for direct patient care. The Manual states that direct patient care does not include management and consulting, billing services, or any other service not directly related to patient care. The Manual also states that only the hours associated with salaries for directly employed and contract interns and residents should be reported.

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<sup>2</sup>The extent of overpayments cannot be determined until CMS finalizes its FY 2009 wage indexes.

Furthermore, the Manual states that hospitals should ensure that the wage data reported in their Medicare cost reports are accurate.

The Hospital incorrectly included nonlabor costs, reported salaries and hours on incorrect lines, and included costs that were not for direct patient care. As a result, the Hospital overstated contract labor by \$616,577 in salaries and understated contract labor by 11,143 hours, which overstated its average hourly wage rate by \$0.07. The cumulative effect of this finding is presented in the Appendix.

While gathering the detailed cost report information we requested at the start of the audit, the Hospital found that it had incorrectly stated contract labor costs and hours in its Medicare cost report. Along with the detailed cost report information, the hospital provided us with a letter that it had sent to the fiscal intermediary requesting that it change the contract labor cost amounts in the cost report, which it did. We performed additional testing and verified the accuracy of the changes.

### **CAUSES OF WAGE DATA REPORTING ERRORS**

These reporting errors occurred because the Hospital did not sufficiently review and reconcile wage data to supporting documentation to ensure that all amounts included in its Medicare cost report were accurate, supportable, and in compliance with Medicare requirements.

### **OVERSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS**

As a result of the reporting errors, the Hospital overstated its Part A wage data by \$616,577 (numerator) and understated its Part A wage data by 11,143 hours (denominator) for the FY 2006 Medicare cost report period. The correction of the Hospital's errors decreased the average hourly wage rate less than 1 percent from \$28.99 to \$28.92. If the Hospital had not revised the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA would have been overstated, which would have resulted in overpayments to all of the hospitals that use this wage index.

### **CONCLUSION**

Because the fiscal intermediary corrected the Hospital's Medicare cost report, this report contains no recommendations.

# **APPENDIX**

CUMULATIVE EFFECT OF FINDINGS

		Reported FY 2006 Wage Data	Overstated Contract Labor Costs	Adjusted FY 2006 Wage Data
<b>METHODIST HOSPITAL - FY 2009 Wage Index</b>				
<i>Work Sheet S - 3, Part II</i>				
<b>Total Salaries</b>				
line1/col.3	TOTAL SALARIES	\$ 280,190,949.00		\$ 280,190,949.00
<b>Excluded Salaries</b>				
line4.01/col.3	TEACHING PHYSICIAN SALARIES	\$ -		\$ -
line5/col.3	PHYSICIAN - PT B	\$ -		\$ -
line6/col.3	INTERNS AND RESIDENTS	\$ -		\$ -
line6.01/col.3	Contract Services, I & R	\$ 226,091.00		\$ 226,091.00
line8/col.3	SNF SALARIES	\$ -		\$ -
line8.01/col.3	EXCLUDED AREA SALARIES	\$ 7,834,496.00		\$ 7,834,496.00
subtotal (subtract)		\$ 8,060,587.00	\$ -	\$ 8,060,587.00
<b>Additional Salaries</b>				
line9/col.3	CONTRACT LABOR	\$ 14,656,407.00	\$ (578,962.00)	\$ 14,077,445.00
line9.03	Management and Administrative Service	\$ -		\$ -
line10/col.3	CONTRACT LABOR-Physician Part A	\$ 879,238.00	\$ (37,615.00)	\$ 841,623.00
line11/col.3	HOME OFFICE SAL AND WAGES	\$ 36,121,567.00		\$ 36,121,567.00
line13/col.3	WAGE-RELATED COST (CORE)	\$ 58,403,837.00		\$ 58,403,837.00
line14/col.3	Wage related costs-other	\$ -		\$ -
line16/col.3	Physician Part A	\$ -		\$ -
sub-tot-b (ADD)		\$ 110,061,049.00	\$ (616,577.00)	\$ 109,444,472.00
	<b>adjusted salaries</b>	\$ 382,191,411.00	\$ (616,577.00)	\$ 381,574,834.00
<b>Total Paid Hours</b>				
line1/col.4	TOTAL HOURS	11,949,472.00		11,949,472.00
<b>Excluded Hours</b>				
line4.01/col.4	TEACHING PHYSICIAN HOURS	-		-
line5/col.4	PHYS PT B HOURS	-		-
line6/col.4	INTERN AND RESIDENTS HOURS	-		-
line6.01/col.4	Contract Services, I & R	18,428.00	(11,354.54)	7,073.46
line8/col.4	SNF HOURS	-		-
line8.01/col.4	EXCLUDED AREAS HOURS	346,708.00		346,708.00
sub-tot-c (LESS)		365,136.00	(11,354.54)	353,781.46
<b>Additional Hours</b>				
line9/col.4	CONTRACT LABOR HOURS	312,204.00	(211.54)	311,992.46
line9.03/col.4	Management and Administrative Service	-		-
line10/col.4	CONTRACT LABOR-Physician Part A Hours	5,547.00		5,547.00
line11/col.4	HOME OFFICE SAL HOURS	1,292,996.00		1,292,996.00
sub-tot-d (ADD)		1,610,747.00	(211.54)	1,610,535.46
	<b>adjusted hours</b>	13,195,083.00	11,143.00	13,206,226.00

CUMULATIVE EFFECT OF FINDINGS

	Reported FY 2006 Wage Data	Overstated Contract Labor Costs	Adjusted FY 2006 Wage Data
<b>METHODIST HOSPITAL - FY 2009 Wage Index</b>			
<b>Work Sheet S - 3, Part III</b>			
<b>OVERHEAD(OH) ALLOCATION</b>			
line13/col. 3	TOTAL OVERHEAD WAGES	\$ 69,825,055.00	\$ 69,825,055.00
line13/col. 4	TOTAL OVERHEAD HOURS	3,279,489.00	3,279,489.00
	TOTAL HOURS	11,949,472.00	\$ 11,949,472.00
	LESS:		
	Teaching Physician - Line 4.01	-	-
	Physician Part B - Line 5	-	-
	Intern & Residents - Line 6	-	-
	TOTAL OVERHEAD HOURS	3,279,489.00	3,279,489.00
	SUBTOTAL ->	3,279,489.00	3,279,489.00
	REVISED HOURS(revised hrs)	8,669,983.00	8,669,983.00
	OVERHEAD REDUCTION FOR EXCLUDED AREAS- HOURS		
	SNF HOURS	-	-
	EXCLUDED AREA HOURS (e.g: home health)	346,708.00	346,708.00
	SUBTOTAL ->	346,708.00	346,708.00
	EXCLUDED OVERHEAD RATE [(snf+excluded area hrs)/revised hours]	3.9989%	0.0000%
	EXCLUDED OVERHEAD WAGES (\$OH X Excluded OH rate)	\$ 2,792,266.74	\$ 2,792,266.74
	EXCLUDED OVERHEAD HOURS (OH Hrs X Excluded OH rate)	131,145.02	131,145.02
	OVERHEAD RATE (oh hrs/(revised hrs + SNF + Excluded hrs)	26.6708%	0.0000%
	WAGE-RELATED COST (CORE)	\$ 58,403,837.00	\$ 58,403,837.00
	WAGE-RELATED COST(OTHER)	\$ -	\$ -
	PHYSICIAN PART A	\$ -	\$ -
	SUBTOTAL	\$ 58,403,837.00	\$ 58,403,837.00
	overhead work wage-related cost (\$39324434 X .38)	\$ 15,576,767.83	\$ 15,576,767.83
	excluded work wage-related cost (\$13362617.31 X .019)	\$ 622,906.64	\$ 622,906.64
	Adjusted Salaries	\$ 382,191,411.00	\$ (616,577.00)
	Less: excluded overhead salaries	\$ 2,792,266.74	\$ 2,792,266.74
	excluded work related cost	\$ 622,906.64	\$ 622,906.64
	REVISED WAGES	\$ 378,776,237.62	\$ (616,577.00)
	MULTIPLY BY : INFLATION FACTOR	1.00000	1.00000
	Assume 1 - However based on cost report end date		
	INFLATED WAGES (Adjusted Wages used in report) -	\$ 378,776,237.62	\$ (616,577.00)
	REVISED HOURS (Adjusted Hours used in report) -	13,063,937.98	11,143.00
	[adjusted hours - excluded oh hrs]		
	Average hourly wage	\$ 28.99	\$ (0.07)