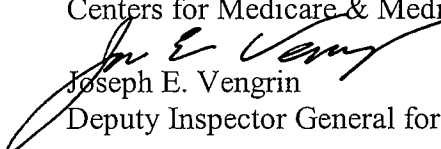




MAY 22 2006

TO: Wynethea Walker
Director, Audit Liaison Staff
Centers for Medicare & Medicaid Services

FROM: 
Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of Controls to Report Wage Data at Sarasota Memorial Hospital for the Period of October 1, 2002, Through September 30, 2003 (A-04-05-02001)

Attached is an advance copy of our final report on Sarasota Memorial Hospital's (the hospital's) reported fiscal year (FY) 2003 wage data. We will issue this report to the hospital within 5 business days. This review is one in a series of reviews determining the accuracy of the wage data reported by inpatient prospective payment system (IPPS) hospitals that will be used by the Centers for Medicare & Medicaid Services (CMS) for developing the FY 2007 wage indexes.

Under the acute care hospital IPPS, Medicare payments for hospitals are made at predetermined, diagnosis-related rates for each hospital discharge. The payment system base rate is composed of a standardized amount that includes a labor-related share. CMS adjusts the labor-related share by the wage index applicable to the area in which the hospital is located.

The objective of our review was to determine whether the hospital complied with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report.

The hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report. Specifically, the hospital reported the following inaccurate data, which affected the numerator and denominator of the wage rate calculation:

- unallowable salaries and related benefits, which overstated wage data by \$2,777,888 and 140,510 hours;
- misstated contract labor services, which overstated salaries by \$297,353 and understated hours by 516;
- overstated physician Part A contract labor services, which overstated wage data by \$178,601 and 1,561 hours;
- overstated total hours, which understated wage data by \$3,796,048 and 317,250 hours;
- understated wage-related benefit costs, which understated wage data by \$2,368,352; and

- understated salaries, which understated wage data by \$15,887.

These errors occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate, supportable, and in compliance with Medicare regulations and guidance. As a result, the hospital understated its wage data by \$2,926,445 (numerator) and 175,695 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate about 1 percent, from \$27.87 to \$27.56. If the hospital does not revise the wage data in its cost report, the FY 2007 wage index for this core-based statistical area will be overstated, which will result in overpayments to this hospital and to the other hospitals that use this wage index.

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the understatements in the wage data totaling \$2,926,445 and 175,695 hours and
- implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

In written comments on the draft report, the hospital agreed with the findings and recommendations.

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 Lori S. Pilcher, Regional Inspector General for Audit Services, Region IV, at (404) 562-7750. Please refer to report number A-04-05-02001.

Attachment

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services



REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

MAY 23 2006

Report Number: A-04-05-02001

Mrs. Janet Krail
Director of System Reimbursement
Sarasota Memorial Health Care System
1700 South Tamiami Trail
Sarasota, Florida 34239-3555

Dear Mrs. Krail:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Controls to Report Wage Data at Sarasota Memorial Hospital for the Period of October 1, 2002, Through September 30, 2003." A copy of this report will be forwarded to the action official named 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 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.

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-04-05-02001 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori S. Pilcher", with a long horizontal line extending to the right.

Lori S. Pilcher
Regional Inspector General
for Audit Services, Region IV

Enclosures

Page 2 - Mrs. Janet Krail

Direct Reply to HHS Action Official:

Mr. Roger Perez
Acting Regional Administrator
Centers for Medicare & Medicaid Services, Region IV
Department of Health and Human Services
61 Forsyth Street S.W., Suite 4T20
Atlanta, Georgia 30303

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF CONTROLS TO
REPORT WAGE DATA AT
SARASOTA MEMORIAL HOSPITAL
FOR THE PERIOD OF
OCTOBER 1, 2002, THROUGH
SEPTEMBER 30, 2003**



Daniel R. Levinson
Inspector General

May 2006
A-04-05-02001

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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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
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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 inpatient prospective payment system for acute care hospitals, Medicare Part A pays hospitals at predetermined, diagnosis-related rates for patient discharges. The Centers for Medicare & Medicaid Services (CMS) adjusts hospital payments by the wage index applicable to the area in which each hospital is located.

CMS calculates a wage index for each core-based statistical area (CBSA) and one statewide rural wage index per State for areas that lie outside CBSAs. CMS will base the fiscal year (FY) 2007 wage indexes on wage data collected from the Medicare cost reports submitted by hospitals for their FYs that began during Federal FY 2003. Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and ensure the appropriate level of funding to cover their costs of furnishing services.

Sarasota Memorial Hospital (the hospital) reported wage data of \$164.9 million and 5.92 million hours on its FY 2003 Medicare cost report, which resulted in an average hourly wage rate of \$27.87. The \$27.87 average hourly wage rate is the quotient of \$164.9 million (numerator) divided by 5.92 million hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations. Therefore, inaccuracies in either the dollar amounts or hours reported may have varying effects on the final rate computation.

As of FY 2005, the wage index for one urban CBSA applied to the hospital and five other hospitals.

OBJECTIVE

The objective of our review was to determine whether the hospital complied with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report.

SUMMARY OF FINDINGS

The hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report. Specifically, the hospital reported the following inaccurate data, which affected the numerator and denominator of the wage rate calculation:

- unallowable salaries and related benefits, which overstated wage data by \$2,777,888 and 140,510 hours;
- misstated contract labor services, which overstated salaries by \$297,353 and understated hours by 516;
- overstated physician Part A contract labor services, which overstated wage data by \$178,601 and 1,561 hours;

- overstated total hours, which understated wage data by \$3,796,048 and 317,250 hours;
- understated wage-related benefit costs, which understated wage data by \$2,368,352; and
- understated salaries, which understated wage data by \$15,887.

These errors occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate, supportable, and in compliance with Medicare regulations and guidance. As a result, the hospital understated its wage data by \$2,926,445 (numerator) and 175,695 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate about 1 percent, from \$27.87 to \$27.56. If the hospital does not revise the wage data in its cost report, the FY 2007 wage index for this CBSA will be overstated, which will result in overpayments to this hospital and to the other hospitals that use this wage index.¹

RECOMMENDATIONS

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the understatements in the wage data totaling \$2,926,445 and 175,695 hours and
- implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

HOSPITAL'S COMMENTS

In written comments on the draft report, the hospital agreed with our findings and recommendations.

The complete text of the hospital's comments is included as Appendix B.

¹The extent of understatement cannot be determined until CMS finalizes its FY 2007 wage indexes.

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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 inpatient costs at predetermined, diagnosis-related rates for patient discharges. Medicare Part B, on the other hand, pays for medical costs such as physicians' services rendered to patients, clinical laboratory services, and outpatient hospital services.

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

Wage Index

The geographic designation of hospitals influences their Medicare payments. Under the hospital inpatient prospective payment system, CMS adjusts payments 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 to hospitals. In 2003, OMB revised its metropolitan statistical area definitions and announced new core-based statistical areas (CBSAs). CMS calculates a wage index for each CBSA and one statewide rural wage index per State for areas that lie outside CBSAs. The wage index for each CBSA and the 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 the cost report settlement process and CMS's data review. Accordingly, wage data collected from the Medicare cost reports submitted by hospitals for their FYs that began during Federal FY 2003 will be used to calculate wage index values in FY 2007. 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. Therefore, inaccuracies in either the dollar amounts or hours reported may have varying effects on the final rate computation.

Hospitals must accurately report wage data for CMS to determine the equitable distribution of Medicare payments and ensure the appropriate level of funding to cover their costs of furnishing services. Section 1886(d)(3)(E) of the Social Security Act requires that CMS update the wage indexes annually in a manner that ensures that aggregate payments to hospitals are not affected by changes in the indexes.

Sarasota Memorial Hospital

Sarasota Memorial Hospital (the hospital) is an 828-bed regional medical center, the second largest public hospital in Florida, located in Sarasota. As of FY 2005, the wage index for one urban CBSA applied to this hospital and five other hospitals.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our review was to determine whether the hospital complied with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report.

Scope

Our review covered the \$164.9 million and 5.92 million hours that the hospital reported to CMS on Worksheet S-3, part II, of its FY 2003 (October 1, 2002, through September 30, 2003) Medicare cost report, which resulted in an average hourly wage rate of \$27.87. 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 FY 2003 Medicare cost report.

We performed our fieldwork at the hospital's corporate office in Sarasota, Florida, from February through April 2005.

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 2003 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;
- selected for testing wage data in the FY 2003 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 reconciled wage data to payroll records;

- interviewed hospital staff regarding the nature of services that employees and contracted labor provided to the hospital;
- reviewed the reasonableness of the hospital's methodology for wage data allocations;
- reviewed the hospital's proposed adjustments to the wage data on its FY 2003 Medicare cost report; 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 (see Appendix A).

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

FINDINGS AND RECOMMENDATIONS

The hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2003 Medicare cost report. Specifically, the hospital reported the following inaccurate data, which affected the numerator and the denominator of the wage rate calculation:

- unallowable salaries and related benefits, which overstated wage data by \$2,777,888 and 140,510 hours;
- misstated contract labor services, which overstated salaries by \$297,353 and understated hours by 516;
- overstated physician Part A contract labor services, which overstated wage data by \$178,601 and 1,561 hours;
- overstated total hours, which understated wage data by \$3,796,048 and 317,250 hours;
- understated wage-related benefit costs, which understated wage data by \$2,368,352; and
- understated salaries, which understated wage data by \$15,887.

These errors occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate, supportable, and in compliance with Medicare regulations and guidance. As a result, the hospital understated its wage data by \$2,926,445 (numerator) and 175,695 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly wage rate about 1 percent, from \$27.87 to \$27.56. If the hospital does not revise the wage data in its cost report, the FY 2007

wage index for this CBSA will be overstated, which will result in overpayments to this hospital and to the other hospitals that use this wage index.¹

ERRORS IN REPORTED WAGE DATA

The errors in reported wage data are discussed in detail below, and the cumulative effect of the findings is presented in Appendix A.

Unallowable Salaries and Related Benefits

The “Provider Reimbursement Manual” (the Manual), part I, section 2102.2, states that costs related to patient care include all necessary and proper costs that are appropriate and helpful in developing and maintaining the operation of patient care facilities and activities. Additionally, the Manual, part II, section 3605.2, requires hospitals to ensure that the data on their Medicare cost reports are accurate.

The hospital reported \$1,444,967 in salaries and related benefits and 91,149 in hours for a daycare and summer camp not related to patient care on its FY 2003 Medicare cost report. The hospital also disclosed that it did not account for \$149,945 in fringe benefits for capital-related salaries that it had removed. The total errors of \$1,594,912 and 91,149 hours resulted in the hospital’s wage data being overstated by \$2,777,888 and 140,510 hours when we included the overhead factor in the calculation.

Misstated Contract Labor Services

The Manual, part II, section 3605.2, requires hospitals to ensure that the data on the Medicare cost reports are accurate.

The hospital disclosed that it had overstated its contract labor services by \$297,353 and understated hours by 516. A review of the hospital’s documentation supported this adjustment. As a result, the hospital wage data was overstated by \$297,353 and understated by 516 hours.

Overstated Physician Part A Contract Labor Services

The Manual, part II, section 3605.2, states that if a hospital is unable to accurately determine the number of hours associated with contracted labor services, the wages should not be reported. Section 3605.2 also states that the data on the hospital’s Medicare cost report should be accurate.

The hospital included physician Part A contract labor services of \$141,285 based on 1,561 overstated hours. The hospital could not determine the hours associated with \$37,316 in physician Part A contract labor services. We verified this to supporting documentation. As a result of these two instances in which the hospital could not account for the hours, the hospital wage data was overstated by a total of \$178,601 and 1,561 hours.

¹The extent of understatement cannot be determined until CMS finalizes its FY 2007 wage indexes.

Overstated Total Hours

The Manual, part II, section 3605.2, requires hospitals to ensure that the data on their Medicare cost reports are accurate. Section 3605.3 requires hospitals to record the number of paid hours corresponding to the amounts reported as regular time, overtime, paid holidays, vacation and sick leave, paid time off, and severance pay. However, this section of the Manual states that no hours are required for bonus payments.

The hospital disclosed that it had overstated reported hours by 458,015. We verified that these overstated hours included 309,657 reported inaccurately for the home health agency, an excluded area cost center, and 148,358 reported inaccurately for the hospital, of which 98,671 was for bonus payments and 49,687 was due to reconciliation errors. Due to these errors, the hospital understated reported hours by 161,299. Our inclusion of the additional 161,299 hours increased reported wage data by \$3,796,048 and 317,250 hours.

Understated Wage-Related Benefit Costs

The Manual, part II, section 3605.2, requires hospitals to report wage-related benefit costs on Exhibit 7 of Form CMS 339. Exhibit 7 is a standardized core list of wage-related benefit costs. Hospitals may report costs as exceptions to the core list if, among other requirements, (1) the cost is not listed on Exhibit 7, part I, of Form CMS 339 and (2) the total cost of the particular wage-related benefit exceeds 1 percent of total salaries after direct excluded salaries are removed.

The hospital disclosed during our review that it did not report health insurance expenses for its employees, which is a wage-related benefit cost listed on Exhibit 7. The hospital's documentation showed that it should have reported \$2,586,615 for health insurance costs. As a result, the hospital understated its wage data by \$2,368,352 when we included the overhead factor in the calculation.

Understated Salaries

The Manual, part II, section 3605.2, requires hospitals to ensure that the data on their Medicare cost reports are accurate.

The hospital disclosed that it had understated salaries on its Medicare cost report because of reconciliation errors. The hospital's supporting documentation showed that it had understated salaries by \$15,887. As a result, the hospital's wage data was understated by \$15,887.

CAUSES OF WAGE DATA REPORTING ERRORS

The 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, supportable, and in compliance with Medicare regulations and guidance.

MISSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS

As a result of the reporting errors, the hospital understated its wage data by \$2,926,445 (numerator) and 175,695 hours (denominator) for the FY 2003 Medicare cost report period. Our correction of the hospital's errors reduced the average hourly rate about 1 percent, from \$27.87 to \$27.56. If the hospital does not revise the wage data in its cost report, the FY 2007 wage index for this CBSA will be inflated, which will result in overpayments to this hospital and to the other hospitals that use this wage index.

RECOMMENDATIONS

We recommend that the hospital:

- submit a revised FY 2003 Medicare cost report to the fiscal intermediary to correct the wage data understatements totaling \$2,926,445 and 175,695 hours and
- implement review and reconciliation procedures to ensure that the wage data reported on future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

HOSPITAL'S COMMENTS

In written comments on the draft report, the hospital agreed with our findings and recommendations. The hospital stated that it has already implemented procedures to ensure that the wage data reported on future cost reports will be accurate, supportable, and in compliance with Medicare requirements. The hospital noted that it makes every effort to ensure that it complies with Medicare regulations and that the correct wage data is reported on its Medicare cost report.

The complete text of the hospital's comments is included as Appendix B.

APPENDIXES

CUMULATIVE EFFECT OF FINDINGS

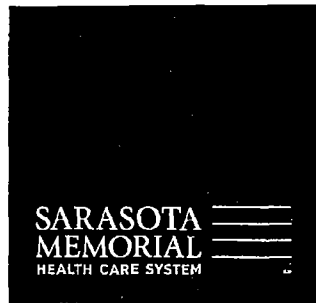
Components	Reported FY 2003 Wage Data	Unallowable Salaries & Benefit costs		Misstated Contract Labor Services	Overstated Physician Part A Contract Labor Services	Overstated Total Hours	Understated Salaries	Understated Wage-Related Benefit Costs	Adjusted FY 2003 Wage Data
		Childcare & Summer camp	Benefits include cost for capitalized salaries						
Sarasota Memorial Hospital									
<i>Schedule S-3, Part II</i>									
Total Salaries									
line1/col. 3	Total Salaries	\$144,047,455.00					\$15,887.00		\$144,063,342.00
Excluded Salaries									
line 4.01/col. 3	Teaching Physician								
line5/col. 3	Physician- Part B								
line 5.01/col.3	Non-physician Part B								
line6/col. 3	Interns and Residents								
line6.01/col. 3	Contract Services - Interns and Residents								
line7/col. 3	Home Office Personnel								
line 8/col. 3	Skilled Nursing Facility (SNF)	\$2,175,390.00							\$2,175,390.00
line8.01/col. 3	Excluded Area	\$11,750,159.00	\$1,042,767.00						\$12,792,926.00
subtotal (subtract)		\$13,925,549.00	\$1,042,767.00						\$14,968,316.00
Additional Salaries									
line9/col. 3	Contract Labor	\$10,603,927.00			(\$297,353.00)				\$10,306,574.00
line 10/col. 3	Contract Labor - Physician Part A	\$1,336,981.00			(\$178,601.00)				\$1,158,380.00
line 10.01/col. 3	Contract Labor -Teaching Physician								
line11/col. 3	Home Office								
line13/col. 3	Wage-Related Cost (Core)	\$35,448,516.00	(\$402,200.00)	(\$149,945.00)				\$2,586,615.00	\$37,482,986.00
line 14/col. 3	Wage-Related Cost (Other)								
line 18/col. 3	Wage-Related Cost - Physician Part A								
subtotal (add)		\$47,389,424.00	(\$402,200.00)	(\$149,945.00)	(\$297,353.00)	(\$178,601.00)		\$2,586,615.00	\$48,947,940.00
Adjusted Salaries		\$177,511,330.00	(\$1,444,967.00)	(\$149,945.00)	(\$297,353.00)	(\$178,601.00)	\$15,887.00	\$2,586,615.00	\$178,042,966.00
Total Paid Hours									
line1/col. 4	Total Hours	7,198,827.52				(148,358.12)			7,050,469.40
Excluded Hours									
line 4.01/col. 4	Teaching Physician								
line5/col. 4	Physician Part B								
line 5.01/col. 4	Non-physician Part B								
line6/col. 4	Intern and Residents								
line6.01/col. 4	Contract Services - Interns and Residents								
line7/col. 4	Home Office Personnel								
line 8/col. 4	Skilled Nursing Facility (SNF)	92,322.19							92,322.19
line8.01/col. 4	Excluded Area	878,158.10	91,149.00			(309,657.00)			659,650.10
subtotal (subtract)		970,480.29	91,149.00	0.00	0.00	(309,657.00)		0.00	751,972.29
Additional Salaries									
line9/col. 4	Contract Labor	194,471.62			516.00				194,987.62
line 10/col. 4	Contract Labor - Physician Part A	18,426.00			(1,561.00)				16,865.00
line 10.01/col. 4	Contract Labor -Teaching Physician								
line11/col. 4	Home Office								
subtotal (add)		212,897.62	0.00	0.00	516.00	(1,561.00)	0.00	0.00	211,852.62
Adjusted Hours		6,441,244.85	(91,149.00)	0.00	516.00	(1,561.00)	161,298.88	0.00	6,510,349.73

CUMULATIVE EFFECT OF FINDINGS

APPENDIX A

Components	Reported FY 2003 Wage Data	Unallowable Salaries & Benefit costs		Misstated Contract Labor Services	Overstated Physician Part A Contract Labor Services	Overstated Total Hours	Understated Salaries	Understated Wage-Related Benefit Costs	Adjusted FY 2003 Wage Data	
		Childcare & Summer camp	Benefits include cost for capitized salaries							
Sarasota Memorial Hospital										
<i>Schedule S-3, Part II</i>										
Overhead Allocation										
line13/col. 3	Total Overhead Salaries	\$46,303,272.00							\$46,303,272.00	
line13/col. 4	Total Overhead Hours	2,528,947.49							2,528,947.49	
	Total Hours	7,198,827.52				(148,358.12)			7,050,469.40	
	Less:									
	Teaching Physician Hours									
	Physician Part B Hours									
	Non-physician Part B									
	Intern and Residents Hours									
	Total Overhead Hours	2,528,947.49							2,528,947.49	
	Subtotal -	2,528,947.49							2,528,947.49	
	Revised Hours	4,669,880.03				(148,358.12)			4,521,521.91	
	Overhead Reduction For Excluded Area Hours									
	SNF Hours	92,322.19							92,322.19	
	Excluded Area Hours	878,158.10	91,149.00			(309,657.00)			659,650.10	
	Subtotal -	970,480.29	91,149.00			(309,657.00)			751,972.29	
	Excluded Overhead Rate [(SNF+Excluded Area Hours)/Revised Hours]	0.2078	0.0195			0.0617			0.1663	
	Excluded Overhead Salaries * Excluded Overhead Rate	\$9,622,605.41	\$903,769.89			(\$2,855,352.89)			\$7,700,676.49	
	Excluded Overhead Hours Excluded Overhead Rate	525,558.19	49,361.23			(155,950.91)			420,588.13	
	Overhead Rate (Overhead Hours/(Revised Hours + Overhead Hours))	0.4060	0.0060			0.0102			0.4015	
	Wage-Related Cost (Core)	\$35,448,516.00	(\$402,200.00)	(\$149,945.00)			\$2,586,615.00		\$37,482,986.00	
	Wage-Related Cost (Other)									
	Wage-Related Cost - Physician Part A									
	Total Wage-Related Cost -	\$35,448,516.00	(\$402,200.00)	(\$149,945.00)			\$2,586,615.00		\$37,482,986.00	
	Overhead Wage-Related Cost	\$14,393,455.00	\$48,035.98	(\$60,883.41)		(\$363,345.35)	\$1,050,264.74		\$15,050,019.35	
	Excluded Wage-Related Cost	\$2,991,204.12	\$291,858.77	(\$12,662.61)		(\$940,694.71)	\$218,262.83		\$2,502,962.00	
	Adjusted Salaries	\$177,511,330.00	(\$1,444,967.00)	(\$149,945.00)	(\$297,353.00)	(\$178,601.00)	\$0.00	\$15,887.00	\$178,042,966.00	
	Less: Excluded Overhead Salaries	\$9,622,605.41	\$903,769.89			(\$2,855,352.89)			\$7,700,676.49	
	Excluded Wage-Related Cost	\$2,991,204.12	\$291,858.77	(\$12,652.61)		(\$940,694.71)	\$218,262.83		\$2,502,962.00	
	Revised Wages -	\$164,897,520.47	(\$2,640,595.65)	(\$137,292.39)	(\$297,353.00)	(\$178,601.00)	\$3,796,047.60	\$15,887.00	\$167,839,327.51	
	Multiply By : Inflation Factor	1.00000							1.00000	
	Inflated Wages (Adjusted Wages Used In Report) -	\$164,897,520.47	(\$2,640,595.65)	(\$137,292.39)	(\$297,353.00)	(\$178,601.00)	\$3,796,047.60	\$15,887.00	\$167,839,327.51	
	Revised Hours (Adjusted Hours Used In Report) - [Adjusted Hours - Excluded Overhead Hours]	5,915,686.66	(140,510.23)	0.00	516.00	(1,561.00)	317,249.79	0.00	6,089,761.60	
	Average Hourly Wage	\$27.87	\$0.21	(\$0.02)	(\$0.05)	(\$0.03)	(\$0.82)	\$0.00	\$0.40	
	Unallowable Salaries & benefit costs-									
	Inflated Wages			(\$2,777,888)						
	Revised Hours			(140,510)						
	Total Wage Data Revisions:									
	Inflated Wages	(\$2,640,595.65)	(\$137,292.39)	(\$297,353.00)	(\$178,601.00)	\$3,796,047.60	\$15,887.00	\$2,368,352.17	\$2,926,444.73	
	Revised Hours	(140,510.23)	0.00	516.00	(1,561.00)	317,249.79	0.00	0.00	175,694.56	

Percentage of Change: (\$0.31)
-1%



May 9, 2006

Ms. Lori S. Pilcher
Regional Inspector General
For Audit Services, Region IV
Office of Audit Services
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

RE: Sarasota Memorial Hospital
FYE: September 30, 2003
Report Number A-04-05-02001

Dear Ms. Pilcher,

Sarasota Memorial Hospital (SMH) would like to take this opportunity to respond to the draft report entitled "Review of Controls to Report Wage Data at Sarasota Memorial Hospital for the Period of October 1, 2002 Through September 30, 2003." Sarasota Memorial Hospital's responses to the findings and recommendations are as follows:

OFFICE OF INSPECTOR GENERAL (OIG) FINDINGS

Unallowable Salaries and Related Benefits

OIG Finding: SMH overstated wage data by \$2,777,353 and 140,510 hours for unallowable salaries and related benefits.

SMH Response: SMH agrees that the \$1,444,967 in salaries and benefits and 91,149 hours related to the Child Care Center and Summer Day Camp should be reported as an excluded area for wage data reporting.

SMH agrees that \$149,945 of capitalized benefits recorded on the cost report as salary expense should be excluded as salary and included with the total wage related costs. This adjustment was disclosed to the OIG during the entrance conference.

Misstated Contracted Labor Services

OIG Finding: SMH overstated wage data by \$297,353 and understated hours by 516 for contracted labor services.

SMH Response: SMH agrees that \$297,353 of contracted labor dollars were overstated and 516 contracted labor hours were understated, which was disclosed to the OIG during the entrance conference.

Overstated Physician Part A Contracted Labor Services

OIG Finding: SMH overstated wage data by \$178,601 of physician Part A dollars and 1,561 hours.

SMH Response: SMH agrees that \$178,601 and 1,561 physician Part A dollars and hours were overstated on the wage index worksheet.

Overstated Total Hours

OIG Finding: SMH overstated total hours by 458,015.

SMH Response: SMH agrees that 458,015 hours were overstated on Worksheet S-3, Part II, Column 4, Line 1, which was disclosed to the OIG during the entrance conference.

Understated Wage-Related Benefit Costs

OIG Finding: SMH understated employee health insurance expense by \$2,586,615.

SMH Response: SMH agrees that \$2,586,615 of employee health insurance expenses was understated on Exhibit 7 of the CMS 339, which was disclosed to the OIG during the entrance conference.

Understated Salaries

OIG Finding: SMH understated total salaries and excluded area salaries by \$15,887.

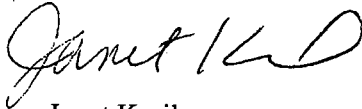
SMH Response: SMH agrees that \$15,887 of total and excluded area salary expense was understated on Worksheet A, Column 1, which was disclosed to the OIG during the entrance conference.

SMH submitted the aforementioned wage data corrections to the fiscal intermediary, excluding the OIG identified physician Part A contracted dollars and hours finding, prior to the December 5, 2005 hospital wage data corrections due date for Federal Fiscal Year 2007 wage index development.

Sarasota Memorial Hospital makes every effort to ensure the correct wage data is reported in its Medicare cost report. Sarasota Memorial Hospital has already implemented review and reconciliation procedures to ensure the wage data on cost reports filed and to be filed will be accurate, supportable, and in full compliance with Medicare wage data reporting instructions and regulations.

If you have any questions, please contact me at (941) 917-1696.

Sincerely,



Janet Krail
Director of System Reimbursement