Alta Bates Medical Center Inaccurately Reported Wage Data, Resulting in Medicare Overpayments

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Gloria L. Jarmon
Deputy Inspector General
for Audit Services

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EXECUTIVE SUMMARY

Alta Bates Medical Center did not comply with all Medicare requirements for reporting wage data in its fiscal year 2010 Medicare cost report. We estimated that, as a result, in 2014 Medicare overpaid the Medical Center $154,000 and overpaid 32 other hospitals in 2 core-based statistical areas a total of approximately $5.3 million.

WHY WE DID THIS REVIEW

Medicare acute-care hospitals must report wage data annually to the Centers for Medicare & Medicaid Services (CMS). Wage data include wages, associated hours, and wage-related costs (the fringe benefits that CMS allows hospitals to report as part of wage data). CMS uses these wage data to calculate acute-care-hospital wage indexes, which measure geographic area labor market costs relative to a national average. Federal law requires adjustment of Medicare hospital payments by wage indexes. Our prior reviews found that hospitals often inaccurately reported wage data, which resulted in increased Medicare payments in their designated geographic areas. We selected Alta Bates Medical Center (the Medical Center) because its average hourly wage rate, which was used to calculate the fiscal year (FY) 2014 wage index, was the highest in the Nation.

Our objective was to determine whether the Medical Center complied with Medicare requirements for reporting wage data in its FY 2010 Medicare cost report.

BACKGROUND

Under the inpatient prospective payment system (IPPS) for hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. The IPPS base rate includes a labor-related share. The Social Security Act (the Act) requires CMS to adjust the labor-related share of an IPPS hospital payment according to the geographic area in which the hospital is located. In 2013, Medicare Part A made over $112 billion in IPPS payments to hospitals.

The geographic designation of a hospital influences its Medicare payments. Under the IPPS, CMS adjusts payments through wage indexes to reflect labor cost variations among localities. CMS uses the Office of Management and Budget core-based statistical areas (CBSAs) to identify labor markets and to calculate and assign wage indexes to hospitals. CMS calculates a wage index for each CBSA and a statewide rural wage index for each State. To receive a higher wage index, a hospital may apply to the Medicare Geographic Classification Review Board for reclassification from its geographical CBSA to another CBSA. The wage index for each CBSA and statewide rural area is based on the average hourly wage rate of the hospitals in those areas (adjusted by occupational mix) divided by the national average hourly wage rate. CMS must update wage indexes annually in a manner that ensures that aggregate payments to hospitals are not affected by changes in the indexes (the Act § 1886(d)(3)(E)). Hospitals must accurately report wage data in their Medicare cost reports for CMS to determine the equitable distribution of payments. CMS used wage data in hospitals’ FY 2010 Medicare cost reports to calculate the FY 2014 wage index.
WHAT WE FOUND

The Medical Center did not comply with all Medicare requirements for reporting wage data in its FY 2010 Medicare cost report. Specifically, the Medical Center inaccurately reported wage data that affected the numerator and denominator of its wage rate calculation by:

- not reporting 308,790 hours associated with $11,659,386 in salaries that were reported,
- not reporting $1,792,346 in salaries and 46,336 in associated hours,
- not reporting hours associated with $930,095 in severance payments,
- misclassifying $328,767 in certain salaries and 12,302 in associated hours as overhead salaries and hours (for services not subject to IPPS payment), and
- overstating $292,649 in wage-related costs associated with the incorrectly reported salaries.

These errors occurred because the Medical Center did not sufficiently review and reconcile the wage data to ensure that they were accurate and reported in compliance with Medicare requirements. As a result, the Medical Center overstated its occupational-mix-adjusted average hourly wage rate by $5.78. We estimated that in FY 2014 Medicare overpaid the Medical Center $154,147 and overpaid 32 other hospitals in 2 CBSAs a total of $5,265,456.

Because of the prospective nature of the IPPS, CMS has no mechanism to recover overpayments or remedy underpayments resulting from inaccurate wage data.

WHAT WE RECOMMEND

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

ALTA BATES MEDICAL CENTER COMMENTS

In written comments on our draft report, the Medical Center concurred with our recommendation and provided information on actions that it had taken to address our recommendation.
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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare acute-care hospitals must report wage data annually to the Centers for Medicare & Medicaid Services (CMS). Wage data include wages, associated hours, and wage-related costs (the fringe benefits that CMS allows hospitals to report as part of wage data). CMS uses these wage data to calculate acute-care-hospital wage indexes, which measure geographic area labor market costs relative to a national average. Federal law requires adjustment of Medicare hospital payments by wage indexes.

Because of the prospective nature of current payment systems, CMS has no mechanism to retroactively adjust final wage indexes and recover overpayments (or remedy underpayments) resulting from inaccurate wage data. Accordingly, it is essential for hospitals to submit accurate wage data to ensure appropriate payments.

Our prior reviews, listed in Appendix A, found that hospitals often inaccurately reported wage data, which resulted in increased Medicare payments in their designated geographic areas. CMS officials requested that we again conduct reviews of acute-care-hospital wage indexes, prompted by their concern about unusually high wage indexes for fiscal year (FY) 2014, particularly in California and New England. We selected Alta Bates Medical Center (the Medical Center) because its average hourly wage rate, which was used to calculate the FY 2014 wage index, was the highest in the Nation. This is part of a series of recent wage index reviews of acute-care hospitals in California and New England.¹

OBJECTIVE

Our objective was to determine whether the Medical Center complied with Medicare requirements for reporting wage data in its FY 2010 Medicare cost report.

BACKGROUND

Medicare Inpatient Prospective Payment System

Under the inpatient prospective payment system (IPPS) for hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. The IPPS base rate includes a labor-related share. The Social Security Act (the Act) requires CMS to adjust the labor-related share of an IPPS hospital payment according to the geographic area (i.e., labor market area) in which the hospital is located.

¹ The first two reports issued in the series were Danbury Hospital Reported Overstated Wage Data Resulting in Medicare Overpayments (A-01-14-00506), issued January 13, 2016, and Dominican Hospital Reported Overstated Wage Data, Resulting in Medicare Overpayments (A-09-14-02032), issued June 28, 2016.
In 2013, Medicare Part A made over $112 billion in IPPS payments to hospitals.  

**Wage Indexes**

The geographic designation of a hospital influences its Medicare payments. Under the IPPS, CMS adjusts payments through wage indexes to reflect labor cost variations among localities. CMS uses the Office of Management and Budget core-based statistical areas (CBSAs) to identify labor markets and to calculate and assign wage indexes to hospitals. CMS calculates a wage index for each CBSA and a statewide rural wage index for each State. To receive a higher wage index, a hospital may apply to the Medicare Geographic Classification Review Board (Review Board) for reclassification from its geographical CBSA to another CBSA. The wage index for each CBSA and statewide rural area is based on the average hourly wage rate of the hospitals in those areas (adjusted by occupational mix) and divided by the national average hourly wage rate.

**Calculation of Wage Indexes**

To calculate wage indexes, CMS uses hospital wage data (which include wages, associated hours, and wage-related costs) collected 4 years earlier to allow time for the collection of complete cost report data from all IPPS hospitals and for reviews of hospital wage data by CMS’s fiscal intermediaries. For example, CMS based the wage indexes for FY 2014 on wage data collected from hospitals’ Medicare cost reports for their FYs that began during Federal FY 2010. 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 could have varying effects on the final rate computation.

**Updating of Wage Indexes and Reporting of Wage Data**

CMS must update wage indexes annually in a manner that ensures that aggregate payments to hospitals are not affected by changes in the indexes (i.e., in a manner that is “budget neutral”) (the Act § 1886(d)(3)(E)). 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

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2 *A Data Book: Health Care Spending and the Medicare Program*, June 2015, Chart 6-14, p. 70, Medicare Payment Advisory Commission.

3 The IPPS 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. Throughout this report, we use “wage index” to refer only to the IPPS wage index used to calculate IPPS hospital payments.

4 The occupational mix adjustment is designed to control for the effect of hospitals’ employment choices on the wage index. For example, hospitals may choose to employ different combinations of nurses, nursing aides, and medical assistants to provide nursing care to their patients. The varying labor costs associated with these choices reflect hospital management decisions rather than geographical differences in the costs of labor.
index, which measures the inflationary increases in hospital costs. The inclusion of unallowable costs in wage data could produce an inaccurate market basket index for updating prospective payments to hospitals.

No Mechanism To Correct Payments Calculated on the Basis of Inaccurate Wage Data

As stated above, the IPPS is a prospective payment system (PPS). A PPS is a method of reimbursement in which payment is made on the basis of a predetermined, fixed amount. CMS’s development of annual wage indexes is part of establishing predetermined rates to be used for the PPS. During wage index development (a process that lasts longer than a year), hospitals, Medicare administrative contractors (MACs), and CMS have the opportunity to identify and correct inaccurate wage data, in order that inaccurate data not be used to calculate wage indexes. CMS sets deadlines for correction requests during the wage index development process.

Except in certain very limited circumstances, if inaccurate wage data are not identified by the specified deadlines, CMS will use the data to calculate Medicare payments for the payment year. In this report, payments calculated on the basis of inaccurate wage data are considered overpayments or underpayments, even though the improper payments are caused by incorrect rates rather than questionable claims submission or claims processing, which such terms typically describe. It is because of the prospective, predetermined nature of the PPS that CMS does not have such a mechanism to retroactively adjust payments made on the basis of inaccurate wage data.

Alta Bates Medical Center

The Medical Center is a 527-bed acute-care hospital in Berkeley, California. The Medical Center is located in an urban California CBSA. For FY 2014, the Medical Center was reclassified from its geographical CBSA to another urban California CBSA, pursuant to its application to the Review Board. As a result of the reclassification and the application of Federal laws and CMS policy, the Medical Center’s wage data affected the wage index of 33 hospitals located in 2 urban California CBSAs. The Medical Center’s FY 2010 Medicare cost report covered the period January 1 through December 31, 2010.

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5 CMS will correct an individual hospital’s wage index during the payment year and apply the corrected wage index prospectively (i.e., for the remainder of the year): 42 CFR § 412.64(k) specifies that CMS may make a midyear correction to a hospital’s wage index only if the hospital can show that its MAC or CMS made an error in tabulating its data and that the hospital could not have known about the error, or did not have the opportunity to correct the error, before the beginning of the Federal FY.

6 Section 1886(d)(8)(C) of the Act specifies how CMS should calculate wage indexes for hospitals that are reclassified into a new CBSA. Additionally, it is CMS policy that the wage data for a reclassified urban hospital be included in both the wage index calculation of the urban area to which the hospital is reclassified (subject to the rules in the Act) and the wage index calculation of the urban area where the hospital is geographically located. CMS explained section 1886(d)(8)(C) of the Act and its own policy in the August 18, 2011, edition of the Federal Register (76 Fed. Reg. 51476, 51595–51596).
Federal Requirements for Reporting Hospital Cost Data

Federal regulations require that IPPS hospital costs reported for Medicare be supported by adequate cost data, i.e., cost data that are accurate, auditable, and sufficiently detailed to accomplish the intended purposes (42 CFR §§ 412.52 and 413.24).7

HOW WE CONDUCTED THIS REVIEW

Our audit covered $324,128,856 in total wages and wage-related costs and 4,236,640 total hours that the Medical Center reported to CMS in its FY 2010 Medicare cost report. We evaluated compliance with selected reporting requirements for the Medicare cost report. We limited our review of the Medical Center’s internal controls to those related to accumulating and reporting wage data for its FY 2010 Medicare cost report. We did not assess any claims submitted by the Medical Center for Medicare reimbursement.

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

Appendix B contains the details of our audit scope and methodology.

FINDINGS

The Medical Center did not comply with all Medicare requirements for reporting wage data in its FY 2010 Medicare cost report. Specifically, the Medical Center inaccurately reported wage data that affected the numerator and denominator of its wage rate calculation by not reporting, misclassifying, or overstating certain salaries, associated hours, and wage-related costs.

These errors occurred because the Medical Center did not sufficiently review and reconcile the wage data to ensure that they were accurate and reported in compliance with Medicare requirements. As a result, the Medical Center overstated its occupational-mix-adjusted average hourly wage rate by $5.78. We estimated that in FY 2014 Medicare overpaid the Medical Center $154,147 and overpaid 32 other hospitals in 2 CBSAs a total of $5,265,456.

7 According to 42 CFR § 412.52: “All hospitals participating in the prospective payment systems must meet the recordkeeping and cost reporting requirements of [42 CFR] §§ 413.20 and 413.24 of this chapter.” According to 42 CFR § 413.24(a): “Providers receiving payment on the basis of reimbursable cost must provide adequate cost data. This must be based on their financial and statistical records which must be capable of verification by qualified auditors.” Section 413.24(c) states: “The requirement of adequacy of data implies that the data be accurate and in sufficient detail to accomplish the purposes for which it is intended.”
FEDERAL REQUIREMENTS

Federal regulations require that IPPS hospital costs reported for Medicare be supported by adequate cost data, i.e., cost data that are accurate, auditable, and sufficiently detailed to accomplish the intended purposes (42 CFR §§ 412.52 and 413.24).

Federal regulations also state: “The method used to compute a hospital’s average hourly wage excludes certain costs that are not paid under the IPPS” (76 Fed. Reg. 51476, 51591 (Aug. 18, 2011)).

The Provider Reimbursement Manual, Pub. No. 15-2 (the Manual) states: “Paid hours include regular hours (including paid lunch hours), overtime hours, paid holiday, vacation and sick leave hours, paid time-off hours, and hours associated with severance pay” (chapter 36, § 3605.2). In addition, the Manual states that if the hours cannot be determined, the associated salaries must not be included (chapter 36, § 3605.2).

THE MEDICAL CENTER DID NOT COMPLY WITH ALL MEDICARE REQUIREMENTS FOR REPORTING WAGE DATA

The Medical Center did not comply with all Medicare requirements for reporting wage data in its FY 2010 Medicare cost report. Specifically, the Medical Center inaccurately reported wage data that affected the numerator and denominator of its wage rate calculation by:

- not reporting 308,790 hours associated with $11,659,386 in salaries that were reported,
- not reporting $1,792,346 in salaries and 46,336 in associated hours,
- not reporting hours associated with $930,095 in severance payments,
- misclassifying $328,767 in excluded-area salaries and 12,302 in associated hours as overhead salaries and hours, and
- overstating $292,649 in wage-related costs associated with the incorrectly reported salaries.

After factoring in overhead and applying the Medical Center’s adjustment factor, we determined that the Medical Center understated its wage data by $1,674,241 in salaries (numerator) and understated its wage data by 360,101 in hours (denominator), which overstated its occupational-mix-adjusted average hourly wage rate by $5.78.

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8 The wage index excludes the direct and overhead salaries and hours for services not subject to IPPS payment.

9 This factor represents CMS’s adjustment to the Medical Center’s FY 2010 cost report data to reflect FY 2014 rates (78 Fed. Reg. 50496, 50587–50588 (Aug. 19, 2013)).
THE MEDICAL CENTER DID NOT SUFFICIENTLY REVIEW AND RECONCILE WAGE DATA

The Medical Center inaccurately reported its wage data because it did not sufficiently review and reconcile the wage data with supporting documentation to ensure that all amounts included in its Medicare cost report were accurate and reported in compliance with Medicare requirements.

MEDICARE OVERPAID THE MEDICAL CENTER AND OTHER HOSPITALS IN TWO CORE-BASED STATISTICAL AREAS

Because of its reporting errors, the Medical Center understated wage data by $1,674,241 (numerator) and understated 360,101 hours (denominator) in its FY 2010 Medicare cost report. The correct wage data decreased the Medical Center’s occupational-mix-adjusted average hourly wage rate by approximately 7.7 percent from $75.03 to $69.25, or $5.78. We estimated that in FY 2014 Medicare overpaid the Medical Center $154,147.

These reporting errors decreased the Medical Center’s FY 2014 geographic CBSA wage index from 1.6439 to 1.6332, or by 0.65 percent. As a result, we estimated that Medicare overpaid the 13 other hospitals in this CBSA a total of $1,850,333. These errors also decreased the FY 2014 wage index of the CBSA to which the Medical Center was reclassified from 1.6650 to 1.6574, or by 0.46 percent. As a result, we estimated that Medicare overpaid the 19 other hospitals in this CBSA a total of $3,415,123. In total, we estimated that in FY 2014 Medicare overpaid the 32 other hospitals in the 2 CBSAs $5,265,456.10

RECOMMENDATION

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

ALTA BATES MEDICAL CENTER COMMENTS

In written comments on our draft report, the Medical Center concurred with our recommendation and provided information on actions that it had taken to address our recommendation. The Medical Center’s comments are included in their entirety as Appendix C.

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10 Under current Federal regulations (42 CFR § 412.64(k)), CMS can account for adjustments if they are disclosed before the Federal fiscal year (FY 2014). Currently, there is no retroactive policy that allows CMS a method to recover or penalize a provider for incorrectly reported wage data after this time period.
## APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

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APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered $324,128,856 in total wages and wage-related costs and 4,236,640 total hours that the Medical Center reported to CMS in its FY 2010 Medicare cost report. We evaluated compliance with selected reporting requirements for the Medicare cost report. We limited our review of the Medical Center’s internal controls to those related to accumulating and reporting wage data for its FY 2010 Medicare cost report. We did not assess any claims submitted by the Medical Center for Medicare reimbursement.

We conducted our audit from September 2014 to September 2016 and performed our fieldwork at the Medical Center’s corporate office in Roseville, California.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- obtained an understanding of the Medical Center’s procedures for reporting wage data in the Medicare cost report;
- obtained an understanding of payroll and timekeeping procedures;
- obtained the Medical Center’s audited financial statements for the period reviewed;
- verified that the Medical Center’s wage data reported in the Medicare cost report reconciled with audited financial statements;
- obtained the Medical Center’s payroll and general ledger data to support reported wage data in the Medicare cost report;
- reconciled wage data reported in the Medicare cost report with detailed support, such as the payroll report and timesheets;
- reviewed judgmentally selected sample items from the Medicare cost report;
- determined the effect of the reporting errors by recalculating the Medical Center’s wage rate using the CMS methodology for calculating the wage index in accordance with instructions published in the Federal Register; and
- discussed inaccurately reported wage cost data with Medical Center officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain
sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
December 21, 2016

Lori A. Ahlstrand  
Regional Inspector General  
For Audit Services  
Department of Health and Human Services  
Office of Audit Services, Region IX  
90 - 7th Street, Suite 3-650  
San Francisco, CA 94103  

RE: Report Number: A-09-14-02035

Dear Ms. Ahlstrand:

This letter is in response to the U.S. Department of Health and Human Services Office of Inspector General (OIG), draft report entitled *Alta Bates Medical Center Inaccurately Reported Wage Data, Resulting in Medicare Overpayments*, dated November 30, 2016.

The OIG audit covered reported wages and wage-related costs data that Alta Bates Medical Center (the “Medical Center”) reported for the fiscal year 2010 Medicare cost report.

The Medical Center has reviewed the findings and concurs with the recommendations noted in the draft report.

The OIG recommends the Medical Center implement review and reconciliation procedure to ensure that the wage data it reports in future Medicare Cost reports are accurate and reported in compliance with Medicare requirements.

The Medical Center is taking the OIG audit findings and recommendations seriously, and has further enhanced our internal controls around reporting wage data. For example, we validate that all general ledger salary and benefit transfers reflect the correct number of hours for each department, including paid time off. We have also implemented review processes to identify hours associated with severance payments and to ensure departments are appropriately mapped on the cost report.

Alta Bates Medical Center appreciates the professionalism of the OIG audit team throughout this process, and thanks you for this opportunity to respond to the draft report.

Sincerely,

Charles J. Prosper  
Chief Executive Officer  

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