

## Report in Brief

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U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Review

Prior OIG reviews found that hospitals often reported inaccurate wage data (wages, associated hours, and wage-related costs), which resulted in increased Medicare payments in their designated geographic areas. We selected Sierra Nevada Memorial Hospital (the Hospital) for review 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. (Federal law 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.)

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.

### How OIG Did This Review

Our audit covered \$84 million in wages and wage-related costs and 1.3 million in hours for employees, home office staff, and contractors that the Hospital reported to the Centers for Medicare & Medicaid Services (CMS) in its FY 2014 Medicare cost report. The Hospital’s FY 2014 wage data were used to set FFY 2017 inpatient prospective payment system (IPPS) payment rates.

## 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.