

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**DANBURY HOSPITAL REPORTED
OVERSTATED WAGE DATA RESULTING
IN MEDICARE OVERPAYMENTS**

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Office of Inspector General

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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

Danbury Hospital reported overstated wage data, totaling \$4.9 million and 10,000 hours, in its fiscal year 2010 Medicare cost report. We estimated that, because of the errors, in fiscal year 2014 Medicare overpaid Danbury Hospital \$249,000 and overpaid five other hospitals in the same core-based statistical area a total of \$741,000.

WHY WE DID THIS REVIEW

Medicare acute care hospitals must report wage data, including wages, associated hours, and fringe benefits, annually to the Centers for Medicare & Medicaid Services (CMS). CMS uses this wage data to calculate acute care hospital wage indexes, which measure geographic area labor market costs relative to a national average. Federal law requires adjustment of Medicare hospital payments by wage indexes. Our prior reviews have found that hospitals often inaccurately reported wage data, which resulted in increased Medicare payments in their designated geographic area. We selected Danbury Hospital (the Hospital) because it is in the geographic area of Connecticut with the highest fiscal year (FY) 2014 wage index and its reported wage data represented a significant portion of the total wage data reported by all hospitals in that area.

The objective of this review was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2010 Medicare cost report.

BACKGROUND

Under the inpatient prospective payment system (IPPS) for hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. The IPPS base rate includes a labor-related share. Social Security Act (the Act) requires CMS to adjust the labor-related share of an IPPS hospital payment according to the geographic area (i.e., labor market area) in which the hospital is located. The labor share accounted for 69.6 percent of the payments in FY 2014. In 2013, Medicare Part A made over \$112 billion in IPPS payments to hospitals.

The geographic designation of a hospital influences its Medicare payments. Under the IPPS, CMS adjusts payments through wage indexes to reflect labor cost variations among localities. CMS uses the Office of Management and Budget core-based statistical areas (CBSAs) to identify labor markets and to calculate and assign wage indexes to hospitals. CMS calculates a wage index for each CBSA and a statewide rural wage index for each State. 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-related share. Section 1886(d)(3)(E) of 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.

WHAT WE FOUND

The Hospital did not always comply with Medicare requirements for reporting wage data in its FY 2010 Medicare cost report. Specifically, the Hospital reported the following overstated wage data, totaling \$4,919,630 and 9,907 hours, which affected the numerator and denominator of its wage rate calculation:

- incorrectly reported physician Part A contract labor cost totaling \$2,134,445 and 5,641 hours;
- overstated fringe benefits and unreported wages totaling \$1,580,921 and 4,295 hours;
- unallowable Part B wages totaling \$672,750 and 8,561 hours; and
- unallowable marketing labor costs totaling \$531,514.

These errors occurred because the Hospital did not sufficiently review and reconcile the data to ensure that it was accurate, supportable, and in compliance with Medicare regulations. The correct wage data decreased the Hospital's average hourly wage rate approximately 1.77 percent, from \$53.3775 to \$52.4345. Because of the errors in the Hospital's FY 2010 Medicare cost report, we estimated that in FY 2014 Medicare overpaid the Hospital \$248,620 and overpaid five other hospitals in the same CBSA a total of \$740,896.

WHAT WE RECOMMEND

We recommend that the Hospital implement review and reconciliation procedures to ensure that the wage data it reports in future Medicare cost reports are accurate, allowable, supportable, and in compliance with Medicare requirements.

DANBURY HOSPITAL COMMENTS

In written comments on our draft report, the Hospital's officials concurred with our findings and recommendations and provided information on the Hospital's corrective action plan.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare acute care hospitals must report wage data, including wages, associated hours, and fringe benefits, annually to the Centers for Medicare & Medicaid Services (CMS). CMS uses this wage data to calculate acute care hospital wage indexes, which measure geographic area labor market costs relative to a national average. Federal law requires adjustment of Medicare hospital payments by wage indexes.

Our prior reviews have found that hospitals often inaccurately reported wage data, which resulted in increased Medicare payments in their designated geographic area. CMS officials requested that we again conduct acute care hospital wage index reviews, prompted by their concern about unusually high wage indexes for fiscal year (FY) 2014, particularly in California and New England. We selected Danbury Hospital (the Hospital) because it is in the geographic area of Connecticut with the highest FY 2014 wage index and its reported wage data represented a significant portion of the total wage data reported by all hospitals in that area. This is the first in a series of wage index reviews of acute care hospitals in California and New England.

OBJECTIVE

Our objective was to determine whether the Hospital complied with Medicare requirements for reporting wage data in its FY 2010 Medicare cost report.

BACKGROUND

Medicare Inpatient Prospective Payment System

Under the inpatient prospective payment system (IPPS) for hospitals, Medicare Part A pays hospital costs at predetermined, diagnosis-related rates for patient discharges. The IPPS base rate includes a labor-related share. Social Security Act (the Act) requires CMS to adjust the labor-related share of an IPPS hospital payment according to the geographic area (i.e., labor market area) in which the hospital is located. The labor share accounted for 69.6 percent of the payments in FY 2014.

In 2013, Medicare Part A made over \$112 billion in IPPS payments to hospitals.¹

¹ *A Data Book: Health Care Spending and the Medicare Program*, June 2015, Chart 6-14, p. 70, Medicare Payment Advisory Commission.

Wage Indexes

The geographic designation of a hospital influences its Medicare payments. Under the IPPS, CMS adjusts payments through wage indexes to reflect labor cost variations among localities.² CMS uses the Office of Management and Budget (OMB) core-based statistical areas (CBSAs) to identify labor markets and to calculate and assign wage indexes to hospitals. CMS calculates a wage index for each CBSA and a statewide rural wage index for each State. 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-related share.

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 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 based the wage indexes for FY 2014 on wage data collected from hospitals' Medicare cost reports for their FYs that began during Federal FY 2010. 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 could have varying effects on the final rate computation.

Section 1886(d)(3)(E) of 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 the inflationary increases in hospital costs. The inclusion of unallowable costs in wage data could produce an inaccurate market basket index for updating prospective payments to hospitals.

Danbury Hospital

The Hospital is a 371-bed regional medical center and teaching hospital in Danbury, Connecticut. For FY 2014, the Hospital was in an urban Connecticut CBSA that included five other Fairfield county hospitals in Greenwich, Stamford, Bridgeport, and Norwalk. The Hospital's FY 2010 Medicare cost report covered the period of October 1, 2009, through September 30, 2010.

² The IPPS 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. Throughout this report, we use "wage index" to refer only to the IPPS wage index used to calculate IPPS hospital payments.

Federal Requirements for Reporting Hospital Cost Data

Federal regulations at 42 CFR sections 412.52 and 413.24 require that IPPS hospital costs reported for Medicare must be supported by adequate cost data (i.e., cost data that are accurate, auditable, and sufficiently detailed to accomplish the intended purposes).³

HOW WE CONDUCTED THIS REVIEW

Our audit covered \$186,173,291 in total salaries and 5,172,454 total hours that the Hospital reported to CMS on its FY 2010 Medicare cost report. We evaluated compliance with selected Medicare cost reporting requirements. We limited our review of the Hospital's internal controls to those related to accumulating and reporting wage data for its FY 2010 cost report. This report does not represent an assessment of any claims submitted by the Hospital for Medicare reimbursement.

We conducted this 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 findings and conclusions based on our audit objective.

Appendix A contains the details of our audit scope and methodology.

FINDINGS

The Hospital did not always comply with Medicare requirements for reporting wage data in its FY 2010 Medicare cost report. Specifically, the Hospital reported the following overstated wage data, totaling \$4,919,630 and 9,907 hours, which affected the numerator and denominator of its wage rate calculation:

- incorrectly reported physician Part A contract labor cost totaling \$2,134,445 and 5,641 hours;
- overstated fringe benefits and unreported wages totaling \$1,580,921 and 4,295⁴ hours;
- unallowable Part B wages totaling \$672,750 and 8,561 hours; and

³ "All hospitals participating in the prospective payment systems must meet the recordkeeping and cost reporting requirements of [42 CFR] §§413.20 and 413.24 of this chapter." Section 413.24(a) requires, "Providers receiving payment on the basis of reimbursable cost must provide adequate cost data. This must be based on their financial and statistical records which must be capable of verification by qualified auditors." Section 413.24(c) further states, "The requirement of adequacy of data implies that the data be accurate and in sufficient detail to accomplish the purposes for which it is intended."

⁴ See Appendix B for support on hours as being understated as wages.

- unallowable marketing labor costs totaling \$531,514.

These errors occurred because the Hospital did not sufficiently review and reconcile the data to ensure that it was accurate, supportable, and in compliance with Medicare regulations. The correct wage data decreased the Hospital's average hourly wage rate approximately 1.77 percent, from \$53.3775 to \$52.4345. Because of the errors in the Hospital's FY 2010 Medicare cost report, we estimated that in FY 2014 Medicare overpaid the Hospital \$248,620 and overpaid five other hospitals in the same CBSA a total of \$740,896.

ERRORS IN REPORTED WAGE DATA

The errors in reported wage data are discussed below and Appendix B contains the cumulative effect of our findings.

Incorrectly Reported Physician Part A Contract Labor Costs

Federal regulations require that IPPS hospital costs reported to Medicare must be accurate, auditable, and sufficiently detailed to accomplish the intended purposes.

The Hospital reported \$7,070,471 in wages and 30,485 associated hours for physician Part A contract labor on its FY 2010 Medicare cost report. The reported amounts were not always accurate or supported by adequate cost data. Specifically, the Hospital incorrectly reported:

- \$1,637,907 in wages with 5,641 associated hours for which the Hospital did not provide requested support for actual payment of reported Part A costs to selected individual physicians and
- \$459,415 in wages for two physicians as Part A contract labor cost that was not labor associated with IPPS activity.

As a result, after applying the Hospital's adjustment factor,⁵ the physician Part A contract labor was overstated by a total of \$2,134,445 in wages and 5,641 associated hours, which overstated the Hospital's average hourly wage rate by \$0.3934.

Overstated Fringe Benefits and Unreported Wages

Federal regulations require that IPPS hospital costs reported for Medicare must be accurate, auditable, and sufficiently detailed to accomplish the intended purposes.

The Provider Reimbursement Manual, part II, chapter 40, section 4005.2 states: "Paid hours include regular hours (including paid lunch hours), overtime hours, paid holiday, vacation and sick leave hours, paid time-off hours, and hours associated with severance pay." Part I, Chapter 21, section 2102.3 states that costs not related to patient care are costs which are not appropriate

⁵ This factor represents CMS adjustment to the Hospital's FY 2010 cost report data to current FY 2014 rates as recorded in the Federal Register, vol. 78 No. 160/Monday, August 19, 2013, on pages 50587 and 50588.

or necessary and proper in developing and maintaining the operation of patient care facilities. Chapter 40, section 4004.1, states that a cost report generally covers a consecutive 12-month period of operations.

The Hospital reported \$77,099,783 in fringe benefit costs as wage data on its FY 2010 Medicare cost report. However, according to the Hospital's FY 2010 audited financial statements, the fringe benefit costs should have totaled \$75,069,146. Specifically, the Hospital overstated its costs by:

- \$1,383,404 in insurance costs that were not related to IPPS operations,
- \$356,418 in supplemental executive retirement costs after the close of its cost reporting period, and
- not reporting 4,161 in hours associated with \$290,815 in severance payments that are considered a salary cost.

As a result, after factoring in overhead and the Hospital's adjustment factor, the Hospital overstated its Part A wage data by a total of \$1,580,921 in wages and 4,295 associated hours, which overstated its average hourly wage rate by \$0.3876.

Unallowable Part B Wages

Federal regulations require that IPPS hospital costs reported for Medicare must be accurate, auditable, and sufficiently detailed to accomplish the intended purposes.

The Social Security Act and Medicare regulations provide that, as a general matter, the costs of services provided by nurse practitioners and physicians are covered by Part B, not Part A.⁶

The Hospital was unable to provide supporting documentation for \$321,669 in nonphysician practitioner salaries (8,292 related hours) that were claimed as Part A wages. Additionally the Hospital incorrectly calculated the fringe benefit costs for these unsupported salaries and all other identified Part B wages. Specifically, the Hospital used a fringe benefit rate of 22 percent rather than the 31 percent rate shown by payroll data. This understatement of Part B fringe benefits on these nonphysician practitioner salaries incorrectly increased the amount reported by the Hospital as Part A wages by \$330,321.

As a result, after factoring in overhead and the Hospital's adjustment factor, the Hospital overstated its Part A wage data by a total of \$672,749 in wages and 8,561 associated hours, which overstated its average hourly wage rate by \$0.0463.

⁶ Section 1861(s)(1) of the Act and 42 CFR §§ 410.10(a) and 410.20 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. Section 1861(s)(2)(K)(ii) of the Act and 42 CFR § 410.75 include care by nurse practitioners as covered Part B services; section 1861(b) of the Act and 42 CFR § 409.10(b) exclude nurse practitioners from Part A inpatient hospital services.

Unallowable Marketing Costs

Federal regulations require that IPPS hospital costs reported for Medicare must be accurate, auditable, and sufficiently detailed to accomplish the intended purposes.

The Manual, part I, section 2102.3, states that costs not related to patient care are those that are not appropriate or necessary in the operation of patient care facilities and activities and are not reimbursable Medicare cost.

The Hospital incorrectly included \$371,819 in salaries and \$153,970 in fringe benefits for services not directly related to patient care (e.g., promotional advertising) as Part A wage data. The Hospital removed 6,419 in hours for these costs, but it did not adjust the salaries and fringe benefits.

As a result, after factoring in overhead and the Hospital's adjustment factor, the Hospital overstated its wage data by a total of \$531,514 in wages, which overstated its average hourly rate by \$0.1139.

CAUSES 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.

MEDICARE OVERPAYMENTS

Due to these reporting errors, the Hospital overstated its Part A wage data by \$4,919,630 (numerator) and 9,907 hours (denominator) on its FY 2010 Medicare cost report. The correct wage data decreased the Hospital's average hourly wage rate approximately 1.77 percent from \$53.3775 to \$52.4345. Further, these errors decreased the Hospital's FY 2014 CBSA wage index from 1.3293 to 1.3240, or by 0.40 percent. As a result, we estimated that in FY 2014 Medicare overpaid the Hospital \$248,620 and overpaid five other hospitals in the same CBSA a total of \$740,896.⁷

RECOMMENDATION

We recommend that the Hospital implement review and reconciliation procedures to ensure that the wage data it reports in future Medicare cost reports are accurate, allowable, supportable, and in compliance with Medicare requirements.

⁷ Under current regulations, 42 CFR 412.64 (k), CMS can account for adjustments if they are disclosed before the Federal fiscal year (FY 2014). Currently, there is no retroactive policy that allows CMS a method to recover or penalize a provider for incorrectly reported wage data after this time period.

DANBURY HOSPITAL COMMENTS

In written comments on our draft report, the Hospital's officials concurred with our findings and recommendations and provided information on the Hospital's corrective action plan. The Hospital's comments are included in their entirety as Appendix C.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered \$186,173,291 total salaries and 5,172,454 total hours that the Hospital reported to CMS on its FY 2010 Medicare cost report. We evaluated compliance with selected Medicare cost reporting requirements. We limited our review of the Hospital's internal controls to those related to accumulating and reporting wage cost data for its FY 2010 cost report. This report does not represent an assessment of any claims submitted by the Hospital for Medicare reimbursement.

Our fieldwork included contacting CMS and the Hospital's Medicare administrative contractor from July 2014 through February 2015. We performed fieldwork at the offices of Danbury Hospital in Bethel, Connecticut, from July 2014 through December 2014.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, standards, and guidance;
- obtained an understanding of the Hospital's procedures for reporting wage data;
- obtained the Hospital's audited financial statements for the period under review;
- verified that Hospital wage data reconciled to audited financial statements;
- obtained Hospital payroll and general ledger documents to support reported wage data;
- reconciled wage data from selected cost centers to detail 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;
- determined the effect of the reporting errors by recalculating the Hospital's 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; and
- discussed discrepancies and omissions in support of reported wage cost data with officials of the Hospital.

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 findings and conclusions based on our audit objectives.

APPENDIX B: CUMULATIVE EFFECT OF FINDINGS

Work Sheet S-3 Data Field Descriptions	Adjusted Salaries	Incorrectly Reported Physician Part A Contract Labor Cost	Overstated Fringe Benefits and Unreported Wages	Unallowable Part B Wages	Unallowable Marketing Costs	Adjusted Salaries
Total salaries, line 1, Col. 4	\$186,173,291		\$290,815		(\$371,819)	\$186,092,287
						Other Wages & Related Costs
Physician-Part B, line 5, Col. 4	\$2,596,828			\$321,669		\$2,918,497
Non-Physician-Part B, line 6, Col. 4	\$0					\$0
Excluded area salaries, line 10 Col. 4	\$7,825,092					\$7,825,092
Subtract-Tot-A = line2+line3+line4.01+line5+line6+line7+line7.01+line8+line9+line10	\$17,504,389			\$321,669		\$17,826,058
Contract labor, line 11, Col. 4	\$1,084,858					\$1,084,858
Contract labor: physician-Part A, line 13, Col. 4	\$7,070,471	(\$2,097,322)				\$4,973,149
Home office salaries & wage-related costs, line 14, Col. 4	\$0					\$0
Wage-related costs (core), line 17, Col. 4	\$71,989,471		(\$1,895,420)	(\$330,321)	(\$153,970)	\$69,609,760
Wage-related costs (other), line 18, Col. 4	\$0					\$0
Physician Part A (Administrative), line 22, Col. 4	\$16,115		(\$378)			\$15,737
Subtract-Tot-B = line11+line12+line13+line14+line15+line17+line18+line22	\$80,160,915	(\$2,097,322)	(\$1,895,798)	(\$330,321)	(\$153,970)	\$75,683,504
						Overhead Contract Labor
Administrative & General under contract, line 28, Col. 4	\$1,432,062					\$1,432,062
Worksheet S-3, Part II, sum of lines 28, 33, and 35/col. 4	\$1,432,062					\$1,432,062
Sum of lines 1, 28, 33, and 35/col. 4	\$187,605,353				(\$371,819)	\$187,524,349
Adjusted Salaries= Sub Total Salaries - Sub-Tot-A + Sub-Tot-B	\$250,261,879	(\$2,097,322)	(\$1,895,798)	(\$651,990)	(\$525,789)	\$245,381,795
	Total Paid Hours					Total Paid Hours
Paid Hours for Total salaries, line 1, Col. 5	5,172,454		4,161			5,176,615
						Other Paid Hours
Paid Hours for Teaching Physician Salaries, line 4.01, Col. 5	5,749					5,749
Paid Hours for Physician-Part B, line 5, Col. 5	36,419			8,292		44,711
Paid Hours for Non-Physician-Part B line 6, Col. 5	0					0
Paid Hours for Interns & residents, line 7, Col. 5	174,780					174,780
Contract Services, I&R, line 7.01, Col. 5	16,630					16,630
Paid Hours for Excluded area salaries, line 10, Col. 5	226,666					226,666
Sub-Tot-C = line2+line3+line4.01+line5+line6+line7+line7.01+line8+line9+line10	\$460,244			8,292.00		\$468,536
Paid Hours for Contract labor, line 11 Col. 5	19,439					19,439
Hours for Management and Admin Svcs, line 12 Col. 5	0					0
Paid Hours for Contract labor: physician-Part A, line 13, Col. 5	30,485	(5,641)				24,844
Paid Hours for Home office salaries, line 14, Col. 5	0					0
Paid Hours for Home Office:Phys Part A, line 15, Col. 5	0					0
Sub-Tot-D = line11+line12+line13+line14+line15	\$49,924	(5,641.00)				\$44,283
						Overhead Contract Labor
Overhead Allocation						
Paid Hours for Administrative & General under contract, line 28, Col. 4	12,148					12,148
Paid Hours for Housekeeping under contract, line 33, Col. 5	0					0
Paid Hours for Dietary under contract, line 35, Col. 5	0					0
Worksheet S-3, Part II, sum of lines 28, 33, and 35/col. 5	\$12,148					\$12,148
Sum of lines 1, 28, 33, and 35/col. 5	\$5,184,602		4,161.00			\$5,188,763
Adjusted Hours = Sub Total Salaries or Hours - Sub-Tot-C + Sub-Tot-D	\$4,774,282	(5,641.00)	4,161.00	(8,292.00)		\$4,764,510
						Total Overhead
Worksheet S-3, Part III, Line 7/Col. 4	57,457,173					57,457,173
Worksheet S-3 Part III, Line 7/Col. 5	1,600,310					1,600,310
Note: Selected fields above were hidden that did not have an impact.						

Overhead Adjustment	Total Salaries	Incorrectly Reported Physician Part A Contract Labor Cost	Overstated Fringe Benefits and Unreported Wages	Unallowable Part B Wages	Unallowable Marketing Costs	Adjusted Salaries
Line2+line3+line4.01+line5+line6+line7+line7.01+line8)+ S-3, Part III line7, col. 5	3,350,714	0	4,161.00	(8,292.00)	0	3,346,583
ex_rate = (S-3, Part II, Col. 5: line9 +line10)/rev_hrs	0.067646986	0.000000000	0.000083900	0.000167822	0.000000000	0.067730489
exohsal = ex_rate * S-3, Part III line7/col. 4	\$ 3,886,804.57	0	\$ (4,821.00)	\$ 9,643.00	0	\$ 3,891,602.41
exohhrs = ex_rate * S-3, Part III line7/col. 5	108,256	0	(134)	269	0	108,390
line 28 - line 33 - line 35) / ((rev_hrs - line 28 - line 33 - line 35 - line 9 - line 10) + (S-3, Part III line7/col. 5 - line ohwrc = (S-3, Part II, Col. 4: line17 + line18 + line22) * oh_rate	0.337902	0.000000	0.000299	0.000060	0.000000	0
exohwrc = ohwrc * ex_rate	\$ 24,330,857.61	\$ -	\$ (661,549.00)	\$ (68,812.00)	\$ (52,027.00)	\$ 23,547,316.22
revised_wages = adjusted salaries - (exohsal + exohwrc)	1,645,909.18	0	(46,738)	(583)	(3,519)	1,594,871
Adjusted factor (midpoint of cost report)	\$ 244,729,165.25	\$ (2,097,322.00)	\$ (1,553,425.00)	\$ (661,049.00)	\$ (522,270.00)	\$ 239,895,321.35
inflated_wages = revised_wages * inflation_factor * annualization factor	1.0177	1.0177	1.0177	1.0177	1.0177	1.0177
revised_hours = (adjusted_hours - exohhrs) * annualization factor	\$ 249,060,871.48	\$ (2,134,444.60)	\$ (1,580,920.62)	\$ (672,749.57)	\$ (531,514.18)	244,141,469
Unadjusted Average Hourly Wage = inflated_wages/revised_hours	4,666,025	(5,641)	4,295	(8,561)	0	4,656,120
Net Changes in Average Hourly Wages	\$ 53,3775	\$ 52,9841	\$ 52,9899	\$ 53,3312	\$ 53,2636	\$ 52,4345
Sum of Inflated Wages (See Above)	Reported	(0.39334)	(0.3876)	(0.0463)	(0.1139)	Revised
Reported Dollars						Total
Reported Hours						(\$4,919,630.00)
						(9,907)
						Overstatements

APPENDIX C: DANBURY HOSPITAL COMMENTS



December 9, 2015

Mr. David Lamir, Regional Inspector General for Audit Services
Office of Audit Services, Region I
JFK Federal Building
15 New Sudbury Street, Room 2425
Boston, MA 02203

RE: Report Number, A-01-14-00506

Dear Mr. Lamir:

We are in receipt of your draft report dated November 13, 2015 entitled *Danbury Hospital Reported Overstated Wage Data Resulting in Medicare Overpayments* and have reviewed the audit findings and recommendations.

We are in concurrence with the audit findings. The OIG auditors have recommended, "that the Hospital implement review and reconciliation procedures to ensure that the wage data it reports in future Medicare cost reports are accurate, allowable, supportable, and in compliance with Medicare requirements."

Having reviewed the findings and recommendations, the Hospital has developed the following corrective action plan:

Incorrectly Reported Physician Part A Contract Labor Costs –

The Hospital reported Part A physician hours as supported by the completion of the individual time studies and contracts. For 12 physicians, inconsistencies were found in the supporting documentation relating to Part A administrative activities. *Since the audit, the contract process has been updated to clearly define the Part A and Part B splits for each physician.*

Overstated Fringe Benefits and Unreported Wages –

The Hospital concurs with the finding proposed by the OIG. It's important to note, that several of the detailed findings that were presented during the review had previously been corrected by the Hospital in cost reports filed prior to the OIG review. Specific actions have been addressed as follows:

- *"Insurance costs not related to IPPS Operations" was corrected in the FY 2012 Medicare Cost Report after an internal review noted the error. This was an error in the handling of benefit allocations to other affiliates during the preparation of S3 Core Wage Related Costs.*
- *Supplemental Executive retirement costs were reported in the preparation of the FY 2010 S3 worksheet. According to regulations, SERP expenses paid are allowable but any dollars accrued*

are not. Per the OIG review, only the SERP expenses paid were reported beginning with the FY 2014 Cost Report and forward.

- Severance hours were not reported because Severance is not paid at a per hour rate. However, changes to calculate hours based on an hourly rate were made beginning with the FY 2013 Cost Report.

Unallowable Part B Wages –

The Hospital concurs with the OIG adjustment to remove \$672K and 8,561 related hours of Part B services. The Hospital has made corrections to Medicare Cost Reporting procedures to collect and review for proper handling, as outlined per regulations, all non-physician practitioners salaries and hours whether the hospital bills for their services as Part B, or not. All Part B related salary and hours will be eliminated accordingly. This will insure proper handling of all salaries and hours per regulatory guidelines.

Unallowable Marketing Costs –

Marketing, Advertising and Planning costs historically were reclassified as an A8 adjustment to remove the expense from the cost report. However, this was not captured in the completion of the S3 worksheet as per OIG findings for wage index purposes. For cost reporting periods FY2014 and forward, all applicable expenses have been moved to a non-reimbursable line. This will insure proper handling of all salaries and hours for wage index.

If you require any additional information or have any questions, please call me directly at 203-739-7110.

Sincerely,



Joseph A. Campbell

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