



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

**JUN 29 2005**

Report Number: A-01-04-00524

Mr. John Traverso  
Director of Corporate Reimbursement  
Hartford Hospital  
East Cedar Street  
Newington, Connecticut 06111

Dear Mr. Traverso:


Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Hartford Hospital's Controls to Ensure Accuracy of Wage Data Used for Calculating Inpatient Prospective Payment System Wage Indexes." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

The HHS action official named below 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, OIG reports issued to the Department's grantees and contractors are made available to members of the press and general 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).

Please refer to report number A-01-04-00524 in all correspondence.

Sincerely yours,

  
Michael Armstrong  
Regional Inspector General  
for Audit Services

Enclosures - as stated

Page 2 - Mr. John Traverso

**Direct Reply to HHS Action Official:**

Charlotte S. Yeh, M.D.  
Regional Administrator  
Centers for Medicare & Medicaid Services  
Department of Health and Human Services  
John F. Kennedy Federal Building, Room 2325  
Boston, Massachusetts 02203-0003

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**Review Of Hartford Hospital's  
Controls To Ensure Accuracy Of  
Wage Data Used For Calculating  
Inpatient Prospective Payment  
System Wage Indexes**

**DANIEL R. LEVINSON**  
Inspector General



**JUNE 2005**  
**CIN: A-01-04-00524**

# *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 OIG's 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

## *Office of Evaluation and Inspections*

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. The OEI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

## *Office of Investigations*

The OIG's 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. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The 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.



## EXECUTIVE SUMMARY

### BACKGROUND

Under the acute care hospital inpatient prospective payment system (IPPS), Medicare payments for hospitals are made at predetermined, specific rates for each hospital discharge. The hospital base payment rate consists of a standardized amount that includes a labor-related share. The Centers for Medicare & Medicaid Services (CMS) adjusts the labor-related share by the wage index applicable to the area where the hospital is located.

CMS calculates a distinct wage index for each Core-Based Statistical Area (CBSA) and one statewide wage index per State for the areas that lie outside of CBSAs. CMS based the wage index values in fiscal year (FY) 2005 on wage data collected from the FY 2001 Medicare cost reports submitted by hospitals. Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and the appropriate level of funding to cover hospitals' costs of furnishing services. Hartford Hospital (the hospital), along with 11 other acute care hospitals, is classified into a specific Connecticut urban CBSA.

### OBJECTIVE

The objective of our review was to determine whether the hospital complied with Medicare regulations and guidance for reporting wage data in its FY 2001 Medicare cost report.

### SUMMARY OF FINDINGS

We found that the hospital did not fully comply with Medicare regulations and guidance for reporting wage data in its FY 2001 Medicare cost report. Specifically, the hospital reported wage data that included:

- unreasonable pension costs of \$3,651,298;
- unallowable contract labor services totaling \$1,039,286 in salaries and 27,456 in hours; and
- overstated overhead hours and employees' severance pay without the related hours that understated wages by \$149,674 and hours by 25,499.

These errors occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate and supportable, and in compliance with Medicare regulations and guidance. As a result, the hospital overstated its wage data by \$4,540,910<sup>1</sup> and its average hourly wage rate by about 2 percent for the FY 2001 Medicare cost report period.

---

<sup>1</sup> The overstated wage data will not affect FY 2005 payments because the hospital will be paid based on the higher statewide rural wage index rather than the hospital's CBSA. Section 1886(d)(8)(C)(iii) of the Social Security Act

## **RECOMMENDATION**

We recommend that the hospital strengthen financial reporting controls by implementing procedures for reporting wage data to ensure that the amounts reported on subsequent Medicare cost reports are accurate and supportable, and in compliance with Medicare regulations and guidance.

## **HOSPITAL COMMENTS**

In written comments to our draft report, the hospital did not address the finding related to overstated overhead hours. With regard to the finding that the hospital included employees' severance pay without the related hours, the hospital believes CMS's instructions are not clear on how to report severance hours. The hospital does not concur with the findings of unreasonable pension costs and unallowable contract labor services. Regarding pension costs, the hospital believes its has accurately reported its costs under Generally Accepted Accounting Principles (GAAP) and in accordance with the FY 1995 final rule for IPPS, found in Volume 59 of the Federal Register. Regarding contract labor services, the hospital believes that administrative time associated with contracted therapeutic services is an allowable cost associated with providing direct patient care.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

With respect to pension costs, the hospital did not incur a net periodic pension cost in 2001 under GAAP, but rather recognized a net periodic pension credit of about \$22 million. In reporting wage data, however, the hospital recognized pension costs of \$3.65 million based on selected components of the net periodic pension cost, rather than on all the components used by GAAP. Therefore, we believe that the hospital's inclusion of \$3.65 million in pension costs in its wage data is not reasonable or necessary. Regarding contract labor services, the Provider Reimbursement Manual section 3605.2, line 9, states that allowable contract management services are limited to personnel costs for individuals who are working at the hospital facility as executive officers or the nursing administrator. For wage index purposes, contract labor services do not include other management or administrative services.

---

specifies that the wage index applicable to any hospital that is located in urban areas of a State may not be less than the area wage index applicable to hospitals located in rural areas in that State.

# TABLE OF CONTENTS

	<b>Page</b>
<b>INTRODUCTION</b> .....	1
<b>BACKGROUND</b> .....	1
Medicare Inpatient Prospective Payment System.....	1
Wage Index .....	1
Hartford Hospital.....	1
<b>OBJECTIVE, SCOPE AND METHODOLOGY</b> .....	2
Objective.....	2
Scope.....	2
Methodology.....	2
<b>FINDINGS AND RECOMMENDATIONS</b> .....	3
UNREASONABLE PENSION COSTS.....	3
UNALLOWABLE CONTRACT LABOR SERVICES ... ..	3
MISSTATED HOURS.....	4
CAUSES OF OVERSTATED WAGE DATA .....	4
EFFECT OF OVERSTATED WAGE DATA .....	4
RECOMMENDATION.....	4
HOSPITAL’S COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE.....	4
<b>APPENDIXES</b>	
A - CUMULATIVE EFFECT OF FINDINGS	
B - HARTFORD HOSPITAL COMPLETE COMMENTS	



## **INTRODUCTION**

### **BACKGROUND**

#### **Medicare Inpatient Prospective Payment System**

Under the acute care hospital inpatient prospective payment system (IPPS), Medicare payments for hospital inpatient operating and capital-related costs are made at predetermined specific rates for each hospital discharge. Discharges are classified according to a list of diagnosis-related groups. The hospital base payment rate consists of a standardized amount that includes a labor-related share.

According to the Centers for Medicare & Medicaid Services (CMS), in fiscal year (FY) 2005 Medicare expects to pay about \$105 billion to 3,900 acute care hospitals, an increase of about \$5 billion over FY 2004.

#### **Wage Index**

Geographic designation influences Medicare payment. Under the hospital IPPS, CMS adjusts payments geographically through a wage index to reflect labor cost variations among localities. CMS uses the Office of Management and Budget (OMB) metropolitan area designations to identify labor markets and to calculate and assign wage indexes for hospitals. In 2003, OMB revised its metropolitan statistical area definitions and announced new core-based statistical areas (CBSA). CMS calculates a distinct wage index for each CBSA and one statewide wage index per State for the areas that lie outside of CBSAs. All hospitals within a distinct CBSA wage index or within a rural statewide area receive the same labor payment adjustment.

The wage index values in FY 2005 are based on the wage data collected from the Medicare cost reports submitted by hospitals in FY 2001. Hospitals must accurately report wage data for CMS to determine the equitable distribution of Medicare payments and the appropriate level of funding to cover hospitals' costs of furnishing services. Section 1886(d)(3)(e) of the Act requires that CMS update the wage index annually in a manner that ensures that aggregate payments to hospitals are not affected by changes to hospitals' wage indexes.

#### **Hartford Hospital**

Hartford Hospital (the hospital) is an acute care provider with 819 beds located in Hartford, Connecticut. The hospital, along with 11 other acute care hospitals, is classified into a specific Connecticut urban CBSA. The hospital reported \$245.8 million in wage data in its FY 2001 Medicare cost report.

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

### **Objective**

The objective of our review was to determine whether the hospital complied with Medicare regulations and guidance for reporting wage data in its FY 2001 Medicare cost report.

### **Scope**

Our review covered the wage data that the hospital reported to CMS on Schedule S-3, Part II of its FY 2001 Medicare cost report. Our review of internal controls at the hospital was limited to the control procedures that the hospital used to accumulate and report wage data for its FY 2001 Medicare cost report.

We performed our fieldwork at the hospital's Newington, Connecticut campus from July through August 2004. The hospital's written comments to our draft report are appended in their entirety to this report (see Appendix B) and are summarized and addressed on pages 4 and 5.

### **Methodology**

To accomplish our objective, we:

- ✓ reviewed applicable Medicare laws, regulations, and guidance;
- ✓ obtained an understanding of the hospital's internal control 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 2001 Medicare cost report to its trial balance;
- ✓ selected for testing wage data in the FY 2001 Medicare cost report from cost centers that accounted for at least 2 percent of the total hospital wages;,,;
- ✓ tested a sample of transactions from these cost centers and verified wage data to payroll records;,,
- ✓ reviewed the reasonableness of the hospital's methodology for allocating wage data; and
- ✓ reviewed fiscal intermediary audit reimbursement adjustments made to the wage data that the hospital reported in its FY 2001 Medicare cost report..

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

## FINDINGS AND RECOMMENDATIONS

The hospital did not fully comply with Medicare regulations and guidance for reporting wage data in its FY 2001 Medicare cost report. Specifically, the hospital reported wage data that included:

- unreasonable pension costs of \$3,651,298;
- unallowable contract labor services totaling \$1,039,286 in salaries and 27,456 in hours; and
- overstated overhead hours and employees' severance pay without the related hours (misstated hours) that understated wages by \$149,674 and hours by 25,499.

As a result, the hospital overstated its wage data by \$4,540,910<sup>1</sup> and its average hourly wage rate by about 2 percent for the FY 2001 Medicare cost-reporting period. These errors occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate and supportable, and in compliance with Medicare regulations and guidance. The findings related to errors in reported wage data are discussed in more detail in the following pages and the cumulative effect of the findings is presented in Appendix A.

### UNREASONABLE PENSION COSTS

The Medicare Provider Reimbursement Manual (PRM), part II, section 3605.2, states that hospitals must use Generally Accepted Accounting Principles (GAAP) for determining the wage-related costs for the wage index. However, the amount of wage-related costs reported for the wage index must also meet the reasonable cost provisions of Medicare.

In its FY 2001 audited financial statements, the hospital reported a \$22 million pension credit calculated in accordance with GAAP. However, the hospital included accrued pension costs on Schedule S-3 of its FY 2001 Medicare cost report that overstated wages by \$3,651,298. Because the hospital's pension account was overfunded for FY 2001, the inclusion of \$3,651,298 in accrued pension cost in its wage data is not reasonable or necessary.

### UNALLOWABLE CONTRACT LABOR SERVICES

The PRM, part II, section 3605.2, states that the amounts paid for services furnished under contract are allowable if they are for direct patient care and do not include costs for equipment, supplies, travel expenses, and other miscellaneous or overhead items. Direct patient care services include nursing, diagnostic, therapeutic, and rehabilitative services, and certain management services. Allowable contract services are limited to personnel costs for individuals who are working at the hospital's facility as executive officers or the nursing administrator.

---

<sup>1</sup> The overstated wage data will not affect FY 2005 payments because the hospital will be paid based on the higher statewide rural wage index rather than the hospital's CBSA. Section 1886(d)(8)(C)(iii) of the Social Security Act specifies that the wage index applicable to any hospital that is located in urban areas of a State may not be less than the area wage index applicable to hospitals located in rural areas in that State.

On Schedule S-3 of its FY 2001 Medicare cost report, the hospital included hours and salaries for personnel in a related organization associated with the administration of contract therapy services. This inclusion overstated wage data by \$1,039,286 and total hours by 27,456 because costs for this type of contract management service are not allowable on Schedule S-3.

### **MISSTATED HOURS**

The PRM, part II, section 3605.2, requires hospitals to ensure that the wage data reported on their Medicare cost report is accurate. Section 3605.2 also requires hospitals to record the number of paid hours corresponding to the amounts reported as regular time, overtime, paid holiday, vacation and sick leave, paid time off, and hours associated with severance pay.

The hospital's wage data included overstated overhead hours and employees' severance pay without the related hours that, combined, understated wages by \$149,674 and hours by 25,499. Specifically, the hospital overstated hours to its overhead cost center. Overhead cost is used to determine an overhead exclusion amount that reduces total wages. Because the hospital overstated its overhead exclusion amount, it understated wages by \$96,687 and hours by 7,820. Further, because it omitted hours related to employees' severance pay, the hospital understated wage data by \$52,986 and hours by 17,679.

### **CAUSES OF OVERSTATED WAGE DATA**

Errors in reported wage data occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate and supportable, and in compliance with Medicare regulations and guidance.

### **EFFECT OF OVERSTATED WAGE DATA**

The hospital overstated its wage data by \$4,540,910 and its average hourly wage rate by about 2 percent for the FY 2001 Medicare cost report period.

### **RECOMMENDATION**

We recommend that the hospital strengthen its financial reporting controls by implementing procedures to ensure that the wage data reported on subsequent Medicare cost reports are accurate and supportable, and in compliance with Medicare regulations and guidance.

### **HOSPITAL'S COMMENTS AND OFFICE OF INSPECTOR GENERAL'S RESPONSE**

In written comments to our draft report, the hospital did not address the finding related to overstated overhead hours. With regard to the finding that the hospital included employees' severance pay without the related hours, the hospital believes CMS's instructions are not clear on how to report severance hours. The hospital does not concur with the findings pertaining to unreasonable pension costs and unallowable contract labor services.

## **Unreasonable Pension Costs**

### **Hospital's Comments**

The hospital believes that it accurately reported pension costs under GAAP. The hospital states that the FY 1995 final rule for IPPS, found in Volume 59 of the Federal Register, clearly recommends using GAAP to compute the wage index. Therefore, the hospital believes it has accurately reported pension costs in accordance with the intent of the regulations governing wage index computations.

### **Office of Inspector General's Response**

Under GAAP, the hospital did not incur a net periodic pension cost<sup>2</sup> in 2001, but rather recognized a net periodic pension credit of about \$22 million, largely because of the “expected return on plan assets” for the period. As a result, the hospital’s prepaid pension cost reported in its statement of financial position increased from \$6.3 million in 2000 to \$28.3 million in 2001. In reporting wage data, however, the hospital recognized pension costs of \$3.65 million based on selected components of the net periodic pension cost, rather than on all of the components used by GAAP. Therefore, we believe that the hospital’s inclusion of \$3.65 million in pension costs in its wage data is not reasonable or necessary.

## **Unallowable Contract Labor Services**

### **Hospital's Comments**

The hospital contracts with a related party to provide therapeutic services to its patients. The hospital believes that administrative time associated with the contract should be included in the contract service cost because it represents an allowable cost associated with providing direct patient care.

### **Office of Inspector General's Response**

The hospital included costs for the site director, the medical administrative assistant, a patient service representative, and other management or administrative positions, all of whom were furnished through a contract with a related organization to provide therapeutic services. The PRM, part II, section 3605.2 states that allowable contract management services are limited to personnel costs for individuals who are working at the hospital facility as executive officers or the nursing administrator. For wage index purposes, contract labor services do not include other management or administrative services.

---

<sup>2</sup> GAAP defines net periodic pension cost as the amount recognized in the employer’s financial statements as the cost of the pension plan for a period. GAAP uses several components to compute net periodic pension cost, including service cost, interest cost, return on plan assets, and amortization costs.

# **APPENDIXES**

CUMULATIVE EFFECT OF FINDINGS

Components	Reported FY 2001 Wage Data	Unreasonable Pension Costs	Unallowable Contract Labor Services	Misstated Hours		Adjusted FY 2001 Wage Data
				Severance Pay without Hours	Overstated Overhead Hours	

**Hartford Hospital**  
*Work Sheet S-3, Part II*

**Total Salaries**  
line/col. 3

TOTAL SALARIES

\$240,814,814.00

\$240,814,814.00

**Excluded Salaries**

TEACHING PHYSICIAN SALARIES	\$3,568,975.00
PHYSICIAN - FT B	\$4,050,426.00
INTERNS AND RESIDENTS	\$2,286,085.00
SNF SALARIES	\$2,420,564.00
EXCLUDED AREA SALARIES	\$26,440,430.00
subtotal (subtrac)	\$38,765,480.00

TEACHING PHYSICIAN SALARIES	\$3,568,975.00					\$3,568,975.00
PHYSICIAN - FT B	\$4,050,426.00					\$4,050,426.00
INTERNS AND RESIDENTS	\$2,286,085.00					\$2,286,085.00
SNF SALARIES	\$2,420,564.00					\$2,420,564.00
EXCLUDED AREA SALARIES	\$26,440,430.00					\$26,440,430.00
subtotal (subtrac)	\$38,765,480.00					\$38,765,480.00

**Additional Salaries**

CONTRACT LABOR	\$7,674,770.00
CONTRACT LABOR-Physician Part A	\$2,797,077.00
WAGE-RELATED COST (CORE)	\$36,430,400.00
Wage related cost-other	\$2,538,757.00
Physician Part A	\$689,591.00
adjusted salaries	\$50,110,595.00
sub-tot-b (ADD)	\$282,159,929.00

CONTRACT LABOR	\$7,674,770.00					\$7,674,770.00
CONTRACT LABOR-Physician Part A	\$2,797,077.00					\$2,797,077.00
WAGE-RELATED COST (CORE)	\$36,430,400.00					\$36,430,400.00
Wage related cost-other	\$2,538,757.00					\$2,538,757.00
Physician Part A	\$689,591.00					\$689,591.00
adjusted salaries	\$50,110,595.00					\$50,110,595.00
sub-tot-b (ADD)	\$282,159,929.00					\$282,159,929.00

**Total Paid Hours**  
line/col. 4

TOTAL HOURS

10,353,252.00

15,826.71

10,369,078.71

**Excluded Hours**

TEACHING PHYSICIAN HOURS	37,936.00
PHYS PT B HOURS	44,190.00
INTERNS AND RESIDENTS HOURS	113,683.00
SNF HOURS	123,613.00
EXCLUDED AREAS HOURS	1,108,729.00
sub-tot-c (LESS)	1,428,151.00

TEACHING PHYSICIAN HOURS	37,936.00					37,936.00
PHYS PT B HOURS	44,190.00					44,190.00
INTERNS AND RESIDENTS HOURS	113,683.00					113,683.00
SNF HOURS	123,613.00					123,613.00
EXCLUDED AREAS HOURS	1,108,729.00					1,108,729.00
sub-tot-c (LESS)	1,428,151.00					1,428,151.00

**Additional Hours**

CONTRACT LABOR HOURS	198,542.00
CONTRACT LABOR-Physician Part A HR	42,179.00
adjusted hours	241,121.00
sub-tot-d (ADD)	9,166,222.00

CONTRACT LABOR HOURS	198,542.00					198,542.00
CONTRACT LABOR-Physician Part A HR	42,179.00					42,179.00
adjusted hours	241,121.00					241,121.00
sub-tot-d (ADD)	9,166,222.00					9,166,222.00

CUMULATIVE EFFECT OF FINDINGS

Components	Reported FY 2001 Wage Data	Unreasonable Pension Costs	Unallowable Contract Labor Services	Misstated Hours		Adjusted FY 2001 Wage Data
				Severance Pay without Hours	Overstated Overhead Hours	
<b>Hartford Hospital</b>						
<b>Work Sheet S - 3, Part III</b>						
<b>OVERHEAD(OH) ALLOCATION</b>						
Line1/col. 3	TOTAL OVERHEAD WAGES	\$79,773,457.00				\$79,773,457.00
Line1/col. 4	TOTAL OVERHEAD HOURS	3,821,094.00				3,795,911.00
	TOTAL HOURS	10,353,252.00				10,359,078.71
	LESS:					
	TEACHING PHYSICIAN HOURS	37,936.00				37,936.00
	PHYS PT B HOURS	44,190.00				44,190.00
	INTERN AND RESIDENTS HOURS	113,683.00				113,683.00
	TOTAL OVERHEAD HOURS	3,821,094.00				3,795,911.00
	SUBTOTAL ->	4,016,903.00				3,991,720.00
	OVERHEAD REDUCTION FOR EXCLUDED AREAS- HOURS	6,336,349.00			15,826.71	6,377,368.71
	SNF HOURS	123,613.00				123,613.00
	EXCLUDED AREA HOURS (e.g: home health)	1,108,729.00				1,108,729.00
	SUBTOTAL ->	1,232,342.00				1,232,342.00
	EXCLUDED OVERHEAD RATE	0.1945				0.1932
	(entire excluded area hrs)/revised hourly	\$15,514,956.89		(0.0005)		\$15,416,167.70
	EXCLUDED OVERHEAD WAGES (SOH X Excluded OH rate)	743,155.82		(1,851.60)		733,610.65
	EXCLUDED OVERHEAD HOURS (OH Hrs X Excluded OH rate)					
	OVERHEAD RATE	0.3762				0.3731
	(oh hrs)/(revised hr + oh hrs)	\$36,430,400.00		(0.0006)		\$32,792,387.00
	WAGE-RELATED COST (CORE)	\$2,538,757.00				\$2,538,757.00
	WAGE-RELATED COST(OTHER)	\$689,591.00				\$681,666.66
	PHYSICIAN PART A	\$39,638,748.00		(\$107,926.35)		\$39,530,821.65
	SUBTOTAL	\$14,911,506.05		(\$3,745,938.35)		\$11,165,567.70
	overhead work wage-related cost (\$39,638,748.00 X .3762)	\$2,538,757.00		(\$1,409,171.83)		\$1,129,585.17
	excluded work wage-related cost (\$14,911,506.05 X .01945)	\$289,116.32		(\$274,066.60)		\$14,637,449.45
	Adjusted Salaries	\$15,514,956.89		(\$3,745,938.35)		\$11,769,018.54
	Less: excluded overhead salaries	\$2,900,116.32		(\$274,066.60)		\$2,626,049.72
		\$233,744,855.80		(\$3,471,871.75)		\$230,272,984.05
	MULTIPLY BY : INFLATION FACTOR	1.05168				1.05168
	( Per Federal Register)	\$245,824,789.95		(\$3,661,298.00)		\$242,163,491.95
	INFLATED WAGES (Adjusted Wages used in report) -	8,423,066.18		0.00		8,423,066.18
	REVISIED HOURS (Adjusted Hours used in report) -	\$29,1847		-\$0.4336		\$28,7511
	(adjusted hours - excluded oh hrs)					
	Average hourly wage					





## HARTFORD HOSPITAL COMPLETE COMMENTS

May 26, 2005

Mr. Michael J. Armstrong  
Regional Inspector General  
For Audit Services, Region I  
Office of Audit Services  
John F. Kennedy Federal Building, Rm 2425  
Boston, MA 02203

**RE: Hartford Hospital  
FYE 9/30/01  
Report Number A-01-04-00524**

Dear Mr. Armstrong,

Hartford Hospital would like to take this opportunity to respond to the draft report entitled "Review of Hartford Hospital's Controls to Ensure Accuracy of Wage Data Used for Calculating Inpatient Prospective Payment System Wage Indexes."

As footnoted in the OIG report, Hartford Hospital defaults to the statewide rural wage index rate since Hartford Hospital's rate is less than the Connecticut statewide rural wage index rate for FY2001, similar to previous years. Thus, there is no monetary impact to these findings. However, the Hospital wishes to respond to the OIG findings due to future implications of current OIG interpretations.

### Pension Costs

**OIG Comment** - The hospital overstated its wage related costs by establishing an accrual for the pension plan that had already been over funded based on actuarial estimates.

**Hartford Hospital Response** - The Hospital believes that the reporting of the pension expense under GAAP is in accordance with directives for completion of the HCFA 339 questionnaire, Exhibit 7, for purposes of the wage index computation.

The Federal Register, dated September 1, 1994 (attached) noted the inconsistencies among hospitals nationally, in reporting fringe benefits, which led to further clarification of the Exhibit 7 of the CMS 339 questionnaire, specifying what should be reported as wage-related costs. The term "Wage-Related" was used to distinguish wage index benefits from the Fringe Benefits required by Medicare principles for cost reimbursement purposes. Thus, when the Medicare principles address the term "Fringe Benefits", they are referring to those benefits required for cost reporting purposes (specifically, CMS 2552), whereas, "Wage-



Related Costs” refer to benefits to be used in the wage index computation (specifically, the S-3 Part II filing).

The September 1, 1994 regulation is clear in its recommendation of the application of GAAP for the purpose of the wage index computation, which is to measure relative hospital labor costs across all areas. This is different from the Medicare cost reimbursement function for measuring actual costs incurred by providers. In particular, the regulation states, “We believe the application of GAAP for purposes of compiling data on Wage-Related Costs used to construct the wage index will more accurately reflect relative labor costs, because certain wage-related costs (such as pension costs) as recorded under GAAP tend to be more static from year to year”.

The FY2001 Hartford Hospital pension expense reported on Exhibit 7 of the CMS 339 questionnaire was in agreement with that reported on the audited Financial Statements, and in accordance with GAAP. The Hospital believes it has accurately reported pension expense in accordance with the intent and guidelines of the regulations governing wage index computations.

#### **Contract Labor**

***OIG Comment*** - Costs not related to direct patient care were included in the total contract services expense included on W/S S-3 Pt II.

***Hartford Hospital Response*** - Hartford Hospital contracts with the Eastern Rehab Network (ERN), a related organization, to provide therapeutic services to Hartford Hospital patients. Therapeutic services are billed to Hartford Hospital and the hours and dollars are detailed by service. As with any contract service, there is administrative time associated with the contract and this is included. Since this is a related party, the Hospital reported the hours and dollars of administrative time that ERN expends on services provided to the hospital. This was included in the contract service cost as it represented an allowable cost associated with providing direct patient care. The auditors viewed such overhead cost associated with the contract as not being direct patient care related. In preparation of the S-3 Pt II contract labor cost, the Hospital considered the administrative time as a component of the cost of providing direct patient care. For most contract service situations, it is common practice for the hourly rate to include the overhead cost to provide services.

The Hospital takes exception with the OIG audit position relative to the determination of allowable direct patient care costs of this contract. Besides not recognizing the overhead cost of ERN to provide this service, the OIG did not recognize all the personnel who did perform direct patient care. This is particularly troublesome since our staffing patterns are driven by the Medicare conditions of participation. The OIG based direct patient care solely on the title of the position without regard to the duties/functions of the position. In fact, ERN had provided a summary of the positions that identified those individuals who provided direct patient care. It is unclear as to why this was not utilized by the OIG. It is artificial and arbitrary to exclude the costs associated with providing the service such as overhead. These services cannot be looked at in a vacuum.

**Reported Severance with No Associated Paid Hours**

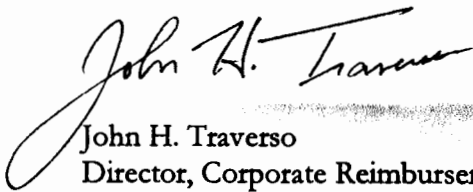
**OIG Comment** -The hospital included severance pay for employees as wage data without recording the appropriate hours.

**Hartford Hospital Response** - Hartford Hospital has a standard severance pay policy that compensates full-time, part-time and modified workweek employees who are terminated as a result of staff reduction and/or reorganization. This benefit is based on years of service with a range of 1 week earned for 6 months of service, up to 52 weeks earned for length of service of 30 years and higher.

The as filed Medicare cost report submission included severance in salary expense the same as bonus pay. The OIG auditors imputed hours for severance pay in order to report an impact in their finding. The Hospital believes that the instructions are not clear in how to report severance hours, if at all. If hospitals are to impute hours for severance pay, then the methodology should be stated. The phrase "hours associated with severance pay" is open to various interpretations and can lead to disparate results. Wage index data should be reported in a consistent manner for all hospitals to arrive at an equitable computation. It would be helpful for CMS to issue a detailed clarification on this issue and the circumstances when a process of imputing hours is required to ensure consistent and accurate reporting of wage index data for all hospitals.

It is the Hospital's hope and expectation that the response provided herein will be considered prior to final issuance of any conclusion as to the accuracy of the Wage Data. We also want to assure you that the Hospital continues to be fully committed to compliance with the Medicare program requirements for Wage Index. In the event you disagree with the positions we have taken in this letter, I would appreciate the opportunity to once again discuss the matter with you. In the meantime, if I can be of further assistance, please do not hesitate to call.

Sincerely,



John H. Traverso  
Director, Corporate Reimbursement