Sierra Nevada Memorial Hospital Did Not Accurately Report Certain Wage Data, Resulting in Overpayments to California Hospitals

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

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September 2017
A-09-16-02044
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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.
Sierra Nevada Memorial Hospital Did Not Accurately Report Certain Wage Data, Resulting in Overpayments to California Hospitals

What OIG Found
Although the Hospital generally complied with Medicare requirements for reporting wage data, errors did occur. Specifically, the Hospital overstated contract labor wages by $69,079 and hours by 108, which affected its average hourly wage calculation. These errors occurred because the Hospital (1) did not follow the cost report requirements in CMS’s Provider Reimbursement Manual and (2) did not have adequate review and reconciliation procedures to ensure that the Medicare wage data it reported to CMS were accurate, allowable, supportable, and in compliance with Medicare requirements.

The cost reporting errors did not increase the Hospital’s wage index or result in the Hospital receiving overpayments from Medicare because the Hospital’s wage data was used to calculate the rural-floor wage index and the Hospital was reclassified to an urban area that had a wage index not affected by the rural floor. However, because these errors increased the rural-floor wage index for FFY 2017, Medicare overpaid 173 other hospitals in California an estimated total of $216,594 for inpatient services in the first 6 months of FFY 2017. In addition, the overpayments to California hospitals caused underpayments to hospitals in other States. Because of the prospective nature of the IPPS, CMS has no mechanism to recover overpayments or remedy underpayments resulting from inaccurate wage data.

What OIG Recommends and Hospital Comments
We recommend that the Hospital (1) ensure that all personnel involved in Medicare cost report preparation follow the requirements in CMS’s Provider Reimbursement Manual and (2) strengthen its review and reconciliation procedures to ensure that the Medicare wage data it reports to CMS in the future are accurate, allowable, supportable, and in compliance with Medicare requirements.

The Hospital agreed with our findings. Although the Hospital did not explicitly indicate it concurred with our recommendations, it provided information on actions that it planned to take to address each finding, including implementing review and reconciliation procedures.
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*Sierra Nevada Memorial Hospital Did Not Accurately Report Certain Wage Data (A-09-16-02044)*
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 (i.e., allowable fringe benefits). CMS uses the wage data to calculate acute-care-hospital wage indexes, which measure geographic area labor market costs relative to a national average. Federal law requires CMS to annually adjust Medicare hospital payments to reflect local labor markets; CMS uses area wage indexes to do this. Federal law also requires that the area wage indexes applied to hospitals in urban areas of a State may not be less than the area wage index of hospitals located in rural areas in that State. This provision is known as the rural floor.

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 reported inaccurate wage data, which resulted in increased Medicare payments in their designated geographic areas. CMS officials requested that we again conduct acute-care-hospital wage index reviews, prompted by their concern about unusually high wage indexes, particularly in California and New England. This report is one in a series of wage index reviews of acute-care hospitals in California and New England.

We selected Sierra Nevada Memorial Hospital (the Hospital) because it had the highest average hourly wage for Federal fiscal year (FFY) 2017 in its geographic area, which set the rural floor for California.

OBJECTIVE

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its fiscal year (FY) 2014 Medicare cost report.

BACKGROUND

Medicare Inpatient Prospective Payment System

Under the inpatient prospective payment system (IPPS) for hospitals, Medicare pays hospitals predetermined, diagnosis-related rates for patient discharges. The geographic designation of a hospital influences its Medicare payments. CMS uses a hospital's area wage index to adjust the
IPPS payment rates to reflect labor cost variations among localities.\(^1\) IPPS payment rates are set for the FFY, using data from the FFY that was 4 years earlier (for example, FFY 2013 data were used to set the FFY 2017 IPPS payment rates).\(^2\)

For FFY 2014, Medicare made more than $112 billion in IPPS payments to hospitals.\(^3\)

**Wage Indexes**

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 state-wide rural wage index for each State. To receive a higher wage index, a hospital may apply to the Medicare Geographic Classification Review Board for recategorization from its geographical CBSA to another CBSA. The wage index for each CBSA and state-wide rural area is based on the average hourly wage of the hospitals in those areas, adjusted by occupational mix,\(^4\) divided by the national average hourly wage. Additionally, Federal law requires that the hospitals in the urban CBSAs not be assigned a wage index less than the State’s rural wage index.\(^5\) This provision is known as the rural floor.

**Calculation of Wage Indexes**

To calculate wage indexes, CMS uses hospital wage data 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 Medicare administrative contractors (MACs). A hospital’s average hourly wage is calculated by 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 a substantial effect on the final rate computation.

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1. 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.

2. The Hospital’s FY 2014 wage data applied to the FFY 2017 IPPS payment rates because the beginning of the Hospital’s cost reporting period (July 1, 2013) was during FFY 2013 (October 1, 2012, through September 30, 2013).


4. The occupational mix adjustment controls for the effect of hospitals’ employment choices on the wage index. For example, to provide nursing care, hospitals choose to employ different combinations of registered nurses, licensed practical nurses, nursing aides, and medical assistants. The varying labor costs associated with these choices reflect hospital management decisions rather than geographic differences in the costs of labor.

Updating of Wage Indexes and Reporting of Wage Data

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 national payments to hospitals are not affected by changes in the indexes (i.e., in a manner that is “budget neutral”). Hospitals must accurately report wage data for CMS to determine the accurate distribution of payments. Further, section 1886(d)(3)(A)(iv) of the Act requires CMS to update labor and nonlabor average standardized amounts by the percentage increase in the market basket index, which measures the way in which price changes affect hospital costs. The inclusion of unallowable costs in wage data could produce an inaccurate market basket index for updating prospective payments to hospitals.

Application of Rural-Floor Wage Indexes

Section 3141 of the Patient Protection and Affordable Care Act (ACA) requires that CMS apply rural-floor wage indexes in a manner that is budget neutral on a national level. Accordingly, to balance the increase in wage indexes for hospitals receiving the benefit of their States’ rural floors, CMS must lower wage indexes nationally by applying a rural-floor budget neutrality factor. In FFY 2017, hospitals (including those not benefiting from the rural floor) had their wage indexes lowered by approximately 1 percent to maintain national budget neutrality with respect to the rural floor. Inaccuracies in wage data reporting by rural hospitals could have a substantial effect on the computation of the rural-floor budget neutrality factor.

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

As stated above, the IPPS is a prospective payment system. A prospective payment system is a method of reimbursement in which payment is made based on a predetermined, fixed amount. CMS’s development of annual wage indexes is part of establishing predetermined rates to be used for the prospective payment system. During wage index development (a process that lasts longer than a year), hospitals, MACs, and CMS have the opportunity to identify and correct inaccurate wage data so that accurate data are 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, the data will be used by CMS to calculate Medicare payments for the payment year. We refer to payments calculated on the basis of inaccurate wage data as

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7 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 FFY.
“overpayments” or “underpayments” in this report, even though we are referring to improper payments 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 prospective payment system that CMS does not have such a mechanism to retroactively adjust payments made on the basis of inaccurate wage data.

Sierra Nevada Memorial Hospital

The Hospital is a 104-bed acute-care hospital in Grass Valley, California. In 1996, the Hospital became an affiliate of Catholic Healthcare West, which changed its name to Dignity Health in 2012. For FY 2017, the Hospital was reclassified from a rural California CBSA to an urban California CBSA, pursuant to its application to the Medicare Geographic Classification Review Board. As a result of the reclassification and the application of Federal laws and CMS policy, the Hospital’s wage data affected 173 hospitals in 16 California CBSAs that had the rural floor but did not affect the wage index of the urban California CBSA to which the Hospital was reclassified.

The Hospital’s FY 2014 Medicare cost report covered the period July 1, 2013, through June 30, 2014.

Federal Requirements for Reporting Hospital Cost Data

Federal regulations (42 CFR §§ 412.52 and 413.24) require that IPPS hospital costs reported for Medicare must be supported by adequate cost data (i.e., cost data that are accurate, auditable, and sufficiently detailed to accomplish the intended purposes). Additionally, chapter 40 of the CMS Provider Reimbursement Manual, Pub. No. 15-2 (the Manual), contains specific instructions for completing the Medicare cost report, Form CMS-2552-10.

8 Section 1886(d)(8)(C) of the Act specifies how CMS should calculate wage indexes for hospitals that are reclassified to a new CBSA. Additionally, it is CMS policy that the wage data for a reclassified rural hospital be (1) included in a rural area’s wage index calculation as if no reclassification occurred if excluding the hospital’s wage data would reduce the rural area’s wage index and (2) excluded from an urban area’s wage index calculation if including the hospital’s wage data would reduce the urban area’s wage index by 1 percentage point or less. 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).

9 “All hospitals participating in the prospective payment systems must meet the recordkeeping and cost reporting requirements of [42 CFR §§ 413.20 and 413.24]” (42 CFR § 412.52). Federal regulations state: “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” (42 CFR § 413.24(a)). Federal regulations further state: “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” (42 CFR § 413.24(c)).
HOW WE CONDUCTED THIS REVIEW

Our audit covered $84,037,094 in wages and wage-related costs and 1,285,581 in hours for employees, home office staff, and contractors that the Hospital reported to CMS in its FY 2014 Medicare cost report. We evaluated compliance with selected Medicare cost reporting requirements. We limited our review of the Hospital’s internal controls to those related to accumulating and reporting wage data for its FY 2014 cost report. This report does not represent an assessment of any claims submitted by the Hospital 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 Hospital generally complied with Medicare requirements for reporting wage data in its FY 2014 Medicare cost report. However, errors in reporting wage data did occur. Specifically, the Hospital overstated contract labor wages by $69,079 and hours by 108. This affected both the numerator and denominator of its average hourly wage calculation. These errors occurred because the Hospital (1) did not follow the cost report requirements in the Manual and (2) did not have adequate review and reconciliation procedures to ensure that the Medicare wage data it reported to CMS were accurate, allowable, supportable, and in compliance with Medicare requirements.

The incorrect wage data increased the Hospital’s occupational-mix-adjusted average hourly wage from $68.0986 to $68.1513 and increased the rural-floor wage index from 1.2764 to 1.2766. The cost reporting errors did not increase the Hospital’s wage index or result in the Hospital receiving overpayments from Medicare.10 However, we estimated that, as a result of these errors, Medicare overpaid 173 other hospitals in California a total of $216,594 for inpatient services in the first 6 months of FFY 2017 (October 1, 2016, through March 31, 2017). Because of the rural-floor budget neutrality provision in section 3141 of the ACA, the overpayments to California hospitals caused underpayments to hospitals in other States. We did not estimate these underpayments.

10 Because the Hospital’s wage data was used to calculate the rural-floor wage index and the Hospital was reclassified to an urban California CBSA that had a wage index not affected by the rural floor, the Hospital did not receive overpayments from Medicare for its cost reporting errors.
THE HOSPITAL MADE ERRORS IN REPORTING WAGE DATA

Inaccurately Reported Nonlabor Costs Caused Patient-Care Contract Labor Costs To Be Overstated

The amount reported as patient-care contract labor should “not include cost for equipment, supplies, travel expenses, and other miscellaneous or overhead items (nonlabor costs)” (the Manual § 4005.2).

The Hospital inaccurately reported $32,174 in nonlabor costs (equipment, supplies, and other miscellaneous items) as patient-care contract labor costs. After applying the Hospital’s occupational-mix-adjustment factor, we determined that the Hospital overstated its wages by $32,258, which overstated its average hourly wage by $0.0274.

Clerical Errors Caused Patient-Care Contract Labor Costs and Hours To Be Overstated

IPPS hospital costs reported for Medicare must 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).

The Hospital overstated its patient-care contract labor costs by $36,746 and hours by 108 because Hospital personnel made clerical errors. After applying the Hospital’s occupational-mix-adjustment factor, we determined that the Hospital overstated its wages by $36,821 and hours by 108, which overstated its average hourly wage by $0.0253.

Combined Effect of Errors in Reporting Contract Labor Wages and Hours

The combined effect of the errors in reporting contract labor wages and hours, after we applied the Hospital’s occupational-mix-adjustment factor, was that the Hospital overstated wages by $69,079 and hours by 108, which overstated its average hourly wage by $0.0527.

CAUSES OF WAGE-DATA REPORTING ERRORS

The Hospital inaccurately reported its wage data because Hospital personnel involved in Medicare cost preparation did not follow the requirements in the Manual. In addition, the Hospital did not have adequate review and reconciliation procedures to ensure that the Medicare wage data it reported to CMS were accurate, allowable, supportable, and in compliance with Medicare requirements.

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11 This factor represents CMS’s adjustment to the Hospital’s FY 2014 cost report data to reflect FFY 2017 rates (81 Fed. Reg. 25063–25064 (Apr. 27, 2016)).
MEDICARE OVERPAID 173 OTHER CALIFORNIA HOSPITALS

The Hospital’s reporting errors increased the rural-floor wage index for FFY 2017 from 1.2764 to 1.2766. We estimated that, as a result, Medicare overpaid the 173 hospitals in 16 California CBSAs a total of $216,594 for inpatient services in the first 6 months of FFY 2017 (October 1, 2016, through March 31, 2017).

Because of the rural-floor budget neutrality provision in section 3141 of the ACA, the overpayments to California hospitals caused underpayments to hospitals in other States. We did not estimate these underpayments. Owing to the complexity of the multilayered calculations involved, underpayments might not exactly equal overpayments, and only CMS can accurately estimate underpayments. However, because of the prospective nature of the IPPS, CMS has no mechanism to retroactively adjust final wage indexes and remedy underpayments (or recover overpayments) resulting from inaccurate wage data.

RECOMMENDATIONS

We recommend that the Hospital:

- ensure that all personnel involved in Medicare cost report preparation follow the requirements in the Manual and

- strengthen its review and reconciliation procedures to ensure that the Medicare wage data it reports to CMS in the future are accurate, allowable, supportable, and in compliance with Medicare requirements.

HOSPITAL COMMENTS

In written comments on our draft report, the Hospital agreed with our findings. Although the Hospital did not explicitly indicate it concurred with our recommendations, it provided information on actions that it planned to take to address each finding, including implementing review and reconciliation procedures. The Hospital also stated that employees involved in preparing and reviewing cost reports receive ongoing training on Medicare requirements for reporting wage data. The Hospital’s comments are included in their entirety as Appendix C.
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APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered $84,037,094 in wages and wage-related costs and 1,285,581 in hours for employees, home office staff, and contractors that the Hospital reported to CMS in its FY 2014 Medicare cost report. We evaluated compliance with selected Medicare cost reporting requirements. We limited our review of the Hospital’s internal controls to those related to accumulating and reporting wage cost data for its FY 2014 cost report. This report does not represent an assessment of any claims submitted by the Hospital for Medicare reimbursement.

We conducted our audit from September 2016 to May 2017, which included fieldwork performed at Dignity Health’s offices in Rancho Cordova, California.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- obtained an understanding of the Hospital’s procedures for reporting wage data;
- obtained the Hospital’s financial statements for the period reviewed and verified that Hospital wage data reconciled with the financial statements;
- obtained the Hospital’s payroll, general ledger, and other documents to support reported wage data and reconciled wage data from selected cost centers with the detailed support;
- obtained documentation on the nature of services that employees and contract labor provided to the Hospital;
- determined the effect of our findings on Medicare inpatient payments to the Hospital and to 173 other California hospitals; and
- discussed our findings with Hospital 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.

Sierra Nevada Memorial Hospital Did Not Accurately Report Certain Wage Data (A-09-16-02044)
August 15, 2017

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
Office of Audit Services, Region IX
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

RE: Draft Report Number: A-09-16-02044
Sierra Nevada Memorial Hospital

Ms. Ahlstrand:

This letter shall serve as a response to the draft report entitled Sierra Nevada Memorial Hospital Did Not Accurately Report Certain Wage Data, Resulting in Overpayments to California Hospitals (the “Report”). We appreciate the opportunity to respond to the findings and recommendations identified in the Report.

Sierra Nevada Memorial Hospital (the “Hospital”) strives to ensure its Medicare cost reports are prepared accurately and in compliance with the applicable Federal and State rules and regulations. As part of the Hospital’s compliance efforts, policies and procedures addressing the preparation and review of cost reports were implemented approximately fifteen years ago. These policies and procedures are regularly updated to address changes in applicable regulations as well as process improvements. In addition, employees involved in the preparation and review of the cost report receive ongoing training regarding Medicare requirements for reporting wage data used by the Centers of Medicare and Medicaid Services (CMS) to calculate wage index, and internal policies and procedures. Finally, enhanced preparation tools are available to ensure cost reports are prepared in a consistent and auditable manner.

In recent years, additional improvements have been made to further improve accuracy and compliance with CMS requirements. Significantly, the preparation and review of the cost report was assigned to a consolidated and dedicated staff with expertise in cost reporting requirements. In addition, the cost report goes through several levels of reviews, including a review by a Reimbursement Manager, a Reimbursement Director, and ultimately the hospital Chief Financial
Officer. As needed, experienced third party reviewers are also utilized to perform additional reviews. Indeed, nationally recognized experts have been engaged to both train employees and review specifically the area of wage index and occupational mix reporting.

Notwithstanding these efforts, the Report identified errors, with which the Hospital concurs. In the Report, the OIG recommends the Hospital implement review and reconciliation procedures to ensure that the wage data it reports in the future is in compliance with Medicare requirements. Below is a description of the review and reconciliation procedures implemented by the Hospital to address each finding:

**Inaccurately Reported Non-labor Costs Caused Patient-Care Contract Labor Costs To Be Overstated**

The Hospital agrees with this finding. The invoices that were reviewed for one vendor were not entirely coded correctly. Policy states Non-labor administrative costs should be separated from labor costs and coded to a sub account in the general ledger. In future reviews non-labor related costs will be reviewed more closely and eliminated from the wage index data.

**Clerical Errors Caused Patient-Care Contract Labor Costs and Hours to Be Overstated**

The Hospital agrees with this finding. The finding relates to Physician Part A costs that were reviewed and reconciled to a listing of allowable dollars and hours however the listing was not subsequently incorporated into the final wage index revisions. This will be a specific review point in future wage index submissions and revisions.

Thank you for your attention to these matters. Please feel free to contact me at (415) 438-5752 if you have any questions.

P.P. [Signature]

Eric Lucas
Senior Director, Government Programs
Dignity Health