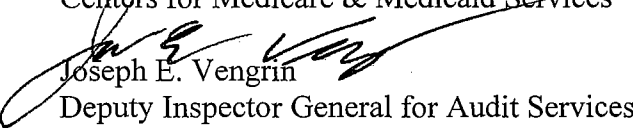




APR 11 2006

TO: Wynethea Walker
Director, Audit Liaison Staff
Centers for Medicare & Medicaid Services

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

SUBJECT: Review of St. Joseph Hospital's Reported Fiscal Year 2004 Wage Data
(A-09-05-00040)

Attached is an advance copy of our final report on St. Joseph Hospital's (the hospital) reported fiscal year (FY) 2004 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 2004 Medicare cost report.

The hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2004 Medicare cost report. Specifically, the hospital overstated wage data by \$1,747,585 and 473,370 hours in its FY 2004 Medicare cost report.

Overstated 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.

As a result, the hospital overstated its wage data by \$1,747,585 and 473,370 hours for the FY 2004 Medicare cost report period. Our correction of the hospital's errors increased the average hourly wage rate approximately 28 percent. If the hospital does not revise the wage data in its cost report, the FY 2007 California rural wage index will be understated, which will result in underpayments to the hospitals that use this wage index.

As a result of our review, the hospital filed an amended FY 2004 Medicare cost report, which adjusted the wage data by \$471,941 and 446,117 hours. However, \$1,275,644 of wages and 27,253 related hours remain overstated in the cost report.

We recommend that the hospital:

- submit a revised FY 2004 Medicare cost report to the fiscal intermediary to correct the remaining wage data overstatements totaling \$1,275,644 and 27,253 hours, and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

In written comments on the draft report, the hospital agreed with our findings and recommendations. The hospital stated that it corrected the errors noted in the draft report and made the recommended adjustments during the wage index revision process. In addition, the hospital stated that it has implemented procedures and controls to ensure that wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare guidelines.

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 Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX, at (415) 437-8360. Please refer to report number A-09-05-00040.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

APR 14 2006

Office of Audit Services
Region IX
50 United Nations Plaza, Room 171
San Francisco, CA 94102

Report Number: A-09-05-00040

Mr. Edward Wong
Vice President of Finance
St. Joseph Health System
500 South Main Street, Suite 700
Orange, California 92868

Dear Mr. Wong:

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 St. Joseph Hospital's Reported Fiscal Year 2004 Wage Data." A copy of this report will be forwarded to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to 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 members of the press and general 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-09-05-00040 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Mr. Jeff Flick
Regional Administrator
Centers for Medicare & Medicaid Services, Region IX
Department of Health and Human Services
75 Hawthorne Street, Fourth Floor
San Francisco, California 94105

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ST. JOSEPH HOSPITAL'S
REPORTED FISCAL YEAR 2004
WAGE DATA**



**Daniel R. Levinson
Inspector General**

**APRIL 2006
A-09-05-00040**

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 the Medicare cost reports submitted by hospitals for their FYs that began during Federal FY 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.

St. Joseph Hospital (the hospital) reported wage data of \$53 million and 1.95 million hours in its FY 2004 Medicare cost report, which resulted in an average hourly wage rate of \$27.17. The \$27.17 average hourly wage rate is the quotient of \$53 million (numerator) divided by 1.95 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 California statewide rural wage index applied to the hospital and 31 other hospitals. Because the hospital's FY 2004 began during Federal FY 2003, CMS will use the FY 2004 Medicare cost report to develop the FY 2007 wage index.

OBJECTIVE

Our objective was to determine whether the hospital complied with Medicare requirements for reporting wage data in its FY 2004 Medicare cost report.

SUMMARY OF FINDINGS

The hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2004 Medicare cost report. Specifically, the hospital reported the following inaccurate data, which affected the numerator and the denominator of the wage rate calculation:

- misstated total hours, which overstated wage data by \$374,572 and 454,485 hours;
- understated Part A contracted physician services, which understated wage data by \$452,943 and 3,027 hours;
- unallowable contract labor services, which overstated wage data by \$509,546 and 3,691 hours;
- other unallowable costs, which overstated wage data by \$300,000;

- severance payments without the related hours, which overstated wages by \$132,720 and understated hours by 3,524;
- overstated wage-related benefit costs, which overstated wages by \$39,500 and understated hours by 5,838; and
- unallowable Part B nonphysician services from the rural health clinic, which overstated wage data by \$844,190 and 27,583 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 \$1,747,585 (numerator) and 473,370 hours (denominator) for the FY 2004 Medicare cost report period. Our correction of the hospital's errors increased the average hourly wage rate approximately 28 percent from \$27.17 to \$34.72. If the hospital does not revise the wage data in its cost report, the FY 2007 California rural wage index will be understated, which will result in underpayments to the hospitals that use this wage index.¹

As a result of our review, the hospital filed an amended FY 2004 Medicare cost report, which adjusted the wage data by \$471,941 and 446,117 hours. However, \$1,275,644 of wages and 27,253 related hours remain overstated in the cost report.

RECOMMENDATIONS

We recommend that the hospital:

- submit a revised FY 2004 Medicare cost report to the fiscal intermediary to correct the remaining wage data overstatements totaling \$1,275,644 and 27,253 hours, and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

HOSPITAL'S COMMENTS

In written comments on the draft report, the hospital agreed with our findings and recommendations. The hospital stated that it corrected the errors noted in the draft report and made the recommended adjustments during the wage index revision process. In addition, the hospital stated that it has implemented procedures and controls to ensure that wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare guidelines.

The full text of the hospital's comments is included as Appendix B to this report.

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

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INTRODUCTION

BACKGROUND

Medicare Inpatient Prospective Payment System

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

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

Wage 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 the 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 the Medicare cost reports submitted by hospitals for their FYs that began during Federal 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 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.

St. Joseph Hospital

St. Joseph Hospital (the hospital) is a 210-bed acute care hospital in Eureka, California. As of FY 2005, the California statewide rural wage index applied to this hospital and 31 other hospitals. Because the hospital's FY 2004 began during Federal FY 2003, CMS will use the FY 2004 Medicare cost report to develop the FY 2007 wage index.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the hospital complied with Medicare requirements for reporting wage data in its FY 2004 Medicare cost report.

Scope

Our review covered the \$53 million and 1.95 million hours that the hospital reported to CMS on Worksheet S-3, part II, of its FY 2004 (July 1, 2003, through June 30, 2004) Medicare cost report, which resulted in an average hourly wage rate of \$27.17. 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 2004 Medicare cost report. Based on our findings and the hospital's further reconciliation of the wage data, the hospital filed an amended FY 2004 cost report by making adjustments to the initial cost report amounts.

We conducted audit work from January through July 2005, which included visits to the hospital in Eureka, California, and its home office in Orange, California.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidance;
- obtained an understanding of the hospital's procedures for reporting wage data;
- verified that wage data on the hospital's trial balance reconciled to its audited financial statements;
- reconciled the total reported wages in the hospital's FY 2004 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;
- tested contract labor invoices to verify allowability of services and support for salaries and hours;

- selected for testing wage data in the FY 2004 Medicare cost report from cost centers that accounted for at least 2 percent of the total hospital wages;
- tested a sample of transactions from those cost centers and reconciled wage data to payroll records;
- reviewed the home office costs to ensure that wage data reported in the hospital's FY 2004 Medicare cost report were for salaries and wage-related benefits incurred for the hospital and reported in compliance with Medicare requirements;
- reviewed the fiscal intermediary's audit reimbursement adjustments to the wage data that the hospital reported in its FY 2003 Medicare cost report; and
- determined the effect of the reporting errors by recalculating the hospital's average hourly wage rate using the CMS methodology for calculating the wage index, which includes an hourly overhead factor, in accordance with instructions published in the Federal Register. (See Appendix A.)

We conducted our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2004 Medicare cost report. Specifically, the hospital reported the following inaccurate data, which affected the numerator and the denominator of the wage rate calculation:

- misstated total hours, which overstated wage data by \$374,572 and 454,485 hours;
- understated Part A contracted physician services, which understated wage data by \$452,943 and 3,027 hours;
- unallowable contract labor services, which overstated wage data by \$509,546 and 3,691 hours;
- other unallowable costs, which overstated wage data by \$300,000;
- severance payments without the related hours, which overstated wages by \$132,720 and understated hours by 3,524;
- overstated wage-related benefit costs, which overstated wages by \$39,500 and understated hours by 5,838; and
- unallowable Part B nonphysician services from the rural health clinic (RHC), which overstated wage data by \$844,190 and 27,583 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 requirements. As a result, the hospital overstated its wage data by \$1,747,585 (numerator) and 473,370 hours (denominator) for the FY 2004 Medicare cost report period. Our correction of the hospital's errors increased the average hourly wage rate approximately 28 percent from \$27.17 to \$34.72. If the hospital does not revise the wage data in its cost report, the FY 2007 California rural wage index will be understated, which will result in underpayments to the hospitals that use this wage index.¹

As a result of our review, the hospital filed an amended FY 2004 Medicare cost report, which adjusted the wage data by \$471,941 and 446,117 hours. However, \$1,275,644 of wages and 27,253 related hours remain overstated in the cost report.

ERRORS IN REPORTED WAGE DATA

The errors in reported wage data are discussed in detail below, and the cumulative effect of the findings is presented in Appendix A.

Misstated Total Hours

The Medicare Provider Reimbursement Manual (the Manual), part II, section 3605.2, requires hospitals to record the number of paid hours corresponding to the reported salaries. Further, it states: "Paid hours include regular hours (including paid lunch hours), overtime hours, paid holiday, vacation and sick leave, paid time-off hours, and hours associated with severance pay." Thus, section 3605.2's definition of "paid hours" does not include hours, if any, associated with bonus pay. Further, section 3605.2 also states that no hours are required for bonus pay. The Manual defines bonus pay as award pay and vacation, holiday, and sick pay conversion (pay in lieu of time off).

The hospital overstated total hours related to the reported salaries by 467,023. The net overstatement consisted of 467,067 overstated pay differential hours and paid-time-off hours and 44 understated no-meal-break hours. As a result, the hospital overstated its wage data by \$374,572 and 454,485 hours, which understated its average hourly wage rate by \$7.99.

Overstated Hours

The hospital reported 467,067 hours that the Manual does not consider paid hours. Of these overstated hours, 458,990 were pay differential hours that the hospital added to regular hours worked to calculate the employees' premium pay for working overtime, holidays, weekends and night shifts. These differential hours did not represent the actual hours that the employees worked. The remaining 8,077 erroneously reported hours were for vacation and sick leave paid in lieu of time off.

In its amended FY 2004 Medicare cost report, the hospital corrected the pay differential hours.

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

Understated Hours

The hospital understated hours by reporting pay for working during meal breaks without reporting the related 44 hours, as required by the Manual.

Understated Part A Contracted Physician Services

The Manual, part II, section 3605.2, requires hospitals to enter on Worksheet S-3 the amount paid under contract for Part A physician services.

The hospital did not report \$452,943 of Part A contracted physician costs and 3,027 related hours on Worksheet S-3 of its FY 2004 Medicare cost report. As a result, the hospital understated its wage data by \$452,943 and 3,027 hours, which understated its average hourly wage rate by \$0.19.

In its amended FY 2004 Medicare cost report, the hospital corrected this error.

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. Further, it states that direct patient care does not include billing services, legal and accounting services, or any other services not directly related to patient care. Section 3605.2 also states: "Do not include costs applicable to excluded areas."

The hospital included in its FY 2004 wage data \$554,878 and 4,964 hours for contract labor services that were (1) not related to direct patient care, such as unallowable bonuses and clerical services; (2) related to an excluded area; and/or (3) duplicated.

During our review, hospital officials provided us with additional documentation for \$229,791 and 1,483 related hours of contract labor services that were inadvertently omitted from its Medicare cost report. We reviewed the additional documentation and credited the hospital for \$45,332 and 1,273 related hours of contract labor services.

As a result, the hospital overstated its wage data by \$509,546 and 3,691 hours, which overstated its average hourly wage rate by \$0.21.

In its amended FY 2004 Medicare cost report, the hospital removed \$11,041 of contract labor services and 715 related hours to account for unallowable contracted clerical services.

Other Unallowable Costs

The Manual, part II, section 3605.2, states that hospitals should ensure that the wage data reported in their Medicare cost reports are accurate. Further, it states that hospitals should record on line 1 of Worksheet S-3, part II, the wages and salaries paid to hospital employees.

On Worksheet S-3, line 1, of its FY 2004 Medicare cost report, the hospital erroneously reported \$300,000 of penalty costs as salaries. As a result, the hospital overstated its wage data by \$300,000, which overstated its average hourly wage rate by \$0.15.

Severance Payments Without Related Hours

The Manual, part II, section 3605.2, states that hospitals should record on line 1 of Worksheet S-3, part II, the wages and salaries paid to hospital employees. Section 3605.2 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. If the hours cannot be determined, the associated salaries must not be included.

The hospital reported \$143,387 of severance accruals as salaries without the related hours. Hospital officials informed us that the severance accruals were deferred compensation, which would be paid to employees upon termination, and that no hours were associated with this type of compensation. Consequently, by reporting severance accruals without the related hours, the hospital overstated its Part B nonphysician salaries and excluded areas salaries. In addition, the hospital understated hours by reporting severance pay without reporting the related 3,384 hours.

As a result, the hospital overstated its wages by \$132,720 and understated hours by 3,524, which overstated its average hourly wage rate by \$0.12.

Overstated Wage-Related Benefit Costs

The Manual, part II, section 3605.2, states that hospitals should report wages and salaries paid to hospital employees on line 1 of Worksheet S-3, part II, and wage-related costs on line 13. The section also states that costs that hospitals report for wage index purposes must satisfy the reasonable cost principles of Medicare.

Under the principles of reasonable cost reimbursement, Federal regulations (42 CFR § 413.100(c)(2)(vii)(B)) state: “Accrued liability related to contributions to a funded deferred compensation plan must be liquidated within 1 year after the end of the cost reporting period in which the liability is incurred.” In addition, 42 CFR § 413.100(c)(2)(vii)(C) states: “Postretirement benefit plans . . . are deferred compensation arrangements and thus are subject to the provisions of this section regarding deferred compensation and to applicable program instructions”

The hospital overstated its wage-related costs by reporting (1) education department salaries as a wage-related cost and (2) unallowable postretirement benefit costs. As a result, the hospital overstated its wages by \$39,500 and understated hours by 5,838, which overstated its average hourly wage rate by \$0.10.

Salaries Reported as Wage-Related Cost

The hospital overstated its wage-related costs by reporting \$192,722 of education department salaries as a wage-related cost rather than a salary cost. Consequently, the hospital did not report

6,762 hours related to the education department salaries. As a result of the misclassification, the hospital did not report Part B nonphysician salaries and hours. In its amended FY 2004 Medicare cost report, the hospital corrected this error.

Unallowable Postretirement Benefit Costs

The hospital reported \$84,264 of postretirement benefit costs as wage-related costs. Of this amount, the hospital accrued but did not liquidate \$45,560, as required by Medicare. As a result, the hospital overstated its wage-related costs by \$45,560.

Unallowable Part B Nonphysician Salaries

As explained by CMS in 69 Federal Register, page 49050 (August 11, 2004) and Worksheet S-3, computing a hospital's average hourly wage requires first subtracting the Part B nonphysician salaries for hospital-based RHCs reported on line 5.01 from total salaries reported on line 1. The Manual, part II, section 3605.2 further instructs that the wage-related costs associated with these nonphysician services should be reported on line 19.01, to be similarly subtracted from total wage-related costs.

As part of its total salaries, the hospital reported \$624,528 in Part B nonphysician salaries and 26,466 related hours for the RHC. However, the hospital did not remove these nonphysician salaries and hours by reporting them on line 5.01. Consequently, the hospital did not report \$195,584 of Part B nonphysician fringe benefits as a wage-related cost for hospital-based RHCs. As a result, the hospital overstated its wage data by \$844,190 and 27,583 hours, which overstated its average hourly wage rate by \$0.05.

In its amended FY 2004 Medicare cost report, the hospital corrected this error.

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 UNDERPAYMENTS

As a result of the reporting errors, the hospital overstated its wage data by \$1,747,585 (numerator) and 473,370 hours (denominator) for the FY 2004 Medicare cost report period. Our correction of the hospital's errors increased the average hourly wage rate approximately 28 percent from \$27.17 to \$34.72. If the hospital does not revise the wage data in its cost report, the FY 2007 California rural wage index will be understated, which will result in underpayments to the hospitals that use this wage index.

As a result of our review, the hospital filed an amended FY 2004 Medicare cost report, which adjusted the wage data by \$471,941 and 446,117 hours. However, \$1,275,644 of wages and 27,253 related hours remain overstated in the cost report.

RECOMMENDATIONS

We recommend that the hospital:

- submit a revised FY 2004 Medicare cost report to the fiscal intermediary to correct the remaining wage data overstatements totaling \$1,275,644 and 27,253 hours, and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

HOSPITAL'S COMMENTS

In written comments on the draft report, the hospital agreed with our findings and recommendations. The hospital stated that it corrected the errors noted in the draft report and made the recommended adjustments during the wage index revision process. In addition, the hospital stated that it has implemented procedures and controls to ensure that wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare guidelines.

The full text of the hospital's comments is included as Appendix B.

APPENDIXES

CUMULATIVE EFFECT OF FINDINGS

Components	Reported Federal Fiscal Year 2003 Wage Data	Misstated Total Hours	Understated Part A Contracted Physician Services	Unallowable Contract Labor Services	Unallowable Other Costs	Severance Payments Without Hours	Overstated Wage-Related Benefit Costs	Unallowable Part B Nonphysician Services	Total Adjustment for Federal Fiscal Year 2003 Wage Data
ST. JOSEPH HOSPITAL: Initial Cost Report									
<i>Worksheet S-3, Part II</i>									
Total Salaries									
line 1/col. 3	Total Salaries	\$38,183,539.00				(\$300,000.00)	(\$143,387.00)	\$192,722.00	\$37,932,874.00
Excluded Salaries									
line 4.01/col. 3	Teaching Physician								
line 5/col. 3	Physician Part B								
line 5.01 col. 3	Non-physician Part B	\$0.00				(\$1,476.00)	\$6,015.00	\$624,528.00	\$629,067.00
line 6/col. 3	Interns and Residents								
line 6.01/col.3	Contract Services - Interns and Residents								
line 7/col.3	Home Office Personnel								
line 8/col. 3	Skilled Nursing Facility (SNF)								
line 8.01/col. 3	Excluded Area	\$2,211,357.00				(\$5,488.00)	\$18,359.00		\$2,224,228.00
subtotal (subtract)		\$2,211,357.00	\$0.00	\$0.00	\$0.00	(\$6,964.00)	\$24,374.00	\$624,528.00	\$2,853,295.00
Additional Salaries									
line 9/col. 3	Contract Labor	\$5,946,702.00		(\$509,546.00)					\$5,437,156.00
line 10/col. 3	Contract Labor - Physician Part A		\$452,943.00						\$452,943.00
line 10.01/col.3	Contract Labor - Teaching Physician								
line 11/col. 3	Home Office	\$1,108,927.00							\$1,108,927.00
line 13/col. 3	Wage-Related Cost (Core)	\$11,303,555.00					(\$213,908.00)	(\$195,584.00)	\$10,894,063.00
line 14/col. 3	Wage-Related Cost (Other)								
line 18/col. 3	Wage-Related Cost - Physician Part A								
subtotal (add)		\$18,359,184.00	\$0.00	\$452,943.00	(\$509,546.00)	\$0.00	(\$213,908.00)	(\$195,584.00)	\$17,893,089.00
Adjusted Salaries		\$54,331,366.00	\$0.00	\$452,943.00	(\$509,546.00)	(\$300,000.00)	(\$136,423.00)	(\$45,560.00)	\$52,972,668.00
Total Paid Hours									
line 1/col. 4	Total Hours	2,016,162.00	(467,023.00)			3,384.00	6,762.00		1,559,285.00
Excluded Hours									
line 4.01/col. 4	Teaching Physician								
line 5/col. 4	Physician Part B								
line 5.01/col. 4	Non-physician Part B	0.00					264.00	26,466.00	26,730.00
line 6/col. 4	Interns and Residents								
line 6.01/col. 4	Contract Services - Interns and Residents								
line 7/col. 4	Home Office Personnel								
line 8/col. 4	Skilled Nursing Facility (SNF)								
line 8.01/col. 4	Excluded Area	113,311.00	(23,989.00)				622.00		89,944.00
subtotal (subtract)		113,311.00	(23,989.00)	0.00	0.00	0.00	886.00	26,466.00	116,674.00
Additional Hours									
line 9/col. 4	Contract Labor	93,629.00		(3,691.00)					89,938.00
line 10/col. 4	Contract Labor - Physician Part A	0.00	3,027.00						3,027.00
line 10.01/col.4	Contract Labor - Teaching Physician								
line 11/col. 4	Home Office	12,264.00							12,264.00
subtotal (add)		105,893.00	0.00	3,027.00	(3,691.00)	0.00	0.00	0.00	105,229.00
Adjusted Hours		2,008,744.00	(443,034.00)	3,027.00	(3,691.00)	0.00	3,384.00	5,876.00	1,547,840.00

Components		Reported Federal Fiscal Year 2003 Wage Data	Misstated Total Hours	Understated Part A Contracted Physician Services	Unallowable Contract Labor Services	Unallowable Other Costs	Severance Payments Without Hours	Overstated Wage-Related Benefit Costs	Unallowable Part B Nonphysician Services	Total Adjustment for Federal Fiscal Year 2003 Wage Data
ST. JOSEPH HOSPITAL: Initial Cost Report										
Worksheet S-3, Part III										
Overhead Allocation										
line13/col. 3	Total Overhead Salaries	\$11,429,298.00								\$11,429,298.00
line13/col. 4	Total Overhead Hours	665,704.00								665,704.00
	Total Hours	2,016,162.00	(467,023.00)	0.00	0.00	0.00	3,384.00	6,762.00	0.00	1,559,285.00
	Less:									
	Teaching Physician Hours	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Physician Part B Hours	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Non-physician Part B Hours	0.00	0.00	0.00	0.00	0.00	0.00	264.00	26,466.00	26,730.00
	Interns and Residents Hours	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total Overhead Hours	665,704.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	665,704.00
	Subtotal	665,704.00	0.00	0.00	0.00	0.00	0.00	264.00	26,466.00	692,434.00
	Revised Hours	1,350,458.00	(467,023.00)	0.00	0.00	0.00	3,384.00	6,498.00	(26,466.00)	866,851.00
	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	113,311.00	(23,989.00)	0.00	0.00	0.00	0.00	622.00	0.00	89,944.00
	Subtotal	113,311.00	(23,989.00)	0.00	0.00	0.00	0.00	622.00	0.00	89,944.00
	Excluded Overhead Rate [(SNF+Excluded Area Hours)/Revised Hours]	0.083906	0.017202	0.000000	0.000000	0.000000	(0.000210)	0.000057	0.001677	0.102632
	Excluded Overhead Salaries (Overhead Salaries * Excluded Overhead Rate)	\$958,982.20	\$196,606.78	\$0.00	\$0.00	\$0.00	(\$2,397.03)	\$646.71	\$19,169.62	\$1,173,008.29
	Excluded Overhead Hours (Overhead Hours * Excluded Overhead Rate)	55,856.30	11,451.44	0.00	0.00	0.00	(139.62)	37.67	1,116.54	68,322.33
	Overhead Rate (Overhead Hours/Revised Hours + Overhead Hours)	0.330184	0.099541	0.000000	0.000000	0.000000	(0.000553)	(0.001061)	0.004392	0.432503
	Wage-Related Cost (Core)	\$11,303,555.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$213,908.00)	(\$195,584.00)	\$10,894,063.00
	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	\$11,303,555.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$213,908.00)	(\$195,584.00)	\$10,894,063.00
	Overhead Wage-Related Cost	\$3,732,250.57	\$1,125,171.38	\$0.00	\$0.00	\$0.00	(\$6,253.85)	(\$82,392.28)	(\$15,793.02)	\$4,752,982.80
	Excluded Wage-Related Cost	\$313,156.75	\$177,965.56	\$0.00	\$0.00	\$0.00	(\$1,306.17)	(\$6,706.65)	\$4,908.25	\$488,017.74
	Adjusted Salaries	\$54,331,366.00	\$0.00	\$452,943.00	(\$509,546.00)	(\$300,000.00)	(\$136,423.00)	(\$45,560.00)	(\$820,112.00)	\$52,972,668.00
	Less: Excluded Overhead Salaries	\$958,982.20	\$196,606.78	\$0.00	\$0.00	\$0.00	(\$2,397.03)	\$646.71	\$19,169.62	\$1,173,008.29
	Excluded Wage-Related Cost	\$313,156.75	\$177,965.56	\$0.00	\$0.00	\$0.00	(\$1,306.17)	(\$6,706.65)	\$4,908.25	\$488,017.74
	Revised Wages	\$53,059,227.04	(\$374,572.35)	\$452,943.00	(\$509,546.00)	(\$300,000.00)	(\$132,719.80)	(\$39,500.06)	(\$844,189.87)	\$51,311,641.97
	Multiply By: Inflation Factor	1.00000								1.00000
	Inflated Wages (Adjusted Wages Used in Report)	\$53,059,227.04	(\$374,572.35)	\$452,943.00	(\$509,546.00)	(\$300,000.00)	(\$132,719.80)	(\$39,500.06)	(\$844,189.87)	\$51,311,641.97
	Revised Hours (Adjusted Hours Used in Report)	1,952,887.70	(454,485.44)	3,027.00	(3,691.00)	0.00	3,523.62	5,838.33	(27,582.54)	1,479,517.67
	[Adjusted Hours - Excluded Overhead Hours]									
	Average Hourly Wage	\$27.17	\$7.99	\$0.19	(\$0.21)	(\$0.15)	(\$0.12)	(\$0.10)	(\$0.05)	\$34.72
	Total Wage Data Revisions (Rounded):									
	Inflated Wages		(\$374,572)	\$452,943	(\$509,546)	(\$300,000)	(\$132,720)	(\$39,500)	(\$844,190)	(\$1,747,585)
	Revised Hours		(454,485)	3,027	(3,691)	0	3,524	5,838	(27,583)	(473,370)

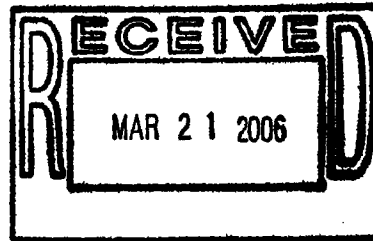
ST. JOSEPH
HEALTH SYSTEM

March 15, 2006

Report Number: A-09-05-00040

P.O. Box 14132
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Lori A. Ahlstrand
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Inspector General
Office of Audit Services, Region IX
50 United Nations Plaza
San Francisco, CA 94102



Dear Ms Ahlstrand:

In response to the OIG audit report entitled "Review of St. Joseph Hospital's Reported Fiscal Year 2004 Wage Data", we offer the following response:

Misstated Total Hours

St. Joseph Hospital of Eureka (SJE) agrees with this finding on the overstated and understated hours. These overstated and understated hours were corrected in the amended Medicare cost report and wage index PUB revision process.

Understated Part A Contracted Physician Services

SJE agrees with this finding. The understated Part A Contracted Physician Services error was corrected in the amended Medicare cost report.

Unallowable Contract Labor Services

SJE agrees with this finding. The unallowable contract labor services were removed from the amended Medicare cost report and the final adjustments were corrected in the wage index PUB revision process.

Other Unallowable Costs

SJE agrees with this finding. This error was corrected in the wage index PUB revision process.

Severance Payments Without Related Hours

SJE agrees with this finding. This audit adjustment was corrected in the wage index PUB correction process.



ST. JOSEPH
HEALTH SYSTEM

Overstated Wage-Related Benefit Costs

SJE agrees with this finding. This audit adjustment was corrected in the amended Medicare cost report and further audit adjustment was corrected during the wage index PUB revision process.

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Unallowable Part B Nonphysician Salaries

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SJE agrees with this finding. This audit adjustment was corrected in the amended Medicare cost report.

Recommendations

SJE has corrected all the errors in the amended Medicare cost report and the wage index PUB revision process. In addition, SJE has implemented procedures and controls to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare guidelines.

Very truly yours,

Edward Wong
Vice President of Finance
St. Joseph Health System