

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

REVIEW OF
VENDOR REBATES
PAID TO HOSPITALS

PENN STATE
MILTON S. HERSHEY
MEDICAL CENTER
HERSHEY, PENNSYLVANIA



Daniel R. Levinson
Inspector General

MAY 2007
A-05-07-00046

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.



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

REGION V
OFFICE OF
INSPECTOR GENERAL

May 15, 2007

Report Number: A-05-07-00046

Mr. Kevin Haley
Chief Financial Officer
Penn State Milton S. Hershey Medical Center
P.O. Box 850, Mail Code H142
Hershey, Pennsylvania 17033

Dear Mr. Haley:

This final report provides the results of our audit of a vendor rebate in the amount of \$34,136 that a drug manufacturer paid to Penn State Milton S. Hershey Medical Center of Hershey, Pennsylvania. We identified this rebate through a national statistical sample of rebates.

BACKGROUND

Penn State Milton S. Hershey Medical Center

Penn State Milton S. Hershey Medical Center (the provider) is a 479-bed teaching and research hospital. The Medical Center campus includes Penn State College of Medicine (Penn State University's Medical School), Penn State Cancer Institute, and Penn State Children's Hospital.

Vendor Rebates

A vendor rebate is a retroactive discount, allowance, or refund given to a health care provider after the full list price has been paid for a product or a service. Rebates are usually paid quarterly or annually and are usually dependent on achieving a specific purchasing volume. A rebate is paid directly to a provider (e.g., a hospital) or to a nonprovider (e.g., a group purchasing organization or distributor).

Federal regulations (42 CFR § 413.98) state that rebates are reductions in the cost of goods or services purchased and are not income. The Centers for Medicare & Medicaid Services (CMS) "Provider Reimbursement Manual" (part 1, chapter 8) requires hospitals and other health care providers to report all discounts on their Medicare cost reports.

Medicare Cost Reports

Some types of Medicare-certified providers, such as hospitals, skilled nursing facilities, and home health agencies, must submit an annual Medicare cost report to a fiscal intermediary. The cost report contains provider information, including facility characteristics, utilization data, costs and charges by cost center (in total and for Medicare), Medicare settlement data, and financial

statement data. A cost center is generally an organizational unit having a common functional purpose for which direct and indirect costs are accumulated, allocated, and apportioned. Providers must reduce previously reported Medicare costs when they receive rebates.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the provider reduced costs reported on its fiscal year 2004 Medicare cost report by the \$34,136 vendor rebate it received.

Scope

As part of a national statistical sample of rebates that a single drug vendor sent directly to providers, we selected a \$34,136 rebate that the provider received during calendar year 2003. We limited our review to identifying the rebate amount and determining whether the provider credited the amount in its accounting records and on its Medicare cost report. We did not perform a detailed review of the provider's internal controls.

We performed our fieldwork from October through November 2005 at the drug vendor's offices in Deerfield, Illinois. We requested and received information from the provider through phone contacts, mail, and electronic mail.

Methodology

To accomplish our objective, we:

- reviewed Federal regulations and CMS guidance related to rebates,
- obtained a statistical sample of rebates paid by the vendor to identify providers that received the rebates,
- requested documentation from the provider regarding the reporting of the rebate,
- determined whether the provider credited the sampled rebate amount on its Medicare cost report,
- quantified the dollar amount of any rebates not reported and used to reduce previously reported costs, and
- contacted the provider's fiscal intermediary to verify the accounting for the vendor rebate.

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

FINDING AND RECOMMENDATIONS

The provider did not reduce costs reported on its fiscal year 2004 Medicare cost report by the \$34,136 rebate, contrary to Federal regulations and CMS guidance. The provider recorded the rebate to an inventory account. The provider stated that since the rebate was recorded to an inventory account on the balance sheet instead of a vendor rebate account on the income statement, the rebate was not credited on its Medicare cost report. Providers must offset costs by rebates to ensure that they report the actual cost of services provided.

We recommend that the provider:

- revise and resubmit its 2004 Medicare cost report, if not already settled, to properly reflect the \$34,136 rebate as a credit reducing its health care costs; and
- consider performing a self-assessment of its internal controls to ensure that future vendor rebates are properly credited on its Medicare cost reports.

PROVIDER COMMENTS

In its comments on the draft report, the provider agreed with our recommendations. The provider stated that it would (1) contact its fiscal intermediary to request a reopening of its 2004 Medicare cost report, and (2) implement several actions and procedures during the fiscal year ending June 30, 2007 to ensure that future vendor rebates are properly credited on its Medicare cost reports. The provider's written comments are included as the Appendix.

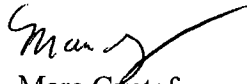
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A copy of this report will be forwarded to the action official noted on the next page for review and any action deemed necessary. The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to 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

In accordance with 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 are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

If you have any questions or comments about this report, please contact Jaime Saucedo at (312) 353-8693. Please refer to report number A-05-07-00046.

Sincerely,

A handwritten signature in black ink, appearing to read "Marc Gustafson", with a long, sweeping horizontal stroke extending to the right.

Marc Gustafson
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Official:

Ms. Verlon Johnson
Acting Regional Administrator
Centers for Medicare & Medicaid Services
Public Ledger Building, Suite 216
150 S. Independence Mall West
Philadelphia, Pennsylvania 19106

APPENDIX

PENNSTATE



Milton S. Hershey Medical Center
College of Medicine

Administration
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(717) 531 4162 Fax
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Kevin J. Haley
Chief Financial Officer

April 27, 2007

Mr. Marc Gustafson
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, Illinois 60601

RE: OIG Report Number A-05-07-00046

Dear Mr. Gustafson:

At your request, the Penn State Milton S. Hershey Medical Center (PSHMC) is submitting a response to the finding and recommendations of your draft report dated April 5, 2007, entitled "Review of Vendor Rebates Paid to Hospitals".

PSHMC's responses to the finding and recommendations are as follows:

Finding – The provider did not reduce costs reported on its fiscal year 2004 Medicare cost report by the \$34,136 rebate, contrary to Federal regulations and CMS guidance.

PSHMC Response – PSHMC agrees with this finding related to the \$34,136 vendor rebate on the 2004 Medicare cost report.

Recommendation – revise and resubmit its 2004 Medicare cost report, if not already settled, to properly reflect the \$34,136 rebate as a credit reducing its health care costs

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PSHMC Response - The 2004 Medicare cost report has been settled with a Notice of Amount of Program Reimbursement (NPR) dated December 5, 2005. In order to properly reflect the rebate on the Medicare cost report, a provider request to reopen the cost report will be required pursuant to 42 CFR 405.1885 and 405.1887. In addition, Highmark Medicare Services Provider Policy 04-193, Reopening Policy and Procedure, defines "material" (for new and material evidence for a reopening) as reopening reimbursement impact of "at least \$10,000" for Providers with "Total Medicare Reimbursement" greater than \$5,000,000. The 2004 settled Medicare cost report reimbursement impact of the rebate is estimated at \$1,249 due to the Program.

Therefore, PSHMC has copied Highmark Medicare Services on this response to determine if PSHMC must provide a separate request to reopen the 2004 Medicare cost report or will this letter be sufficient for the reopening request.

Recommendation – consider performing a self assessment of its internal controls to ensure that future vendor rebates are properly credited on its Medicare cost reports.

PSHMC Response – To ensure that future vendor rebates are properly credited on the Medicare cost report, the following actions/procedures have or will be implemented during fiscal year ended June 30, 2007:

PSHMC Accounts Payable/Accounts Receivable staff has been educated to identify and record vendor rebates to the general ledger other operating revenue account 510150, this account entitled Vendor Rebates is designated for all rebates regardless of the purpose.

The Manager of Accounts Payable and the Manager of General Accounting & Budgeting are in the process of establishing procedures to review all credit memo postings through Accounts Payable in order to verify proper accounting related to vendor rebates or a true credit memo due to the return of a product. This process will be reviewed annually for compliance.

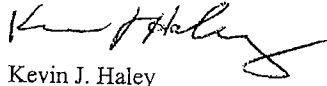
Vendor rebates posted to the general ledger through cash receipts, are reviewed for proper accounting by the Manager of General Accounting/Budgeting. This review will ensure proper classification of a rebate or credit memo within the general ledger.

The Manager of Accounting & Budgeting will review on a periodic basis throughout the fiscal year, each vendor rebate posted to the general ledger from either the Accounts Payable or Accounts Receivable subsystems. The Manager will then provide copies of the vendor rebates to the Supervisor responsible for the annual Medicare cost report process. Finally, the general ledger staff incorporated the review and verification of any credits posting to expense accounts within the general ledger into the monthly general ledger close process to ensure these postings are true credits and not rebates. If a rebate is identified as being miscoded, a journal entry is posted to reclassify the rebate to the proper account.

If you have any questions or require additional information, please feel free to contact me at (717) 531-8405.

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Sincerely,

A handwritten signature in black ink, appearing to read "Kevin J. Haley", with a stylized flourish at the end.

Kevin J. Haley
Chief Financial Officer

cc: John E. May III, PSHMC Chief Compliance Officer
Joseph C. Hudzik, Office of Council to the Inspector General
Patricia Reed, Department of Health and Human Services, Office of Audit Svcs
Ray Lichauer, Highmark Medicare Services