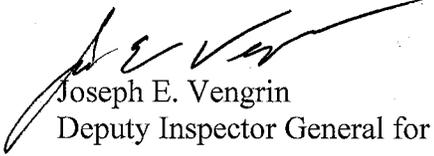




SEP 17 2008

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

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

SUBJECT: Review of Kaiser Foundation Hospital–Vallejo’s Reported Fiscal Year 2005 Wage Data (A-09-07-00083)

Attached is an advance copy of our final report on Kaiser Foundation Hospital–Vallejo’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 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 hospital costs 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 statistical area in which a hospital is located. To calculate wage indexes, CMS uses wage data collected from hospitals’ Medicare cost reports 4 years earlier.

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 \$11,762,404 and 252,882 hours. Our correction of the Hospital’s errors increased the average hourly wage rate approximately 1 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 statistical area will be understated, which will result in underpayments 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 \$11,762,404 and 252,882 hours and
- strengthen 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 its written comments on our draft report, the Hospital provided information on actions taken to implement our 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 through e-mail at George.Reeb@oig.hhs.gov or Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX, at (415) 437-8360 or through e-mail at Lori.Ahlstrand@oig.hhs.gov. Please refer to report number A-09-07-00083.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Region IX
Office of Audit Services
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

SEP 24 2008

Report Number: A-09-07-00083

Mr. Daniel P. Garcia
Senior Vice President and Chief Compliance Officer
Kaiser Foundation Health Plan, Inc.
Kaiser Foundation Hospitals
One Kaiser Plaza, 12th Floor
Oakland, California 94612

Dear Mr. Garcia:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Kaiser Foundation Hospital–Vallejo'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 contact me at (415) 437-8360 or through e-mail at Lori.Ahlstrand@oig.hhs.gov. Please refer to report number A-09-07-00083 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management & Fee for Service Organizations
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 KAISER FOUNDATION
HOSPITAL—VALLEJO'S REPORTED
FISCAL YEAR 2005 WAGE DATA**



Daniel R. Levinson
Inspector General

September 2008
A-09-07-00083

Notices

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

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.

Kaiser Foundation Hospital–Vallejo (the Hospital) is a 287-bed hospital in Vallejo, California. The Hospital is one of four hospitals in a California CBSA. The Hospital reported wage data of \$144 million and 2.9 million hours in its FY 2005 Medicare cost report, which resulted in an average hourly wage rate of \$49.75.

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:

- overstated home office costs totaling \$5,441,288 and 57,408 hours,
- overstated contract labor costs totaling \$5,213,995 and 28,319 hours,

- overstated pension costs totaling \$986,909, and
- overstated salary costs totaling \$120,212 and 167,155 hours.

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 \$11,762,404 (numerator) and 252,882 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors increased the average hourly wage rate approximately 1 percent from \$49.75 to \$50.17. 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 understated, which will result in underpayments 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 \$11,762,404 and 252,882 hours and
- strengthen 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.

KAISER FOUNDATION HOSPITAL–VALLEJO COMMENTS

In its written comments on our draft report, the Hospital provided information on actions taken to implement our recommendations. The Hospital's comments are included in their entirety as Appendix B.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Medicare Inpatient Prospective Payment System.....	1
Wage Indexes.....	1
Kaiser Foundation Hospital–Vallejo.....	2
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective.....	2
Scope.....	2
Methodology.....	2
FINDINGS AND RECOMMENDATIONS	3
ERRORS IN REPORTED WAGE DATA	3
Overstated Home Office Costs and Hours	4
Overstated Contract Labor Costs and Hours	4
Overstated Pension Costs.....	5
Overstated Salary Costs and Hours.....	6
CAUSES OF WAGE DATA REPORTING ERRORS	6
OVERSTATED WAGE DATA AND POTENTIAL UNDERPAYMENTS	6
RECOMMENDATIONS	6
KAISER FOUNDATION HOSPITAL–VALLEJO COMMENTS	6
APPENDIXES	
A – CUMULATIVE EFFECT OF FINDINGS	
B – KAISER FOUNDATION HOSPITAL–VALLEJO COMMENTS	

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.

Kaiser Foundation Hospital–Vallejo

Kaiser Foundation Hospital–Vallejo (the Hospital) is a 287-bed hospital in Vallejo, California. The Hospital is part of Kaiser Foundation Health Plan, Inc., and Subsidiaries and Kaiser Foundation Hospitals and Subsidiaries. The Hospital is also one of four hospitals in a California CBSA. The Hospital submitted to CMS its FY 2005 Medicare cost report covering the period January 1 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 \$144,494,015 in salaries and 2,904,137 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 \$49.75. 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 conducted our audit from June 2007 through February 2008 and performed fieldwork at Kaiser Foundation Health Plan, Inc. and Hospitals' office in Pasadena, California.

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 reported in the Hospital's FY 2005 cost report reconciled to the audited financial statements;
- reconciled the total reported wages in the Hospital's FY 2005 Medicare cost report to its general ledger;
- reconciled the wage data from selected cost centers to detailed support, such as bank statements, payroll registers, or timecards;

- 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; 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:

- overstated home office costs totaling \$5,441,288 and 57,408 hours,
- overstated contract labor costs totaling \$5,213,995 and 28,319 hours,
- overstated pension costs totaling \$986,909, and
- overstated salary costs totaling \$120,212 and 167,155 hours.

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 \$11,762,404 (numerator) and 252,882 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital's errors increased the average hourly wage rate approximately 1 percent from \$49.75 to \$50.17. 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 understated, which will result in underpayments 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 underpayments cannot be determined until CMS finalizes its FY 2009 wage indexes.

Overstated Home Office Costs and Hours

The “Medicare Provider Reimbursement Manual” (the Manual), part I, section 2150.3A, states that a home office must exclude unallowable costs before allocating costs to its chain components. Section 2150.2E.1 of the Manual states that home-office planning costs incurred for expanding, rebuilding, or relocating an existing chain component are allowable only when those costs have been included in the historical costs of the completed facility. The Manual, part I, section 2139, states that costs incurred for political and lobbying activities are unallowable.

The Manual, part II, section 3605.2, requires hospitals to report the number of paid hours corresponding to the reported salaries. Further, it 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. . . . [I]f the hours cannot be determined, then the associated salaries must not be included”

The Manual, part I, section 2142.6, defines allowability of pension plan payments. Section 2142.6C specifies the treatment of excessive pension plan payments as follows: “Where the payment made is more than the lesser of the tax deductible maximum or the total normal cost plus ratable amortization of the unfunded actuarial accrued liability, the excess may be carried forward and considered as payment against the liability to the fund of the future period.”

The Manual, part I, section 2153, states: “The home office cost statement constitutes the documentary support required of the provider to be reimbursed for home office costs and equity capital in the provider’s cost report. The financial records of the home office, in turn, are the necessary support for the data in the home office cost statement.”

The Hospital incorrectly reported home office salaries and wage-related benefits totaling \$5,441,288 and 57,408 hours by not excluding certain home office costs and hours before allocating costs to its chain components. Specifically, the Hospital included the following wage data that were not in compliance with Federal requirements:

- unallowable home-office planning costs,
- unallowable political and lobbying costs,
- salaries and severance pay without the corresponding hours,
- pension plan payments in excess of the allowable pension costs, and
- unsupported salaries and/or hours.

As a result, the Hospital overstated its wage data by \$5,441,288 and 57,408 hours, which overstated its average hourly wage rate by \$0.91.

Overstated Contract Labor Costs and Hours

The Manual, part II, section 3605.2, requires hospitals to report the amounts paid for services furnished under contract, rather than by employees, for direct patient care and certain management services. Section 3605.2 states that direct patient care services include nursing,

diagnostic, therapeutic, and rehabilitative services and do not include services paid under Medicare Part B, such as physician clinical services and physician assistant services. Further, section 3605.2 states that costs for contract management services are limited to personnel costs for those individuals who are working at the hospital facility in the capacity of chief executive officer, chief operating officer, chief financial officer, or nursing administrator.

The Manual, part II, section 3605.2, requires hospitals to report the number of paid hours corresponding to the amounts reported as paid for services furnished under contract. However, if the number of paid hours cannot be determined, section 3605.2 directs hospitals to omit the associated salaries. This section also requires hospitals to ensure that the wage data reported in their Medicare cost reports are accurate.

The Hospital incorrectly reported a total of \$5,213,995 in contract labor costs and 28,319 hours. Specifically, the Hospital included the following contract labor costs and hours that were not in compliance with Federal requirements:

- costs not related to direct patient care or allowable management services,
- costs for Medicare Part B services,
- costs reported without the corresponding hours, and
- costs included because of a data entry error.

As a result, the Hospital overstated its wage data by \$5,213,995 and 28,319 hours, which overstated its average hourly wage rate by \$1.32.

Overstated Pension Costs

The Manual, part I, section 2142.5, allows for reimbursement of certain pension plan costs provided that the pension plan payment requirements in section 2142.6A are met. The Manual, part I, section 2142.6A, states: “The provider must make payment of its current liability for both normal costs and actuarial accrued liability costs to the fund established for the pension plan” The Manual, part I, section 2142.4A, requires providers to “have available actuarial data containing at a minimum an analysis of both the ERISA [Employee Retirement Income Security Act] minimum and tax deductible maximum pension cost specifying the normal (current service) cost and the unfunded actuarial accrued liability.”

The Manual, part I, section 2142.6, defines allowability of pension plan payments. Further, section 2142.6C specifies the treatment of excessive pension plan payments as follows: “Where the payment made is more than the lesser of the tax deductible maximum or the total normal cost plus ratable amortization of the unfunded actuarial accrued liability, the excess may be carried forward and considered as payment against the liability to the fund of the future period.”

Based on its actuarial data, the Hospital reported \$1,303,658 of pension benefit costs in excess of the total normal cost plus ratable amortization of the unfunded actuarial accrued liability. As a result, after overhead was factored in, the Hospital overstated its wage data by \$986,909, which overstated its average hourly wage rate by \$0.34.

Overstated Salary Costs and Hours

The Manual, part II, section 3605.2, states that hospitals should ensure that the wage data reported in their Medicare cost reports are accurate. This section also requires hospitals to report the salaries paid to hospital employees and the number of paid hours corresponding to the reported salaries. Further, the Manual states: “[I]f the hours cannot be determined, then the associated salaries must not be included”

The Hospital reported a total of \$1,812,747 in salaries without the corresponding hours. Further, although the Hospital correctly removed a total of \$5,160,230 in salaries paid to nonhospital employees, it did not remove 225,953 hours corresponding to those salaries. As a result, after various required adjustments and overhead were factored in, the Hospital overstated its wage data by \$120,212 and 167,155 hours, which understated its average hourly wage rate by \$2.99.

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 UNDERPAYMENTS

As a result of the reporting errors, the Hospital overstated its Part A wage data by \$11,762,404 (numerator) and 252,882 hours (denominator) for the FY 2005 Medicare cost report period. Our correction of the Hospital’s errors increased the average hourly wage rate approximately 1 percent from \$49.75 to \$50.17. 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 understated, which will result in underpayments 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 \$11,762,404 and 252,882 hours and
- strengthen 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.

KAISER FOUNDATION HOSPITAL–VALLEJO COMMENTS

In its written comments on our draft report, the Hospital provided information on actions taken to implement our recommendations. The Hospital’s comments are included in their entirety as Appendix B.

APPENDIXES

CUMULATIVE EFFECT OF FINDINGS

Components	Reported Federal Fiscal Year 2005 Wage Data	Overstated Home Office Hours	Overstated Contract Labor Costs and Hours	Overstated Pension Costs	Overstated Salary Costs and Hours	Adjusted FY 2005 Wage Data
Kaiser Foundation Hospital - Vallejo						
<i>Worksheet S - 3, Part II</i>						
Total Salaries						
line 1/col. 3	\$99,029,449.00				(\$1,812,747.00)	\$97,216,702.00
Excluded Salaries						
line 4.01/col. 3	\$0.00					\$0.00
line 5/col. 3	\$0.00					\$0.00
line 5.01 col. 3	\$0.00					\$0.00
line 6/col. 3	\$211,583.00				(\$2,694.00)	\$208,889.00
line 6.01/col.3	\$0.00					\$0.00
line 7/col.3	\$0.00					\$0.00
line 8/col. 3	\$0.00					\$0.00
line 8.01/col. 3	\$16,191,252.00				(\$50,661.00)	\$16,140,571.00
subtotal (subtract)	\$16,402,835.00	\$0.00	\$0.00	\$0.00	(\$53,375.00)	\$16,349,460.00
Additional Salaries						
line 9/col. 3	\$27,255,338.00		(\$5,213,995.00)			\$22,041,343.00
line 10/col. 3						\$0.00
line 10.01/col.3						\$0.00
line 11/col. 3	\$21,639,996.00	(\$5,441,288.00)			(\$81,319.00)	\$16,198,708.00
line 13/col. 3	\$26,717,684.00					\$25,332,707.00
line 14/col. 3	\$0.00					\$0.00
line 18/col. 3	\$0.00					\$0.00
subtotal (add)	\$75,613,018.00	(\$5,441,288.00)	(\$5,213,995.00)	(\$1,303,658.00)	(\$81,319.00)	\$63,572,756.00
Total Paid Hours	\$158,239,632.00	(\$5,441,288.00)	(\$5,213,995.00)	(\$1,303,658.00)	(\$1,840,691.00)	\$144,440,000.00
line 1/col. 4	2,829,296.00	0.00			(225,953.00)	2,603,343.00
Excluded Hours						
line 4.01/col. 4	0.00					0.00
line 5/col. 4	0.00					0.00
line 5.01/col. 4	0.00					0.00
line 6/col. 4	9,917.00					9,917.00
line 6.01/col. 4	0.00					0.00
line 7/col. 4	0.00					0.00
line 8/col. 4	0.00					0.00
line 8.01/col. 4	433,938.00	0.00	0.00	0.00	0.00	433,938.00
subtotal (subtract)	443,855.00	0.00	0.00	0.00	0.00	443,855.00
Additional Hours						
line 9/col. 4	445,380.00		(28,319.00)			417,061.00
line 10/col. 4	0.00					0.00
line 10.01/col.4	0.00					0.00
line 11/col. 4	373,047.00	(57,408.00)			0.00	315,639.00
subtotal (add)	818,427.00	(57,408.00)	(28,319.00)	0.00	0.00	732,700.00
	3,203,866.00	(57,408.00)	(28,319.00)	0.00	(225,953.00)	2,892,186.00



Daniel P. Garcia
Senior Vice President
Chief Compliance Officer

Kaiser Foundation Health Plan, Inc.
Kaiser Foundation Hospitals

July 31, 2008

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General, Region IX
Office of Audit Services
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

Re: Report Number A-09-07-00083
June 2008 Draft Report Re: Review of Kaiser Foundation Hospital –
Vallejo's Reported Fiscal Year 2005 Wage Data

Dear Ms. Ahlstrand:

This letter constitutes Kaiser Foundation Hospitals' (KFH) response to your office's June, 2008, draft report entitled "Review of Kaiser Foundation Hospital – Vallejo's Reported Fiscal Year 2005 Wage Data." In the report, you asked that KFH do two things:

- Submit a revised FY 2005 Medicare cost report to the fiscal intermediary to correct the wage data overstatements totaling \$11,762,404 and 252,822 hours, and
- Strengthen 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.

The following paragraphs summarize our responses to your requests:

Kaiser Foundation Hospitals' Responses

A. Submit a revised Medicare cost report to the fiscal intermediary to correct the wage data overstatements.

CMS conducts wage index audits separately from the cost report audits. Part of the CMS annual wage index audit process is the submission of proposed changes by the hospitals.

We appreciate your auditors completing their work in time for us to include their findings in the CMS wage index audit that started on October 12, 2007. The audit included the wage index data for all of the Kaiser Foundation Hospitals' Medicare cost reports for the year ended December 31, 2005.

One Kaiser Plaza, 12th Floor
Oakland, CA 94612
Tel: (510) 271-5781
Fax: (510) 267-2133



Letter to Ms. Lori A. Ahlstrand
July 31, 2008
Page 2 of 3

On December 6, 2007, we submitted to the Hospital's Fiscal Intermediary, Wisconsin Physicians Services (WPS), a revised CMS-2552-96 Worksheet S-3 Parts II and III for KFH – Vallejo 2005, reflecting the OIG findings. We also applied the OIG findings to the FY 2005 cost reports for all of Kaiser's 27 other hospitals and submitted the updated versions of Worksheet S-3 Parts II and III to WPS on December 6, 2007.

B. Strengthen 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.

We incorporated the OIG findings in the FY 2007 cost reports filed May 31, 2008, for all 28 Kaiser Foundation Hospitals. We will continue to incorporate the OIG findings in future cost reports.

Specifically, we incorporated the OIG findings in data for the following areas:

Overstated home office costs

We reviewed detailed wage index data related to the Kaiser Foundation Home Office Cost Report and excluded unallowable home-office planning costs, unallowable political and lobbying costs, salaries and severance pay without the corresponding hours, pension plan payments in excess of the allowable pension costs, and unsupported salaries and/or hours.

Overstated contract labor costs and hours

We reviewed detailed wage index data related to contract labor and excluded costs not related to direct patient care or allowable management services, costs for Medicare Part B services, costs reported without corresponding hours, and costs included because of a data entry error.

Overstated pension costs

We restated pension costs to agree with the OIG calculation.

Overstated salary costs and hours

We removed all salary dollars that do not have the corresponding hours in the payroll records. For Northern California Region hospitals, we also removed the hours, as well as the dollars, in salaries paid to employees for their work in non-hospital areas.

We have updated our Medicare cost report policies and procedures to incorporate the OIG wage index findings in all of our future hospital cost reports.



Letter to Ms. Lori A. Ahlstrand
July 31, 2008
Page 3 of 3

Thank you for allowing us the opportunity to respond to report findings. I hope the information above satisfactorily addresses your needs. Please feel free to contact me with any comments or questions. I may be reached at (510) 271-5781.

Very truly yours,

A handwritten signature in black ink that reads "Daniel P. Garcia".

Daniel P. Garcia
Senior Vice President and Chief Compliance Officer
Kaiser Foundation Health Plans, Inc.
Kaiser Foundation Hospitals

DPG:ehk