

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF  
VENDOR REBATES  
PAID TO HOSPITALS**

**GRANDVIEW HOSPITAL  
DAYTON, OHIO**



Daniel R. Levinson  
Inspector General

MAY 2007  
A-05-07-00053

# ***Office of Inspector General***

<http://oig.hhs.gov>

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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.



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

REGION V  
OFFICE OF  
INSPECTOR GENERAL

May 14, 2007

Report Number: A-05-07-00053

Mr. Russ Wetherell  
Chief Financial Officer  
Kettering Health Network  
Corporate Headquarters – Ridgeleigh Terrace  
3965 Southern Boulevard  
Kettering, Ohio 45429

Dear Mr. Wetherell:

This final report provides the results of our audit of vendor rebates totaling \$15,468 that a drug manufacturer paid to Grandview Hospital of Dayton, Ohio. We identified these rebates through a national statistical sample of rebates.

## **BACKGROUND**

### **Grandview Hospital**

Grandview Hospital (the provider) is one of eight facilities in the Kettering Health Network. The 411-bed facility offers emergency, respiratory, and cancer care; cardiac, medical and surgical intensive care; and a vascular laboratory.

### **Vendor Rebates**

A vendor rebate is a retroactive discount, allowance, or refund given to a health care provider after the full list price has been paid for a product or a service. Rebates are usually paid quarterly or annually and are usually dependent on achieving a specific purchasing volume. A rebate is paid directly to a provider (e.g., a hospital) or to a nonprovider (e.g., a group purchasing organization or distributor).

Federal regulations (42 CFR § 413.98) state that rebates are reductions in the cost of goods or services purchased and are not income. The Centers for Medicare & Medicaid Services (CMS) "Provider Reimbursement Manual" (part 1, chapter 8) requires hospitals and other health care providers to report all discounts on their Medicare cost reports.

### **Medicare Cost Reports**

Some types of Medicare-certified providers, such as hospitals, skilled nursing facilities, and home health agencies, must submit an annual Medicare cost report to a fiscal intermediary. The cost report contains provider information, including facility characteristics, utilization data, costs

and charges by cost center (in total and for Medicare), Medicare settlement data, and financial statement data. A cost center is generally an organizational unit having a common functional purpose for which direct and indirect costs are accumulated, allocated, and apportioned. Providers must reduce previously reported Medicare costs when they receive rebates.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the provider reduced costs reported on its fiscal year 2003 Medicare cost report by the \$15,468 it received for 2 vendor rebates.

### **Scope**

As part of a national statistical sample of rebates that a single drug vendor sent directly to providers, we selected \$15,468 in rebates (composed of 2 checks) that the provider received during calendar year 2003. We limited our review to identifying the rebate amounts and determining whether the provider credited the amounts in its accounting records and on its Medicare cost report. We did not perform a detailed review of the provider's internal controls.

We performed our fieldwork from October through November 2005 at the drug vendor's offices in Deerfield, Illinois. We requested and received information from the provider through phone contacts, mail, and electronic mail.

### **Methodology**

To accomplish our objective, we:

- reviewed Federal regulations and CMS guidance related to rebates,
- obtained a statistical sample of rebates paid by the drug vendor to identify providers that received the rebates,
- requested documentation from the provider regarding the reporting of the rebate,
- determined whether the provider credited the sampled rebate amount on its Medicare cost report, and
- quantified the dollar amount of any rebates not reported and used to reduce previously reported costs.

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

## **FINDING AND RECOMMENDATIONS**

Of the \$15,468 in rebates received, the provider did not reduce costs reported on its fiscal year 2003 Medicare cost report by \$5,732 for one of the two rebates, contrary to Federal regulations and CMS guidance. The provider properly reduced its 2003 Medicare cost report by \$9,736 for the other rebate. The provider could not find the work papers related to the remaining \$5,732 rebate and stated that it represented an isolated error. Providers must offset costs by rebates to ensure that they report the actual cost of services provided.

We recommend that the provider:

- revise and resubmit its 2003 Medicare cost report, if not already settled, to properly reflect the \$5,732 rebate as a credit reducing its health care costs; and
- consider performing a self-assessment of its internal controls to ensure that future vendor rebates are properly credited on its Medicare cost reports.

## **PROVIDER COMMENTS**

In its comments on the draft report, the provider agreed with our recommendations. The provider stated that it (1) was unable to revise and resubmit the 2003 Medicare cost report because the report had been settled, and (2) performed a self assessment of its internal controls and believes that all future vendor rebates will be properly credited on the Medicare cost reports. The provider's written comments are included as the Appendix.

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A copy of this report will be forwarded to the action official noted on the next 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. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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If you have any questions or comments about this report, please contact Jaime Saucedo at (312) 353-8693. Please refer to report number A-05-07-00053.

Sincerely,



Marc Gustafson  
Regional Inspector General  
for Audit Services

**Direct Reply to HHS Action Official:**

Ms. Jackie Garner  
Regional Administrator  
Centers for Medicare & Medicaid Services  
233 North Michigan Avenue, Suite 600  
Chicago, Illinois 60601

# **APPENDIX**





**Kettering Medical Center Network**

*Kettering Adventist Healthcare*

**NETWORK FACILITIES**

**Charles F. Kettering  
Memorial Hospital**  
3535 Southern Blvd.  
Kettering, Ohio 45429  
(937) 298-4331

**Grandview Hospital**  
405 Grand Ave.  
Dayton, Ohio 45405  
(937) 226-3200

**Sycamore Hospital**  
2150 Leiter Rd.  
Miamisburg, Ohio 45342  
(937) 866-0551

**Southview Hospital**  
1997 Miamisburg  
Centerville Rd.  
Dayton, Ohio 45459  
(937) 439-6000

**Inber Health Center**  
8701 Old Troy Plke  
Dayton, Ohio 45424  
(937) 237-5777

**Kettering Youth Services**  
5350 Lamme Rd.  
Dayton, Ohio 45439  
(937) 534-4600

**Kettering College  
of Medical Arts**  
3737 Southern Blvd.  
Kettering, Ohio 45429  
(937) 395-8601

**Sycamore Glen  
Retirement Community**  
317 Sycamore Glen Dr.  
Miamisburg, Ohio 45342  
(937) 866-2984

**SERVICES**

**Wallace-Kettering  
Neuroscience Institute**  
3535 Southern Blvd.  
Kettering, Ohio 45429  
(937) 395-8002

**Kettering  
Cardiovascular Institute**  
3535 Southern Blvd.  
Kettering, Ohio 45429  
(937) 395-8122

April 2, 2007

Mr. Marc Gustafson  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
233 N. Michigan, Suite 1360  
Chicago, IL 60601

Dear Mr. Gustafson:

This letter is written on behalf of Grandview Hospital in response to your letter to me dated March 23, 2007. You recommended that we:

- Revise and resubmit our 2003 Medicare cost report, if not already settled, to properly reflect the \$5732 rebate as a credit reducing our health care costs, and
- Consider performing a self-assessment of our internal controls to ensure that future vendor rebates are properly credited on our Medicare cost reports.

Grandview's 2003 Medicare cost report has been settled, so we are unable to revise and resubmit it.

We have performed a self assessment of our internal controls and believe that all future vendor rebates will be properly credited on our Medicare cost reports. Given the large volume of transactions processed, occasionally an inadvertent error occurs. We believe the likelihood of such errors has been significantly reduced as the result of a transition of duties within the Grandview Hospital Finance Department. Kettering Medical Center and Grandview Hospital merged to become a network on July 1, 1999. In the spring of 2002, the individual finance departments merged in one location. During the year after that, the finance department began to streamline processes and consolidate duties at the Network level. During the period of April to May 2003 the cash posting function was transferred to one individual, and the approach modified to a more simplified and accurate method.

Since that time we have streamlined and standardized our processes and strengthened our audit procedures to insure that all transactions are properly recorded. This should insure that all vendor rebates, discounts, or credits are properly offset against the expense accounts that generate them.

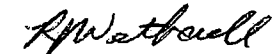
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Mr. Marc Gustafson  
April 2, 2007  
Page 2

As you saw from the support we provided for the other check in your sample, we properly recorded hundreds of thousands of dollars worth of rebates in 2003, and just missed this one. Our estimate of the reimbursement impact of this error is \$127. As stated in our letter of April 28, 2006 to Mr. Clemente Torres, we are prepared to write a check to CMS for that amount.

Respectfully,



Russell J. Wetherell  
Chief Financial Officer  
Kettering Health Network