DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

OFFICE OF AUDIT SERVICES, REGION V
233 NORTH MICHIGAN, SUITE 1360
CHICAGO, IL 60601

March 12, 2012

Report Number: A-05-11-00107

Ms. Mindy Smith
Vice President
Clinics, Outpatient Services & Development
HealthEast St. John's Hospital
1575 Beam Avenue
Maplewood, MN 55109

Dear Ms. Smith:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *St. John's Hospital Reported Costs for Outpatient Services on its FY 2010 Medicare Cost Report that Complied with Federal Requirements*. We will forward a copy of this report to the HHS action official noted below.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-05-11-00107 in all correspondence.

Sincerely,

/Sheri L. Fulcher/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

ST. JOHN'S HOSPITAL REPORTED COSTS FOR OUTPATIENT SERVICES ON ITS FY 2010 MEDICARE COST REPORT THAT COMPLIED WITH FEDERAL REQUIREMENTS

Daniel R. Levinson
Inspector General

March 2012
A-05-11-00107

Office of Inspector General

http://oig.hhs.gov

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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.

INTRODUCTION

BACKGROUND

Pursuant to Title XVIII of the Social Security Act (the Act), the Medicare program provides health insurance coverage to people aged 65 or older, people with disabilities, and people with end-stage renal disease. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program.

Medicare pays for services that physicians provide to program beneficiaries on an outpatient basis. These outpatient services, also known as ambulatory services, can be provided in medical facilities such as hospital outpatient departments or ambulatory surgical centers (ASC). As departments of a Medicare certified hospital, costs for these facilities must be reported on a hospital's Medicare cost report.

Reporting of Costs on the Medicare Cost Report

Pursuant to Section 100 of the *Medicare Provider Reimbursement Manual* (the Manual), CMS requires Medicare hospitals to submit cost reports annually in compliance with Federal cost reporting regulations. Pursuant to Section 2810 of the Manual, CMS requires hospitals to make adjustments and remove all costs not related to patient care, as well as costs related to luxury items or services because these costs are not allowable for Medicare purposes. Pursuant to the Manual these unallowable costs should be removed from the appropriate lines of the hospital's cost report.

Pursuant to Section 2807 of the Manual, lines 1 through 24 of the Medicare cost report represent general service costs such as housekeeping, dietary, and maintenance. Lines 25 and beyond represent costs from revenue-producing departments and include allocations from general service costs. Hospitals report costs from outpatient or ambulatory service departments within these lines. Specifically, line 58 is reserved for "ASC non-distinct part" costs. As stated in Section 2807, line 58 identifies costs of an ambulatory surgical center that is not Medicare certified as a distinct entity (non-distinct part) but which has a separate surgical suite.

Federal Requirements

Pursuant to 42 CFR 413.24(a), providers must submit adequate cost data based on a provider's "…financial and statistical records which must be capable of verification by qualified auditors." Providers must base cost data on "…an approved method of cost finding and on the accrual basis of accounting." Pursuant to 1861(v)(1)(A) of the Act, the "reasonable cost of any services shall be the cost actually incurred, excluding therefrom any part of incurred cost found to be unnecessary in the efficient delivery of needed health services."

St. John's Hospital

St. John's Hospital (St. John's) is a Medicare certified hospital located in Maplewood, Minnesota. St. John's maintains Midway Surgery Center, an ambulatory surgical center not

Medicare certified as a distinct entity but has a separate surgical facility in St. Paul, Minnesota. The costs associated with Midway Surgery Center are reported on line 58 of St. John's Medicare cost report.

St. John's Hospital submitted a Medicare cost report totaling $205,830,178 for fiscal year (FY) 2010. For line 58, ASC non-distinct part, St. John's reported total cost of $3,912,120.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether St. John's reported costs for outpatient services on line 58 of its FY 2010 Medicare cost report that complied with Federal requirements.

Scope

We reviewed costs totaling $3,912,120 reported on line 58, ASC non-distinct part, of St. John's FY 2010 cost report. These costs also included St. John's general services costs that were allocated to line 58.

We limited our internal control review to St. John's policies, procedures, and controls over cost reporting on the Medicare cost report for FY 2010.

We performed fieldwork at the Midway Surgery Center located in St. Paul, Minnesota.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidelines;
- reviewed St. John's policies and procedures related to reporting Medicare expenses on its cost report;
- interviewed St. John's officials to identify and understand policies and procedures for completing the Medicare cost report;
- reconciled the cost reports to supporting documentation and accountings records for FY 2010; and
- traced judgmentally selected transactions totaling $438,385 from the FY 2010 Medicare cost report to source documentation.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

RESULTS OF REVIEW

Based on our review, we determined that the costs for outpatient services reported on line 58 of St. John's FY 2010 Medicare cost report complied with Federal requirements.