

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

REVIEW OF
VENDOR REBATES
PAID TO HOSPITALS

STATEN ISLAND
UNIVERSITY HOSPITAL
STATEN ISLAND, NEW YORK



Daniel R. Levinson
Inspector General

MAY 2007
A-05-07-00055

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:

Office of Audit Services

The Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

OAS FINDINGS AND OPINIONS

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-05-07-00055

Mr. Thomas Reca
Chief Financial Officer
Staten Island University Hospital
475 Seaview Avenue
Staten Island, New York 10305-3498

Dear Mr. Reca:

This final report provides the results of our audit of vendor rebates totaling \$48,014 that a drug manufacturer paid to Staten Island University Hospital of Staten Island, New York. We identified these rebates through a national statistical sample of rebates.

BACKGROUND

Staten Island University Hospital

Staten Island University Hospital (the provider) is one of three tertiary hospitals in the North Shore-Long Island Jewish Health System and is affiliated with the State University of New York Health Science Center in Brooklyn. The 785-bed teaching hospital provides patient care at two sites on Staten Island and through a network of affiliated neighborhood care centers.

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 years 2003 and 2004 Medicare cost reports by the \$48,014 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 \$48,014 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 reports. 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 \$48,014 in rebates received, the provider did not reduce costs reported on its fiscal year 2003 Medicare cost report by \$14,604 for one of the two rebates received in calendar year 2003, contrary to Federal regulations and CMS guidance. The provider properly reduced its fiscal year 2004 Medicare cost report by \$33,410 for the other rebate. The provider stated that due to staff turnover, it could not locate the work papers relating to the \$14,604 rebate and was unable to trace the amount to its 2003 Medicare cost report. 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 \$14,604 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) will revise and resubmit its 2003 Medicare cost report, and (2) established general ledger control accounts to record rebates received, and included detailed steps in its cost report preparation instructions to assure that all rebates are credited on the Medicare cost reports. The provider's written comments are included as the Appendix.

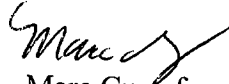
* * * * *

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.

In accordance with 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 are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

If you have any questions or comments about this report, please contact Jaime Saucedo at (312) 353-8693. Please refer to report number A-05-07-00055.

Sincerely,



Marc Gustafson
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Official:

Mr. James Kerr
Regional Administrator
Centers for Medicare & Medicaid Services
26 Federal Plaza, Room 3811
New York, New York 10278

APPENDIX



475 SEAVIEW AVENUE, STATEN ISLAND, NEW YORK 10305-3498

ANTHONY C. FERRERI
PRESIDENT & CHIEF EXECUTIVE OFFICER
(718) 226-9000

IF CHECKED, REPLY TO:
STATEN ISLAND UNIVERSITY HOSPITAL, SOUTH
375 SEGUINE AVENUE, STATEN ISLAND, NEW YORK 10309

IF CHECKED, REPLY TO:
STATEN ISLAND UNIVERSITY HOSPITAL, BUSINESS CENTER
1 EDGEWATER PLAZA, STATEN ISLAND, NEW YORK 10305

April 5, 2007

Marc Gustafson
Regional Inspector General
for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, Illinois 60601

Report Number: A-05-07-00055

Dear Mr. Gustafson:

In response to your letter of March 22, 2007, we want to inform you that Staten Island University Hospital ("Hospital") will implement the recommendations contained on page 3 of your letter.

- The Hospital has not received a final settlement for the year 2003 and therefore will revise and resubmit the 2003 Medicare cost reports. We expect to accomplish this task by April 13, 2007.
- With respect to controls to ensure that vendors' rebates are properly reported in the Medicare cost reports the Hospital has established general ledger control accounts to record rebates received and has included in its cost reports preparation instructions detailing steps to assure that all rebates are credited in the Medicare cost reports (Attachment A).

We appreciate your understanding of our response to your initial inquiry. If you have any questions or require additional information please do not hesitate to contact me.

Very Truly Yours,

A handwritten signature in black ink, appearing to read 'Thomas Reca'.

Thomas Reca
Chief Financial Officer

Attachment - A

**Hospital Procedures to Identify Rebates/Vendors' Credits and Reporting
Of Same in Hospital's Cost Reports**

The Hospital regularly receives Patient Accounts Receivable payments and Non-Patient cash. The Non-Patient cash is analyzed on a daily basis for proper posting and recording.

As part of the daily analysis, any payments/vendor credits received are further reviewed to determine reason.

Any payment identified as a vendor rebate or credit is posted to specific accounts in the general ledger to assure accumulation of all like amounts. The general ledger contains accounts related to specific type of vendor: (1) drugs (2) cardiac services (3) other-general.

At the closing of the fiscal year, the amount and type of payment/credits recorded are communicated to the Hospital's employees responsible for the preparation of its cost reports.

Individuals responsible for the preparation of the cost reports perform the following tasks:

- Confirm/trace amount received to the general ledger balances
- Document in cost report work papers the reduction in expenses reported in cost reports by identifying amount and cost centers where expenses were reduced.