



AUG 15 2008

Washington, D.C. 20201

TO: Kerry Weems
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Review of Ochsner Foundation Hospital's Reported Fiscal Year 2005 Wage Data (A-01-08-00519)

Attached is an advance copy of our final report on Ochsner Foundation Hospital's (the Hospital) reported fiscal year (FY) 2005 wage data. We will issue this report to the Hospital within 5 business days. This review is one of a series of reviews of the accuracy of wage data reported by five New Orleans hospitals. In August 2007, officials from these hospitals testified before the House Committee on Energy and Commerce regarding operating losses experienced after Hurricane Katrina struck the New Orleans area in 2005.

Under the inpatient prospective payment system for acute-care hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. The payment system base rate includes a labor-related share. The Centers for Medicare & Medicaid Services (CMS) adjusts the labor-related share by the wage index applicable to the statistical area in which a hospital is located. To calculate wage indexes, CMS uses wage data collected from hospitals' Medicare cost reports 4 years earlier.

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report.

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report. Specifically, after overhead was factored in, the Hospital overstated its wage data by \$6,615,131 and 57,539 hours. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 3.5 percent. The errors in reported wage data occurred because the Hospital did not sufficiently review and reconcile wage data to supporting documentation to ensure that all amounts reported were accurate, supportable, and in compliance with Medicare requirements. If the Hospital does not revise the wage data in its FY 2005 cost report, the FY 2009 wage index for the Hospital's statistical area will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

We recommend that the Hospital:

- submit a revised FY 2005 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$6,615,131 and 57,539 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 its written comments on our draft report, the Hospital agreed with our finding.

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 through e-mail at George.Reeb@oig.hhs.gov or Michael J. Armstrong, Regional Inspector General for Audit Services, Region I, at (617) 565-2689 or through e-mail at Michael.Armstrong@oig.hhs.gov. Please refer to report number A-01-08-00519.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

AUG 19 2008

Office of Audit Services
Region I
John F. Kennedy Federal
Building
Boston, MA 02203
(617) 565-2684

Report Number: A-01-08-00519

Ms. Jody Ohlmeyer
System Vice President, Finance
Ochsner Health System
880 Commerce Road West
New Orleans, Louisiana 70123-3335

Dear Ms. Ohlmeyer:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Ochsner Foundation Hospital's Reported Fiscal Year 2005 Wage Data." We will forward a copy of this report 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 this 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact David Lamir, Audit Manager, at (617) 565-2704 or through e-mail at David.Lamir@oig.hhs.gov. Please refer to report number A-01-08-00519 in all correspondence.

Sincerely,

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF OCHSNER
FOUNDATION HOSPITAL'S
REPORTED FISCAL YEAR 2005
WAGE DATA**



Daniel R. Levinson
Inspector General

August 2008
A-01-08-00519

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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.

EXECUTIVE SUMMARY

BACKGROUND

Under the inpatient prospective payment system for acute-care hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. The Centers for Medicare & Medicaid Services (CMS) adjusts prospective payments by the wage index applicable to the area in which each hospital is located. CMS calculates a wage index for each metropolitan area, known as a core-based statistical area (CBSA), as well as a statewide rural wage index for each State. These calculations use hospital wage data (which include wages, salaries, and related hours) collected 4 years earlier to allow time for the collection of complete cost report data from all inpatient prospective payment system hospitals and for reviews of hospital wage data by CMS's fiscal intermediaries. For example, CMS will base the fiscal year (FY) 2009 wage indexes on wage data collected from hospitals' Medicare cost reports for their FYs that began during Federal FY 2005 (October 1, 2004, through September 30, 2005).

CMS bases each wage index on the average hourly wage rate of the applicable hospitals divided by the national average rate. 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.

CMS is required to update wage indexes annually in a manner that ensures that aggregate payments to hospitals are not affected by changes in the indexes. CMS is also required to update payments to hospitals by an applicable percentage based on the market basket index, which measures the inflationary increases in hospital costs. Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and ensure the appropriate level of funding to cover hospital costs.

The Ochsner Clinic Foundation, headquartered in New Orleans, Louisiana, owns and operates a 501-bed acute-care hospital known as the Ochsner Foundation Hospital (the Hospital). The Hospital is 1 of 24 hospitals in the New Orleans urban CBSA. The Hospital reported wage data of \$143.4 million and 4.9 million hours in its FY 2005 Medicare cost report, which resulted in an average hourly wage rate of \$29.49.

OBJECTIVE

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report.

SUMMARY OF FINDING

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report. Specifically, the Hospital reported unsupported costs for Part B services totaling \$6,545,919 and 44,478 hours, which affected the numerator and denominator of its wage rate calculation. These errors occurred because the Hospital did not sufficiently review and reconcile its reported wage data to supporting documentation to ensure that the data were

accurate, supportable, and in compliance with Medicare requirements. As a result, after overhead was factored in, the Hospital overstated its wage data by \$6,615,131 (numerator) and 57,539 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 3.5 percent from \$29.49 to \$28.47. If the Hospital does not revise the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

RECOMMENDATIONS

We recommend that the Hospital:

- submit a revised FY 2005 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$6,615,131 and 57,539 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.

OCHSNER FOUNDATION HOSPITAL COMMENTS

In its written comments on our draft report, the Hospital agreed with our finding. The Hospital's comments are included in their entirety as the Appendix.

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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 costs at predetermined, diagnosis-related rates for patient discharges. In fiscal year (FY) 2008, the Centers for Medicare & Medicaid Services (CMS) expects Medicare Part A to pay inpatient hospitals approximately \$120.5 billion.

Wage Indexes

The geographic designation of hospitals influences their Medicare payments. Under the inpatient prospective payment system, CMS adjusts payments through wage indexes to reflect labor cost variations among localities.¹ 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 (CBSA). CMS calculates a wage index for each CBSA and a statewide rural wage index for each State for areas that lie outside CBSAs. The wage index for each CBSA and 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 CMS to collect complete cost report data from all inpatient prospective payment system hospitals and for CMS's fiscal intermediaries to review these data. For example, CMS will base the wage indexes for FY 2009, which will begin October 1, 2008, on wage data collected from hospitals' Medicare cost reports for their FYs that began during Federal FY 2005 (October 1, 2004, through September 30, 2005). 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 can have varying effects on the final rate computation.

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 payments to hospitals are not affected by changes in the indexes. 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 index, which measures inflationary increases in hospital costs. The inclusion of unallowable

¹The inpatient prospective payment system 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.

costs in wage data could produce an inaccurate market basket index for updating prospective payments to hospitals.

Ochsner Clinic Foundation Hospital

The Ochsner Clinic Foundation, headquartered in New Orleans, Louisiana, owns and operates a 501-bed acute-care hospital known as the Ochsner Foundation Hospital (the Hospital). The Hospital is 1 of 24 hospitals in the New Orleans urban CBSA. The Hospital submitted to CMS its FY 2005 Medicare cost report covering the period January 1 through December 31, 2005.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report.

Scope

Our review covered the \$143,409,865 in salaries and 4,862,295 in hours that the Hospital reported to CMS on Worksheet S-3, part II, of its FY 2005 Medicare cost report, which resulted in an average hourly wage rate of \$29.49. 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 cost report.

We performed our fieldwork at the Hospital in New Orleans, Louisiana, from October 2007 through February 2008.

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 on the Hospital's FY 2005 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;

- interviewed Hospital staff regarding the nature of services that employees and contracted labor provided to the Hospital; 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.

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 finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATIONS

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report. Specifically, the Hospital reported unsupported costs for Part B services totaling \$6,545,919 and 44,478 hours, which affected the numerator and denominator of its wage rate calculation.

These errors occurred because the Hospital did not sufficiently review and reconcile its reported wage data to supporting documentation to ensure that the data were accurate, supportable, and in compliance with Medicare requirements. As a result, after overhead was factored in, the Hospital overstated its wage data by \$6,615,131 (numerator) and 57,539 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 3.5 percent from \$29.49 to \$28.47. If the Hospital does not revise the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.²

UNSUPPORTED COSTS FOR PART B SERVICES

The Act and Medicare regulations provide that, as a general matter, the costs of services provided by physicians are covered by Part B, not Part A.³ The "Medicare Provider Reimbursement Manual" (the Manual), part II, section 3605, requires hospitals to exclude from their reported wage index information those physician services that hospitals claim for Part B reimbursement as patient services. Under Medicare, these services are related to patient care and are billed separately under Part B. The Manual, part I, section 2108, states that, to claim provider services under Part A, hospitals must distinguish these services from medical and surgical services rendered by a physician to an individual patient, which are reimbursed under Part B. An agreement between the hospital and the hospital-based physician on what services

²The extent of overpayments cannot be determined until CMS finalizes its FY 2009 wage indexes.

³Section 1861(s)(1) of the Act and 42 CFR §§ 410.10(a) and 410.20(a) include care by physicians as covered Part B services; section 1861(b)(4) of the Act and 42 CFR §§ 409.10(b)(3) and 415.102(a) exclude physician services from Part A inpatient hospital services.

are Part A or Part B should be based on supporting documentation that is communicated to the hospital's intermediary.

The Hospital could not provide supporting documentation for \$6,545,919 in salaries and related fringe benefits and 44,478 in hours recorded as Part A wages for services provided by physicians that are generally billed under Part B, in compliance with Federal requirements. As a result, after overhead was factored in, the Hospital overstated its wage data by \$6,615,131 and 57,539 hours, which overstated its average hourly wage rate by \$1.02. We provided the Hospital with details on this error and on our calculations under separate cover.

CAUSE OF WAGE DATA REPORTING ERRORS

These reporting errors occurred because the Hospital did not sufficiently review and reconcile wage data to supporting documentation to ensure that all amounts included in its Medicare cost report were accurate, supportable, and in compliance with Medicare requirements.

OVERSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS

As a result of the reporting errors, the Hospital overstated its Part A wage data by \$6,615,131 (numerator) and 57,539 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 3.5 percent from \$29.49 to \$28.47. If the Hospital does not revise the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

RECOMMENDATIONS

We recommend that the Hospital:

- submit a revised FY 2005 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$6,615,131 and 57,539 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.

OCHSNER FOUNDATION HOSPITAL COMMENTS

In its written comments on our draft report, the Hospital agreed with our finding. The Hospital's comments are included in their entirety as the Appendix.

APPENDIX



July 9, 2008

Mr. Michael J. Armstrong
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Audit Services-Region I
John F. Kennedy Federal Building
Boston, MA 02203

RE: Ochsner Foundation Hospital - Report Number: A-01-08-00519

Dear Mr. Armstrong:

Ochsner Health System appreciates the opportunity to offer comments and perspectives on the report by the Department of Health and Human Services, Office of Inspector General entitled, "Review of Ochsner Foundation Hospital's Reported Fiscal Year 2005 Wage Data".

Ochsner concurs with the OIG's finding of unsupported costs for Part B services in Ochsner Foundation Hospital's reporting of wage index data for FY 2005 and notes that the fiscal intermediary incorporated the necessary correcting adjustments into its final wage index audit results. Therefore, Ochsner Foundation Hospital's error will not result in Medicare overpayments in FY 2009 as suggested in the OIG report. However, had the Ochsner Foundation Hospital error not been corrected, the FY 2009 wage index for the local area would have been overstated by an immaterial amount. Ochsner estimates the overstatement would have been approximately 0.34% of payments. Ochsner will work to ensure that its Wage Index process properly treats physician Part B costs on future cost report submissions.

Sincerely,

A handwritten signature in cursive script that reads "Jody Ohlmeyer".

Jody Ohlmeyer
System Vice President, Finance
Ochsner Health System

Ochsner Health System