



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

August 29, 2005

Report Number: A-05-05-00021

Mr. Dave Striepling
Manager, Cost Accounting & Reimbursement
Condell Medical Center
801 S. Milwaukee Ave. on Condell Dr.
Libertyville, IL. 60048-3199

Dear Mr. Striepling,

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

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

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Please refer to report number A-05-05-00021 in all correspondence.

Sincerely,

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

David DuPre
Acting Regional Administrator
Centers for Medicare & Medicaid Services
Department of Health and Human Services
233 N. Michigan Avenue, Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF CONDELL MEDICAL
CENTER'S CONTROLS TO ENSURE
ACCURACY OF WAGE DATA USED
FOR CALCULATING INPATIENT
PROSPECTIVE PAYMENT SYSTEM
WAGE INDEXES**



**Daniel R. Levinson
Inspector General**

**AUGUST 2005
A-05-05-00021**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

BACKGROUND

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

CMS calculates a distinct wage index for each core-based statistical area (CBSA) and one statewide wage index per State for the areas that lie outside of CBSAs. CMS will base the wage index values in fiscal year (FY) 2007 on wage data collected from the FY 2003 Medicare cost reports submitted by hospitals. Hospitals must accurately report wage data for CMS to determine the equitable distribution of payments and help ensure the appropriate level of funding to cover hospitals' costs of furnishing services. Condell Medical Center (the hospital), along with seven other hospitals, is classified into a specific Illinois urban CBSA for the IPPS wage index.

OBJECTIVE

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

SUMMARY OF FINDINGS

The hospital did not fully comply with Medicare regulations and guidance for reporting wage data in its FY 2003 Medicare cost report. Specifically, the hospital reported wage data that included:

- total salaries without related hours in the amount of \$34,881,
- overstated total hours of 3,322,
- overstated total hours of 14,488 attributable to excluded cost centers, and
- understated wage-related benefit core costs totaling \$251,798.

As a result of these errors, the hospital understated its salary wage data by \$216,917 and overstated its hours by 17,810 which caused its average hourly wage rate to be understated by approximately 1% percent for the FY 2003 Medicare cost report period. These errors occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate and supportable, and in compliance with Medicare regulations and guidance. Accordingly, if the hospital does not revise the wage data in its cost report, the FY 2007 CBSA will be understated, resulting in underpayments to this hospital and the other seven hospitals that utilize this wage index.¹

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

RECOMMENDATIONS

We recommend that the hospital:

- revise the FY 2003 cost report to reflect the understated salary wage data by \$216,917 and overstated hours by 17,810 and
- strengthen financial reporting controls by implementing procedures to ensure that the wage data reported on the hospital's Medicare cost report are accurate and supportable, and in compliance with Medicare regulations and guidance.

In their written response to our draft report, the hospital concurred with the findings presented in the report. The full text of the hospital's response is included as Appendix B to this report.

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INTRODUCTION

BACKGROUND

Medicare Inpatient Prospective Payment System

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

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

Wage Index

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

The wage index values in FY 2007 will be based on the wage data collected from the Medicare cost reports submitted by hospitals in FY 2003. Hospitals must accurately report wage data for CMS to determine the equitable distribution of Medicare payments and help ensure the appropriate level of funding to cover hospitals' costs of furnishing services. Section 1886(d)(3)(e) of the Social Security Act requires that CMS update the wage index annually in a manner that ensures that aggregate payments to hospitals are not affected by changes to hospitals' wage indexes.

Condell Medical Center

Condell Medical Center (the hospital) is an acute care provider with 195 beds located in Libertyville, Illinois. The hospital, along with seven other hospitals, is classified into a specific Illinois urban CBSA. The hospital reported \$94.7 million in wage data in its FY 2003 Medicare cost report.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

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

Scope

Our review covered the wage data that the hospital reported to CMS on Schedule S-3, Part II of its FY 2003 Medicare cost report. Our review of internal controls at the hospital was limited to the control procedures that the hospital used to accumulate and report wage data for its FY 2003 Medicare cost report.

We performed our fieldwork at the hospital in Libertyville, Illinois from February 2005 through April 2005.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidance;
- obtained an understanding of the hospital's control procedures for reporting wage data;
- verified that wage data on the hospital's trial balance reconciled to its audited financial statements;
- reconciled the total reported wages on the hospital's FY 2003 Medicare cost report to its trial balance;
- reconciled the wage data from selected cost centers to detail support such as payroll registers or accounts payable invoices;
- selected for testing wage data in the FY 2003 Medicare cost report from cost centers that accounted for at least 2 percent of the total hospital wages;
- tested a sample of transactions from these cost centers and verified wage data to payroll records;
- held discussions with the hospital staff regarding the sample of personnel to obtain support for wages; and
- reviewed the reasonableness off the hospital's methodology for wage data allocations.

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

FINDINGS AND RECOMMENDATIONS

The hospital did not fully comply with Medicare regulations and guidance for reporting wage data in its FY 2003 Medicare cost report. Specifically, the hospital reported wage data that included:

- total salaries without related hours in the amount of \$34,881,
- overstated total hours of 3,322,
- overstated total hours of 14,488 attributable to excluded cost centers, and
- understated wage-related benefit core costs totaling \$251,798.

As a result of these errors, the hospital understated its salary wage data by \$216,917 and overstated its hours by 17,810 which caused its average hourly wage rate to be understated by approximately 1% percent for the FY 2003 Medicare cost report period. These errors occurred because the hospital did not sufficiently review and reconcile wage data to ensure that all amounts reported were accurate and supportable, and in compliance with Medicare regulations and guidance. Accordingly, if the hospital does not revise the wage data in its cost report, the FY 2007 CBSA will be understated, resulting in underpayments to this hospital and the other seven hospitals that utilize this wage index.² The findings related to the errors in reported wage data are discussed in more detail in the following pages and the cumulative effect of the findings is presented in the Appendix.

TOTAL SALARIES WITHOUT RELATED HOURS

The CFR § 413.20 requires that providers maintain sufficient financial records and statistical data for proper determination of costs payable under the program. Within this context, the Medicare Provider Reimbursement Manual, part II, section 3605.2, requires hospitals to record the number of paid hours corresponding to the amounts reported as regular time, overtime, paid holiday, vacation and sick leave, paid time-off, and severance pay.

The hospital inflated the average hourly wage by reporting \$34,881 in salaries but not reporting the related hours. Of the \$34,881 in reported salaries, \$33,691 were attributed to physical therapy assistants which were paid on a per visit basis rather than an hourly basis. Their hours worked were never tracked. The remaining \$1,190 was due to a one pay period inclusion of a pay code for electroencephalogram testing without reporting the associated hours. Accordingly, the hospitals reporting of salaries without a corresponding amount of paid hours, overstated the total salary amount that should be included in the wage index calculation.

² The extent of underpayments cannot be determined until CMS finalizes its FY 2007 IPPS wage indexes.

OVERSTATED TOTAL HOURS

As previously cited, the Provider Reimbursement Manual requires hospitals to record the number of paid hours corresponding to the salaries reported.

During our reconciliation of total hours to total salaries, we identified 3,322 hours that were not associated with any salaries. The overstated hours can be attributed to a difference in reports used for total salaries and hours. A hard copy report was used to report the hours, while an electronic version of the report was used to report salaries. We identified adjustments made to the electronic version of the report that were not made to the hard copy and resulted in overstated hours. Thus, the hospital's failure to reconcile the paid hours to reported salary amounts overstated the total hours that should be included in the wage index calculation. The overstated hours understated the average hourly wage.

OVERSTATED TOTAL HOURS ATTRIBUTABLE TO EXCLUDED COST CENTERS

As previously cited, the Provider Reimbursement Manual requires hospitals to record the number of paid hours corresponding to the salaries reported. The Federal Register, dated August 11, 2004, page 49050, states that the method used to compute the hospital's average hourly wage excludes certain costs that are not paid under the IPPS. In calculating the hospital's average salaries plus wage-related costs, excluded salaries reported (direct salaries attributable to skilled nursing facility services, home health services, and other subprovider components not subject to the IPPS) are subtracted from the total salaries as reported.

Due to an oversight, the hospital failed to report 14,488 hours related to the following excluded cost centers: EMS program, Home Health Agency, and Gift shop. The salaries for the excluded cost centers were calculated using an automated format, while the hours associated with these salaries were manually calculated. Although the salaries for the excluded cost centers were properly reported, the hospital failed to capture all the hours associated with these cost centers. Because the hospital understated the excluded hours that relate to the excluded salaries, the total hours included in the wage index calculation were overstated.

UNDERSTATED WAGE-RELATED BENEFIT COSTS

The Provider Reimbursement Manual, part II, section 3605.2 requires wage-related benefit costs to be reported on Exhibit 7 of Form CMS 339. Exhibit 7 is a standardized core list of wage-related benefit costs. Exceptions to the core list of wage-related costs may be reported if (i) the cost is not listed on Exhibit 7, Part I of Form CMS-339, and (ii) the total cost of the particular wage-related cost exceeds 1 percent of total salaries after the direct excluded salaries are removed.

The portion of includible wage-related benefit costs reported on Exhibit 7 of Form CMS 339, were understated by \$251,798. We identified several errors consisting of:

- tuition rebate costs were not included in the calculated amount,

- Worker's Compensation and Director's/Office liability amounts from FY 2002 were used instead of the FY 2003 amounts,
- fringe benefits did not exceed the 1% threshold for reporting on Part II and III of Exhibit 7, and
- an allocation percentage was used to exclude area fringe benefits that was incorrectly based on FY 2001 salary data.

Because the wage-related data that the hospital reported on Exhibit 7 was not reported in compliance with the criteria, it was inaccurate and understated the wage-related benefit costs in the wage index calculation.

CAUSES OF INACCURATE WAGE DATA AS REPORTED

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

EFFECT OF INACCURATE WAGE DATA AS REPORTED

The hospital understated its salary wage data by \$216,917 and overstated its hours by 17,810 which caused its average hourly wage rate to be understated by approximately 1% percent for the FY 2003 Medicare cost report period. Accordingly, if the hospital does not revise the wage data in its cost report, the FY 2007 CBSA will be understated, resulting in underpayments to this hospital and the other seven hospitals that utilize this wage index.

RECOMMENDATIONS

We recommend that the hospital:

- revise the FY 2003 cost report to reflect the understated salary wage data by \$216,917 and overstated hours by 17,810 and
- strengthen financial reporting controls by implementing procedures to ensure that the wage data reported on the hospital's Medicare cost report are accurate and supportable, and in compliance with Medicare regulations and guidance.

HOSPITAL'S RESPONSE

In a letter dated August 17, 2005, the hospital concurred with the findings presented in the report. The full text of the hospital's response is included as Appendix B to this report.

APPENDIXES

CUMMULATIVE EFFECT OF FINDINGS

APPENDIX A
PAGE 1 OF 2

Components		Reported FY 2003 Wage Data	Overstatement of Total Salaries	Overstatement of Total Hours	Understated Hours of Excluded Areas	Understated wage related benefit core costs	Total Effect of all Findings	Total Adjustment for FY 2003 Wage Data
CONDELL MEDICAL CENTER								
Work Sheet S - 3, Part II								
Total Salaries								
line1/col. 3	TOTAL SALARIES	\$82,217,830.00	(\$34,881)	\$0	\$0	\$0	(\$34,881)	\$82,182,949.00
Excluded Salaries								
Line 4.01/col. 3	EXCLUDED PHYSICIAN SALARIES	\$0.00						\$0.00
line5/col. 3	PHYSICIAN FEES	\$0.00						\$0.00
line5.01/col. 3	NON-PHYSICIAN FEES	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
line6/col. 3	TRAINING AND RESIDENTS	\$0.00						\$0.00
line 8/col. 3	EMPLOYEES	\$0.00						\$0.00
line8.01/col. 3	EXCLUDED HEALTH PLAN COSTS	\$6,599,500.00						\$6,599,500.00
subtotal (subtract)		\$6,599,500.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$6,599,500.00
Additional Salaries								
line9/col. 3	CONTRACT LABOR	\$0.00						\$0.00
line 10/col. 3	CONTRACT LABOR INCLUSIVE OF TAXES	\$0.00						\$0.00
line11/col. 3	EMPLOYEES AND HEALTH WAGES	\$0.00						\$0.00
line13/col. 3	NON-EMPLOYEES AND CONTRACTORS	\$19,007,718.00	\$0.00	\$0.00	\$0.00	\$251,798.00	\$251,798.00	\$19,259,516.00
line 14/col. 3	CONTRACT LABOR	\$0.00	\$0.00					\$0.00
line 18/col. 3	EMPLOYEES	\$0.00						\$0.00
sub-tot-b (ADD)		\$19,007,718.00	\$0.00	\$0.00	\$0.00	\$251,798.00	\$251,798.00	\$19,259,516.00
adjusted salaries		\$94,826,048.00	-\$34,881.00	\$0.00	\$0.00	\$251,798.00	\$251,917.00	\$94,842,965.00
Total Paid Hours								
line1/col. 4	TOTAL HOURS	3,322,317.00	0.00	(3,322.00)	0.00	0.00	(3,322.00)	3,318,995
Excluded Hours								
line 4.01/col. 4	EXCLUDED PHYSICIAN HOURS	0.00						0
line5/col. 4	PHYSICIAN HOURS	0.00						0
line5.01/col. 4	NON-PHYSICIAN HOURS	0.00	0	0	0	0	0	0
line6/col. 4	TRAINING AND RESIDENT HOURS	0.00						0
line 8/col. 4	EMPLOYEES	0.00						0
line8.01/col. 4	EXCLUDED HEALTH PLAN HOURS	259703.00	0	0	14488	0	14488	274,191
sub-tot-c (LESS)		259703.00	0.00	0.00	14,488.00	0.00	14,488.00	274,191.00
Additional Salaries								
line9/col. 4	CONTRACT LABOR HOURS	0.00						0.00
line 10/col. 4	CONTRACT LABOR INCLUSIVE OF TAXES	0.00						0.00
line11/col. 4	EMPLOYEES AND HEALTH	0.00						0.00
sub-tot-d (ADD)		0.00	0.00	0.00	0.00	0.00	0.00	0.00
adjusted hours		3,062,614.00	0.00	-3,322.00	-14,488.00	0.00	-17,810.00	3,044,804.00

CUMMULATIVE EFFECT OF FINDINGS

APPENDIX A
PAGE 2 OF 2

Components	Reported FY 2003 Wage Data	Overstatement of Total Salaries	Overstatement of Total Hours	Understated Hours of Excluded Areas	Understated wage related benefit core costs	Total Effect of all Findings	Total Adjustment for FY 2003 Wage Data
CONDELL MEDICAL CENTER							
Work Sheet S - 3, Part III							
OVERHEAD(OH) ALLOCATION							
line13/col. 3	\$24,047,724.00						\$24,047,724.00
line13/col. 4	\$1,040,672.00						1,040,672.00
TOTAL HOURS	3,322,317.00	0.00	-3,322.00	0.00	0.00	-3,322.00	3,318,995.00
LESS:							
TEACHING PHYSICIAN HOURS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PHYS PT B HOURS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NONPHYS PT B HOURS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
INTERN AND RESIDENTS HOURS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OVERHEAD HOURS	1,040,672.00	0.00	0.00	0.00	0.00	0.00	1,040,672.00
SUBTOTAL ->	1,040,672.00	0.00	0.00	0.00	0.00	0.00	1,040,672.00
REVISED HOURS(revised hrs)	2,281,645.00	0.00	-3,322.00	0.00	0.00	-3,322.00	2,278,323.00
OVERHEAD REDUCTION FOR EXCLUDED AREAS- HOURS							
SNF HOURS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXCLUDED AREA HOURS (e.g: home health)	259,703.00	0.00	0.00	14,488.00	0.00	14,488.00	274,191.00
SUBTOTAL ->	259,703.00	0.00	0.00	14,488.00	0.00	14,488.00	274,191.00
EXCLUDED OVERHEAD RATE							
[(snf+excluded area hrs)/revised hours]	0.113822702	0.00	0.00	0.01	0.00	0.01	0.120347729
EXCLUDED OVERHEAD WAGES (\$OH X Excluded OH rate)	2,737,176.93	0.00	3,991.05	152,698.35	0.00	156,912.05	2,894,088.98
EXCLUDED OVERHEAD HOURS (OH Hrs X Excluded OH rate)	118,452.10	0.00	172.71	6,608.06	0.00	6,790.41	125,242.51
OVERHEAD RATE							
(oh hrs/(revised hrs + oh hrs))	0.31323682	0.00	0.00	0.00	0.00	0.00	0.31355034
WAGE-RELATED COST (CORE)							
	19,007,718.00	0.00	0.00	0.00	251,798.00	251,798.00	19,259,516.00
WAGE-RELATED COST(OTHER)							
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PHYSICIAN PART A							
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SUBTOTAL							
	19,007,718.00	0.00	0.00	0.00	251,798.00	251,798.00	19,259,516.00
overhead work wage-related cost	5,953,917.07	0.00	5,959.31	0.00	78,872.40	84,910.66	6,038,827.73
excluded work wage-related cost	677,690.93	0.00	1,667.43	37,806.21	8,977.47	49,068.27	726,759.21
Adjusted Salaries	94,626,048.00	(34,881.00)	0.00	0.00	251,798.00	216,917.00	94,842,965.00
Less: excluded overhead salaries	2,737,176.93	0.00	3,991.05	152,698.35	0.00	156,912.05	2,894,088.98
excluded work related cost	677,690.93	0.00	1,667.43	37,806.21	8,977.47	49,068.27	726,759.21
REVISED WAGES	91,211,180.13	(34,881.00)	(5,658.48)	(190,504.56)	242,820.53	10,936.68	91,222,116.81
MULTIPLY BY : INFLATION FACTOR							
(Per Federal Register)	1.00000						1.00000
INFLATED WAGES (Adjusted Wages used in report) -	91,211,180.13	(34,881.00)	(5,658.48)	(190,504.56)	242,820.53	10,936.68	91,222,116.81
REVISED HOURS (Adjusted Hours used in report) -							
[adjusted hours - excluded oh hrs]	2,944,161.90	0.00	(3,494.71)	(21,096.06)	0.00	(24,600.41)	2,919,561.49
Average hourly wage	30.98035	-0.01185	0.03489	0.15842	0.08248	0.26479	31.24514322

Condell Medical Center

August 17, 2005

Mr. Paul Swanson
Regional Inspector General for Audit Services
Re: Report Number A-05-05-00021

Dear Mr. Swanson,

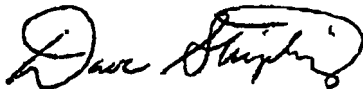
We have reviewed and concur with the findings of the above referenced report. The Office of the Inspector General did identify an error in the reports we use to calculate our average hourly wage, as well as a handful of human errors in compiling the data and interpreting the regulations. The fact that these audit findings slightly raise our average hourly wage supports our contention that the errors found were not the result of intentional misstatements.

To follow up on your recommendations, we have corrected the system error and placed additional checks in the preparation spreadsheets (to help prevent the identified human errors). We intend to fully disclose your findings to our fiscal intermediary at audit.

While we would not make light of any error found in our cost reports, we do want to provide a sense of scale to the readers of this report. Condell Medical Center had total salary/benefits cost in 2003 of approx. \$100,000,000 and total paid hours of approx. 3.3 million. The discovered errors of \$216,917 salary and 17,810 hours, while unfortunate, are relatively minor as compared to the full scope of payroll data for a facility of our size and complexity.

Condell Medical Center believes the wage index provides an equitable basis for distributing payments under the Medicare program, and we are committed to providing accurate wage data. We appreciate the Office of the Inspector General's review and suggestions. This process will serve to make our data more accurate in the future.

Sincerely,



Dave Striepling
Manager-Cost Accounting and Reimbursement
Condell Medical Center