



AUG 25 2008

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

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

SUBJECT: Review of Henry Ford Hospital's Reported Fiscal Year 2005 Wage Data (A-05-07-00063)

Attached is an advance copy of our final report on Henry Ford Hospital's (the Hospital) reported fiscal year (FY) 2005 wage data. We will issue this report to the Hospital within 5 business days. This review is one in a series of reviews of the accuracy of hospitals' wage data, which the Centers for Medicare & Medicaid Services (CMS) uses in developing its wage indexes.

Under the inpatient prospective payment system for acute-care hospitals, Medicare Part A pays hospitals at predetermined, diagnosis-related rates for patient discharges. The payment system base rate includes a labor-related share. CMS adjusts the labor-related share by the wage index applicable to the area in which a hospital is located.

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

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report. Specifically, the Hospital overstated its wage data by \$27,055,490 and 316,281 hours. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 4 percent. 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 requirements. If the Hospital does not revise the wage data in its FY 2005 cost report, the FY 2009 wage index for the Hospital's core-based statistical area will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

We recommend that the Hospital:

- submit a revised FY 2005 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$27,055,490 and 316,281 hours and

- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

In written comments on our draft report, the Hospital agreed with our recommendations. The Hospital stated that it had submitted revised wage index information to the intermediary and strengthened its review and reconciliation procedures.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or Marc Gustafson, Regional Inspector General for Audit Services, Region V, at (312) 353-2621 or through e-mail at Marc.Gustafson@oig.hhs.gov. Please refer to report number A-05-07-00063.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

AUG 28 2008

Office of Audit Services
Region V
233 North Michigan Ave. Suite 1360
Chicago, IL 60601-5519
(312) 353-2618

Report Number: A-05-07-00063

Ms. Mary Whitbread
Vice President, Reimbursement and Contracting
Henry Ford Health System
One Ford Place, 5F
Detroit, Michigan 48202

Dear Ms. Whitbread:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Henry Ford Hospital's Reported Fiscal Year 2005 Wage Data." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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

If you have any questions or comments about this report, please do not hesitate to call me, or contact Stephen Slamar, Audit Manager, at (312) 353-7905 or through e-mail at Stephen.Slamar@oig.hhs.gov. Please refer to report number A-05-07-00063 in all correspondence.

Sincerely,

Marc L. Gustafson
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
HENRY FORD HOSPITAL'S
REPORTED FISCAL YEAR 2005
WAGE DATA**



Daniel R. Levinson
Inspector General

August 2008
A-05-07-00063

Office of Inspector General

<http://oig.hhs.gov>

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

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

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

CMS bases each wage index on the average hourly wage rate of the applicable hospitals divided by the national average rate. A hospital's wage rate is the quotient of dividing total dollars (numerator) by total hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations.

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

Henry Ford Hospital (the Hospital) is a 903-bed hospital in Detroit, Michigan. The Hospital is 1 of 15 hospitals in a Michigan CBSA. The Hospital reported wage data of \$493.8 million and 15.3 million hours in its FY 2005 Medicare cost report, which resulted in an average hourly wage rate of \$32.26.

OBJECTIVE

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

SUMMARY OF FINDINGS

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report. Specifically, the Hospital reported the following inaccurate wage data, which affected the numerator and/or denominator of its wage rate calculation:

- understated costs related to Part B services totaling \$10,994,624 and 289,790 hours,
- misstated and misclassified wages totaling \$10,774,830 and 21,216 hours, and
- overstated pension and other postretirement benefit costs totaling \$5,286,036.

In addition, the Hospital understated contract labor costs in the overhead allocation. This error understated the overhead allocation rate by 0.16 percent and total hours by 5,275; however, the wage rate was not affected.

These errors occurred because the Hospital did not sufficiently review and reconcile its reported wage data to supporting documentation to ensure that the data were accurate, supportable, and in compliance with Medicare requirements. As a result, the Hospital overstated its wage data by \$27,055,490 (numerator) and 316,281 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 4 percent from \$32.26 to \$31.08. If the Hospital does not revise the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

RECOMMENDATIONS

We recommend that the Hospital:

- submit a revised FY 2005 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$27,055,490 and 316,281 hours and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

HENRY FORD HOSPITAL COMMENTS

In written comments on our draft report, the Hospital agreed with our recommendations. The Hospital stated that it had submitted revised wage index information to the intermediary and strengthened its review and reconciliation procedures. The Hospital's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

Medicare Inpatient Prospective Payment System

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

Wage Indexes

The geographic designation of hospitals influences their Medicare payments. Under the inpatient prospective payment system, CMS adjusts payments through wage indexes to reflect labor cost variations among localities.¹ CMS uses the Office of Management and Budget (OMB) metropolitan area designations to identify labor markets and to calculate and assign wage indexes to hospitals. In 2003, OMB revised its metropolitan statistical area definitions and announced new core-based statistical areas (CBSA). CMS calculates a wage index for each CBSA and a statewide rural wage index for each State for areas that lie outside CBSAs. The wage index for each CBSA and statewide rural area is based on the average hourly wage rate of the hospitals in those areas divided by the national average hourly wage rate. All hospitals within a CBSA or within a statewide rural area receive the same labor payment adjustment.

To calculate wage indexes, CMS uses hospital wage data (which include wages, salaries, and related hours) collected 4 years earlier to allow time for CMS to collect complete cost report data from all inpatient prospective payment system hospitals and for CMS's fiscal intermediaries to review these data. For example, CMS will base the wage indexes for FY 2009, which will begin October 1, 2008, on wage data collected from hospitals' Medicare cost reports for their FYs that began during Federal FY 2005 (October 1, 2004, through September 30, 2005). A hospital's wage rate is the quotient of dividing total dollars (numerator) by total hours (denominator). Arriving at the final numerator and denominator in this rate computation involves a series of calculations. Inaccuracies in either the dollar amounts or hours reported can have varying effects on the final rate computation.

Section 1886(d)(3)(E) of the Social Security Act (the Act) requires that CMS update wage indexes annually in a manner that ensures that aggregate payments to hospitals are not affected by changes in the indexes. Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments. Further, section 1886(d)(3)(A)(iv) of the Act requires CMS to update labor and nonlabor average standardized amounts by an applicable percentage increase specified in section 1886(b)(3)(B)(i). The percentage increase is based on the market basket index, which measures inflationary increases in hospital costs. The inclusion of unallowable

¹The inpatient prospective payment system wage index or a modified version also applies to other providers, such as outpatient hospitals, long term care hospitals, inpatient rehabilitation facilities, inpatient psychiatric facilities, skilled nursing facilities, home health agencies, and hospices.

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

Henry Ford Hospital

Henry Ford Hospital (the Hospital) is a 903-bed hospital in Detroit, Michigan. The Hospital is 1 of 15 hospitals in a Michigan CBSA. The Hospital submitted to CMS its FY 2005 Medicare cost report covering the period January 1, 2005, through December 31, 2005.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our review covered the \$493,790,186 in salaries and 15,307,685 in hours that the Hospital reported to CMS on Worksheet S-3, part II, of its FY 2005 Medicare cost report, which resulted in an average hourly wage rate of \$32.26. We limited our review of the Hospital's internal controls to the procedures that the Hospital used to accumulate and report wage data for its cost report.

We performed our fieldwork at the Hospital in Detroit, Michigan, from June through July 2007 and December 2007 through February 2008.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidance;
- obtained an understanding of the Hospital's procedures for reporting wage data;
- verified that wage data on the Hospital's trial balance reconciled to its audited financial statements;
- reconciled the total reported wages on the Hospital's FY 2005 Medicare cost report to its trial balance;
- reconciled the wage data from selected cost centers to detailed support, such as payroll registers or accounts payable invoices;
- selected for testing wage data in the FY 2005 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; and
- determined the effect of the reporting errors by recalculating, as shown in Appendix A, the Hospital's average hourly wage rate using the CMS methodology for calculating the wage index, which includes an hourly overhead factor, in accordance with instructions published in the Federal Register.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

The Hospital did not fully comply with Medicare requirements for reporting wage data in its FY 2005 Medicare cost report. Specifically, the Hospital reported the following inaccurate wage data, which affected the numerator and/or denominator of its wage rate calculation:

- understated costs related to Part B services totaling \$10,994,624 and 289,790 hours,
- misstated and misclassified wages totaling \$10,774,830 and 21,216 hours, and
- overstated pension and other postretirement benefit costs totaling \$5,286,036.

In addition, the Hospital understated contract labor costs in the overhead allocation. This error understated the overhead allocation rate by 0.16 percent and total hours by 5,275; however, the wage rate was not affected.

These errors occurred because the Hospital did not sufficiently review and reconcile its reported wage data to supporting documentation to ensure that the data were accurate, supportable, and in compliance with Medicare requirements. As a result, the Hospital overstated its wage data by \$27,055,490 (numerator) and 316,281 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 4 percent from \$32.26 to \$31.08. If the Hospital does not revise the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.²

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.

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

Understated Costs for Part B Services

The Social Security Act and Medicare regulations provide that, as a general matter, the costs of services provided by physicians, nurse practitioners, physician assistants, and clinical social workers are covered by Part B, not Part A.³

The “Medicare Provider Reimbursement Manual” (the Manual), part II, section 3605, requires hospitals to exclude from their reported wage index information those physician, nurse practitioner, physician assistant, and other services that hospitals claim for Part B reimbursement as patient services. Under Medicare, these services are related to patient care and are billed separately under Part B. The Manual, part II, section 2108, states that, to claim provider services under Part A, hospitals must distinguish these services from medical and surgical services rendered by a physician to an individual patient, which are reimbursed under Part B. An agreement between the hospital and the hospital-based physician on what services are Part A or Part B should be based on supporting documentation that is communicated to the hospital’s intermediary.

The Hospital included \$11,710,345 in salaries and related fringe benefits and 272,538 in hours as Part A wages for services provided by physicians, nurse practitioners, physician assistants, and clinical social workers that are generally billed under Part B, in compliance with Federal requirements. Additionally, the Hospital included contract labor costs previously submitted under Medicare Part B totaling \$531,293 and 4,257 hours. As a result, after overhead was factored in, the Hospital overstated its wage data by \$10,994,624 and 289,790 hours, which overstated its average hourly wage rate by \$0.16.

Misstated and Misclassified Wages

The Manual, part II, section 3605.2, states that hospitals should ensure that the wage data reported on their Medicare cost reports are accurate and exclude wages incurred for skilled nursing facility services; direct personnel costs for interns and residents; and costs for equipment, supplies, travel, and overhead items. Further, it limits services paid under contract to those directly related to patient care, including nursing, diagnostic, therapeutic, and rehabilitative services and certain management services related to the personnel costs of hospital executive officers and nursing administrators. 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 costs. The Manual, part II, section 3605.2, also states: “Paid hours include regular hours (including paid lunch hours),

³Section 1861(s)(1) of the Act and 42 CFR §§ 410.10(a) and 410.20(a) include care by physicians as covered Part B services; section 1861(b)(4) of the Act and 42 CFR §§ 409.10(b)(3) and 415.102(a) exclude physician services from Part A inpatient hospital services. 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)(4) of the Act and 42 CFR § 409.10(b)(5) exclude nurse practitioner services from Part A inpatient hospital services. Section 1861(s)(2)(K)(i) of the Act and 42 CFR § 410.74 include care by physician assistants as covered Part B services; section 1861(b)(4) of the Act and 42 CFR § 409.10(b)(4) exclude physician assistant services from Part A inpatient hospital services. Section 1861(s)(2)(N) of the Act and 42 CFR § 410.73 include care by clinical social workers as covered Part B services.

overtime hours, paid holiday, vacation and sick leave hours, paid time-off hours, and hours associated with severance pay.”

The Hospital incorrectly reported a total of \$12,760,166 in salaries and 21,216 in hours. Specifically, the Hospital included the following wage data that were not in compliance with Federal requirements:

- misstated costs related to Part B nonphysician anesthetists, which overstated the wage data by \$6,291,000;
- duplicate home office costs, which overstated the wage data by \$5,133,772;
- home office salaries and fringe benefit costs for excluded departments or services not directly related to patient care (e.g., corporate marketing), which overstated the wage data by \$1,543,971 and 32,420 hours;
- understated home office staff bonuses, which understated the wage data by \$208,577; and
- home office salaries without the related hours for severance payments, which understated hours by 11,204.

As a result, the Hospital overstated its wage data by \$12,760,166 (\$6,291,000 plus \$5,133,772 plus \$1,543,971 minus \$208,577) in salaries and 21,216 hours (32,420 minus 11,204). After overhead was factored in, the Hospital overstated its wage data by a total of \$10,774,830 and 21,216 hours, which overstated its average hourly wage rate by \$0.66.

Overstated Pension and Other Postretirement Benefit Costs

The Manual, part II, section 3605.2, states: “For purposes of determining the wage-related costs for the wage index, a hospital must use generally accepted accounting principles (GAAP).” GAAP provisions governing pension plans allow for the use of an “accrual” basis of accounting for contributions to a plan so that plan liabilities need not be liquidated by actual cash transfers to the plan.

However, in June 2003, CMS clarified in a note to section 3605.2 that “[a]lthough hospitals should use GAAP in developing wage-related costs, the amount reported for wage index purposes must meet the reasonable cost provisions of Medicare.” Medicare reasonable cost principles differ from certain GAAP provisions by requiring a “cash” basis of accounting. Specifically, the Manual, part I, section 2142.3, states that “for a plan to be considered funded for the purposes of Medicare cost reimbursement, the liability to be funded must have been determined, and the provider must have been obligated to make payments into the fund.”

Federal regulations setting forth the principles of reasonable cost reimbursement state: “Reasonable provider payments made under unfunded deferred compensation plans are included in allowable costs only during the cost reporting period in which actual payment is made to the participating employee” (42 CFR § 413.100(c)(2)(vii)(A)). In addition, 42 CFR § 413.100(c)(2)(vii)(B) states:

“Accrued liability related to contributions to a funded deferred compensation plan must be liquidated within 1 year after the end of the cost reporting period in which the liability is incurred.” Further, 42 CFR § 413.100(c)(2)(vii)(C) states: “Postretirement benefit plans . . . are deferred compensation arrangements and thus are subject to the provisions of this section regarding deferred compensation and to applicable program instructions”

The Manual, part I, section 2142.6C, also states that deposits in excess of the maximum limit may be treated as prepayments toward future pension costs. The Manual, part I, section 2142.4A, requires that any such prepayments from prior periods be reconciled with the data used to measure the pension cost.

The Hospital overstated pension and other postretirement benefit costs by \$8,091,670, as follows:

- The Hospital overstated pension costs by \$6,241,774 because it included payments that exceeded the maximum allowable pension costs.
- The Hospital overstated its retirees’ health care costs by \$2,193,567 because it duplicated certain allocable costs.
- The Hospital understated postretirement benefits by \$343,671 because it did not include administrative fees related to the pension plan.

As a result, after overhead was factored in, the Hospital overstated its wage data by \$5,286,036, which overstated its average hourly wage rate by \$0.36.

Understated Overhead Allocation for Contract Labor Salaries and Hours

The Federal Register (72 Fed. Reg. 47130, 47315-16) (Aug. 22, 2007) states:

We [CMS] revised the cost report, beginning October 1, 2003 (the FY 2004 cost report), to provide for the collection of cost and hours data for the four identified contract indirect patient care services. We added four new line items to Worksheet S-3, Part II Line 9.03 (Contract management and administrative services); Line 22.01 (Contract A&G [administrative and general] services); Line 26.01 (Contract housekeeping services); and Line 27.01 (Contract dietary services)

.

Public commenters have expressed interest in including in the wage index the costs and hours for contract management, A&G, housekeeping, and dietary services. We also believe that including a more comprehensive measure of area differences in the cost of labor will improve the accuracy of the wage index. For these reasons, we are including these contract services in the wage index, beginning with FY 2008.

The Hospital did not include contract labor totaling \$556,416 and 26,318 hours in the overhead allocation of its cost report amounts. These amounts were related to housekeeping services and administrative and general costs affecting the overhead allocation of the wage index computation. As a result, the Hospital understated the overhead allocation rate by 0.16 percent and total hours by 5,275; however, the wage rate was not affected.

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.

OVERSTATED WAGE DATA AND POTENTIAL OVERPAYMENTS

As a result of the reporting errors, the Hospital overstated its Part A wage data by \$27,055,490 (numerator) and 316,281 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors decreased the average hourly wage rate approximately 4 percent from \$32.26 to \$31.08. If the Hospital does not revise the wage data in its cost report, the FY 2009 wage index for the Hospital's CBSA will be overstated, which will result in overpayments to all of the hospitals that use this wage index.

RECOMMENDATIONS

We recommend that the Hospital:

- submit a revised FY 2005 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$27,055,490 and 316,281 hours and
- implement review and reconciliation procedures to ensure that the wage data reported in future Medicare cost reports are accurate, supportable, and in compliance with Medicare requirements.

HENRY FORD HOSPITAL COMMENTS

In written comments on our draft report, the Hospital agreed with our recommendations. The Hospital stated that it had submitted revised wage index information to the intermediary and strengthened its review and reconciliation procedures. The Hospital's comments are included in their entirety as Appendix B.

APPENDIXES

CUMULATIVE EFFECT OF FINDINGS

Henry Ford Hospital Schedule S-3, Part III	Reported Fiscal Year (FY) 2005 Wage Data	Misstated & Misclassified						Understated Part B Costs		Understated Overhead Costs	Adjusted FY 2005 Wage Data	
		Overstated Pension and Other Postretirement Benefit Costs	Overstated Pension Cost	Overstated Health Care Fringe Benefit Cost	Unreported Fringe Benefit Cost	Understated Part B Cost - Input Error	Duplicate Home Office Costs	Overstated Home Office Costs - Excluded Services	Understated Home Office Hours - Severance Payments			Overstated Part B Costs
Overhead Allocation												
Lines 21-35/col. 3	91,292,865											91,849,281
Total Overhead Salaries	3,954,973											3,981,291
Total Overhead Hours	19,449,513											19,449,513
Less:												
Nonphysician Anesthetist Part B	81,597											81,597
Teaching Physician Hours	157,855											157,855
Physician Part B Hours	1,113,321											1,385,859
I&R Hours	1,150,648											1,150,648
Contract Services: I&R	-											-
Total Overhead Hours	3,954,973											3,981,291
Subtotal (Less)	6,458,394											6,757,259
Revised Hours	12,991,119											12,692,263
Overhead Reduction for Excluded Area Hours												
SNF Hours	-											-
Excluded Area Hours	1,991,995											1,991,995
Subtotal -	1,991,995											1,991,995
Excluded Overhead Rate	15.33%											15.69%
(SNF-Excluded Area Hours)/(Revised Hours)												
Excluded Overhead Salaries	13,998,404											14,415,542
Salaries - Excluded Overhead Rate												
Hours * Excluded Overhead Rate	606,436											624,846
Overhead Rate												
(Overhead Hours)/(Revised Hours - SNF - Excluded Area Hours)	23.34%											23.88%
Wage-Related Cost (Core)	91,853,010											91,853,010
Wage-Related Cost (Other)												
Total Wage-Related Cost - Physician Part A	8,832,349											8,832,349
Overhead Wage-Related Cost	100,685,359											100,685,359
Excluded Wage-Related Cost	(5,506,494)											(5,506,494)
Adjusted Salaries	23,498,508											23,498,508
Less: Excluded Overhead Salaries	(844,339)											(844,339)
Excluded Wage-Related Cost	(844,339)											(844,339)
Revised Wages -	493,790,186											493,790,186
Multiplied By: Inflation Factor	1											1
Inflated Wages (Adjusted Wages Used in Report) -	493,790,186											493,790,186
Revised Hours (Adjusted Hours Used in Report) -	15,907,685											15,907,685
(Adjusted Hours - Excluded Overhead Hours)												
Inflated Average Hourly Wage	32.26											31.08
												-4%

Total Wage Data Revisions:													Totals
Inflated Wages	(\$4,112,299)	(\$1,384,503)	\$210,766	(\$6,291,000)	(\$3,148,436)	(\$1,543,971)	\$208,577	\$0	11,204	(\$10,463,331)	(\$531,293)	(\$187,708)	(\$16,269,443)
Revised Hours							0			(\$285,533)	(4,257)	(5,275)	(\$32,420)

Overstated Postretirement Benefits	(\$5,286,036)	Misstated and Misclassified Wages -	(10,774,830)	Understated Part B Costs	(\$10,994,624)	Total after factoring overhead	(27,055,490)
			(\$21,216)				(\$316,281)

Cost Report Revisions													Totals
Salaries	(6,241,774)	(2,193,567)	343,671	(6,291,000)	(5,133,772)	(1,543,971)	208,577	0	11,204	(11,710,345)	(531,293)	0	(33,093,474)
Hours	0	0	0	0	0	0	0	0	0	(272,538)	(4,257)	0	(298,011)



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June 30, 2008

Mr. Marc Gustafson
Regional Inspector General for Audit Services
Office of the Inspector General Region V
233 North Michigan Ave. Suite 1360
Chicago, IL 60601-2618

Re: Henry Ford Hospital
Report number: A-05-07-00063

Dear Mr. Gustafson,

Thank you for the opportunity to respond to the Draft report entitled Review of Henry Ford Hospital's Reported Fiscal Year 2005 Wage Data. We have reviewed the recommendations provided in your report and agree with the adjustments as provided. However, we believe that the regulation in regards to allowable pension cost is outdated. Our response below follows the order presented in your draft report.

Understated Costs for Part B Services

The hospital agrees with the adjustments made in this category.

Misstated and Misclassified Wages

The hospital agrees with the adjustments made in this category. Over the past several years, the hospital has implemented additional controls to ensure that we are complying with Medicare regulations. As a result, the majority of the adjustments in this category were presented to the auditors at the audit engagement entrance conference.

Overstated Pension and Other Postretirement Benefit Costs

When filing the 2005 cost report, there was still uncertainty regarding the correct interpretation of allowable pension costs. Subsequently, this was clarified in both the proposed and final Inpatient PPS Rules for FY 2006. As a result, we adjusted our pension cost for the wage index to funding when we submitted our 2006 cost report. We also presented an adjustment to the OIG auditor at the audit engagement entrance conference adjusting the 2005 OIG pension cost to funding.

We believe that the adjustment below funding to the allowable pension costs is based on the rules in the Provider Reimbursement Manual (PRM) for the calculation of the pension component of the Wage Index that are out-of-date. The PRM refers to ERISA funding rules and limits the allowable pension component to "normal cost" plus 10-year amortization of the unfunded "actuarial accrued liability" (AAL) to the extent that amount is actually contributed. While the calculation described in the PRM was at one time the effective basis for the IRC Section 404 maximum deductible contribution, Congress long ago determined that this calculation often did not allow for the adequate funding of pension plans.

In OBRA 1987 and the Retirement Protection Act of 1994, Congress added an “additional funding charge” to the minimum contribution requirement of IRC Section 412 based on the unfunded “current liability,” and allowed a tax deduction under IRC Section 404 for contributions up to 100% of the unfunded current liability. The “current liability” is an actuarial liability based on benefits accrued to date and prescribed interest and mortality assumptions intended to better reflect a plan termination liability. It is often larger than the AAL, especially in periods of low market interest rates.

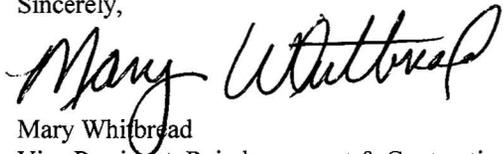
As a result, it has been many years since the PRM 10-year amortization limit has had any influence on the range of contributions – between the minimum requirement of IRC Section 412 and the maximum deductible limit of IRC Section 404 – applicable for the HFHS Pension Plan. Further, under the new minimum funding rules of the Pension Protection Act of 2006 (PPA), which take effect in 2008, the AAL is replaced by “target liability” (defined very similarly to “current liability” under the pre-PPA rules), and the minimum contribution calculation will require a 7-year amortization of unfunded target liability.

It is therefore disingenuous of CMS and OIG to limit “reasonable” pension costs with reference to rules that Congress long ago determined to be insufficient and therefore not in the public interest. We believe instead that any contribution up to the amount that would be deductible under the rules of IRC Section 404, should be considered “reasonable” for inclusion in the Wage Index. This would include all contributions made to the HFHS Pension Plan.

Recommendations

The hospital has submitted revised wage index information to the intermediary correcting the 2005 wage index information. We have strengthened our review and reconciliation procedures to ensure that the cost report information, including wage data, is accurate, supportable and in compliance with Medicare requirements.

Sincerely,



Mary Whitbread
Vice President, Reimbursement & Contracting
Henry Ford Health System