



Memorandum

Date JAN 15 1993

From Bryan B. Mitchell *Bryan Mitchell*
Principal Deputy Inspector General

Subject Review of General and Administrative Costs Included in the Fiscal Year 1991 Medicare Cost Report by Albert Einstein Medical Center, Philadelphia, Pennsylvania (A-03-92-00005)

To William Toby, Jr.
Acting Administrator
Health Care Financing Administration

This is to alert you to the issuance on January 19, 1993, of our final audit report. A copy is attached.

The report presents the results of our review of general and administrative (G&A) costs included in the Fiscal Year (FY) 1991 Medicare cost report submitted by the Albert Einstein Medical Center (AEMC), Philadelphia, Pennsylvania. The AEMC was 1 of 20 hospitals included in a nationwide review by the Office of Inspector General. This review was in response to a request of the Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce, U.S. House of Representatives.

The primary objective of our review was to determine if the G&A costs reported by AEMC on its FY 1991 Medicare cost report were allowable, reasonable, and allocable in accordance with Medicare cost principles. We also determined the relationship of these costs to patient care activities, and whether the costs might be perceived as extravagant or otherwise inappropriate.

The AEMC reported G&A totaling \$10,740,036, as subject to allocation to Medicare for the year ended June 30, 1991 (FY 1991). Our review disclosed that this amount included \$381,048 which were not allowable for allocation to Medicare. The unallowable costs included \$346,548 for the Premier Years Club and \$34,500 for various social functions for physicians. In our opinion, neither the services provided by the Premier Club nor the social activities provided to physicians were related to patient care.

Under the prospective payment system hospitals are reimbursed prospectively on a per discharge basis. As a result, the inclusion of the \$381,048 of unallowable costs in the FY 1991 cost report resulted in increased Medicare

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reimbursement of \$22,672. We are recommending that AEMC remove these costs from its FY 1991 cost report and implement controls to prevent the inclusion of these costs in the future.

Our review also disclosed \$28,481 of costs which we have identified as costs for concern. While these costs were not specifically unallowable under Federal guidelines, there is some concern on the appropriateness of the costs. Recent congressional hearings on colleges and universities have raised questions as to whether these types of costs should be allocated to Federal programs. These costs pertain to various social and employee related activities.

The AEMC agreed that \$150,992 of the questioned costs were unallowable. It believed the remaining questioned costs were patient related and, therefore, allowable. The Health Care Financing Administration regional office stated that the costs identified in this report will be further reviewed by the fiscal intermediary.

For further information contact:

G. A. Rafalko
Regional Inspector General for
Audit Services, Region III
(215) 596-6744

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF GENERAL AND
ADMINISTRATIVE COSTS INCLUDED IN
THE FISCAL YEAR 1991 MEDICARE COST
REPORT BY
ALBERT EINSTEIN MEDICAL CENTER,
PHILADELPHIA, PENNSYLVANIA**



JANUARY 1993 A-03-92-00005



DEPARTMENT OF HEALTH & HUMAN SERVICES

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Our Reference: Common Identification Number A-03-92-00005

Mr. John Murino
Senior Vice President of Finance
Albert Einstein Medical Center
5501 Old York Road
Philadelphia, Pennsylvania 19141-3098

Dear Mr. Murino:

This audit report provides you the RESULTS OF OUR REVIEW OF GENERAL AND ADMINISTRATIVE COSTS INCLUDED IN THE FISCAL YEAR 1991 MEDICARE COST REPORT BY ALBERT EINSTEIN MEDICAL CENTER. The Albert Einstein Medical Center (AEMC) was 1 of 20 hospitals included in a nationwide review by the Office of Inspector General (OIG) in response to a request from the Subcommittee on Oversight and Investigations (Subcommittee) of the Committee on Energy and Commerce, U.S. House of Representatives. The Subcommittee was conducting an inquiry into the health care system. The AEMC was selected in accordance with our objective to include a geographic representation of hospitals nationwide.

The primary purpose of our review was to determine if the general and administrative (G&A) costs included in the AEMC's Fiscal Year (FY) 1991 Medicare cost report were allowable, reasonable, and allocable under Medicare cost principles as set forth in the Provider Reimbursement Manual (PRM).

In our opinion, AEMC inappropriately included in its FY 1991 Medicare cost report, G&A costs of \$381,048 which were not related to patient care, and therefore, were unallowable. We are recommending that AEMC remove these costs from the Medicare cost report.

SUMMARY OF REVIEW

Patient care costs	\$216,715,712
Total G&A Costs	10,740,036
Total Expenses	
Reviewed	\$861,765
Unallowable Costs	\$381,048
Estimated Effect on Medicare Costs	<u>\$22,672</u>

Since AEMC is reimbursed under the prospective payment system (PPS), the unallowable costs that the Office of Inspector General (OIG) identified had no direct effect on inpatient reimbursement. The unallowable costs directly affected the reimbursement of Medicare outpatient services and excluded units. Accordingly, we are recommending that AEMC remove the unallowable costs of \$381,048 from its FY 1991 Medicare cost report, and discontinue allocating these costs to the Medicare program.

In addition to the unallowable costs, we have identified \$28,841 of employee-related costs for which we have concerns regarding the nature of the expenditures, and their relationship to patient care. While these expenditures have been historically allowed by the fiscal intermediary (FI) or the Provider Reimbursement Review Board (PRRB), we believe they need to be further analyzed in view of increasing health care costs and Federal fiscal constraints. Recent congressional hearings on colleges and universities have raised some question on whether these types of costs should be allocated to Federal programs. These costs are discussed in the OTHER MATTERS section of this report.

On March 13, 1992, AEMC responded to a draft of this report. We have summarized AEMC's response along with our comments after the Conclusions and Recommendations section of this report, and have included the entire response as an appendix.

BACKGROUND

As previously stated, AEMC is reimbursed under PPS, which was established by the Social Security Amendments of 1983 (Public Law 98-21). The PPS is the most common method of hospital reimbursement under Medicare. Today, there are about 6,520 hospitals participating in the Medicare program. About 5,480 of these hospitals, or 84 percent, are reimbursed for inpatient care under PPS. The AEMC is a PPS hospital and, in FY 1991, over \$94.1 million or 43.4 percent of its costs were reimbursed by the Medicare program.

Under PPS, Medicare's payment for Part A hospital inpatient operating costs is made prospectively on a per-discharge basis. The discharges are classified into diagnosis related groups (DRG). Hospitals under the PPS reimbursement methodology, or PPS hospitals, are reimbursed for inpatient services through fixed DRG payments that are based on the volume and type of service performed, regardless of actual costs. In short, these payments are analogous to "at risk, fixed price contracts" that permit hospitals to make more or less money in treating Medicare patients, depending on how they manage in the aggregate.

Since PPS hospitals receive the same payment for a particular DRG regardless of its costs, inappropriate G&A costs have no immediate direct effect on Medicare reimbursement to these hospitals for inpatient services provided to Medicare beneficiaries. Such inappropriate overhead expenditures, however, do directly effect their Medicare reimbursement for outpatient services and for services provided by their excluded units. Excluded units are psychiatric, rehabilitation, and alcohol/drug units of general hospitals. According to the FI, Medicare's direct allocation of costs at AEMC is 5.95 percent.

SCOPE OF REVIEW

Our review was made in accordance with generally accepted government auditing standards to the extent that they were applicable to the scope of our review as defined in an audit guide developed to ensure adequate audit coverage of the concerns expressed by the Subcommittee. The audit guide was limited to these concerns and, as such, a review of internal controls was not performed.

The primary purpose of our review was to determine if AEMC's G&A costs included in the FY 1991 Medicare cost report were (1) allowable, reasonable, and allocable under Medicare cost principles; (2) related to patient care activities; and (3) of a type which may be perceived to be extravagant or otherwise inappropriate.

To accomplish our objective, we obtained the unaudited FY 1991 Medicare cost report from AEMC. The G&A costs included in this report totaled \$10,740,036. We selected \$861,765 of these costs for review. In selecting these costs for review, we included only those costs which we believed had the greatest risk of noncompliance with Federal regulations. Therefore, the results of our review cannot be considered to be representative of AEMC's FY 1991 operations.

For the costs selected for review, we reviewed pertinent supporting documentation provided by AEMC officials. In reviewing the allowability and allocability of costs, we considered whether the costs incurred were (1) reasonable, (2) benefitted patient care, (3) necessary to the overall operation of the hospital, and (4) deemed to be assignable to patient care in view of the principles provided in the PRM and PRRB rulings. In reviewing the reasonableness of costs, we considered whether or not the individuals that caused the costs to be incurred acted with due prudence in the circumstances considering their responsibilities to the hospital, its employees, its patients, the Federal Government and the public at large.

During our review of transactions, we classified costs into three separate categories:

- **Allowable.** The expenditure is clearly allowable under Medicare as it benefits the provision of patient care.
- **Unallowable.** The expenditure is not related to patient care based on its nature.
- **Costs for Concern.** The expenditure, in our opinion, may have questionable benefit to patient care. However, these expenditures, such as costs related to employee morale, have been historically allowed by the FI or the PRRB.

To understand whether costs are allowable, it is necessary to understand the following factors that affect the allowability of costs:

- **Reasonableness of cost.** This factor takes into account whether the cost is of a type generally recognized as necessary for the operation of the hospital in view of its size, scope of services, and utilization (PRM section 2102.1).
- **Relationship to patient care.** This factor is defined as including all necessary and proper costs which are appropriate and helpful in developing and maintaining the operation of patient care facilities and activities (PRM section 2102.2).
- **Prudent Buyer concept.** This concept requires that providers act as a prudent and cost-conscious buyer and seek to economize by minimizing costs (PRM section 2103).

The PRM section 2102.3 states that:

Costs not related to patient care are costs which are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Such costs are not allowable in computing reimbursable costs.

Our review was performed at AEMC during November and December 1991.

RESULTS OF REVIEW

Unallowable G&A Costs Allocated to Medicare

In our opinion, AEMC included in its FY 1991 Medicare cost report unallowable costs of \$381,048. We estimate that approximately 5.95 percent of these costs, or \$22,672 are subject to reimbursement under the Medicare program. The costs were unallowable because, in our opinion, they were not related to patient care. These costs included \$346,548 for the Premier Years Club and \$34,500 for various social functions for physicians.

Premier Years Club

We identified \$346,548 of G&A costs in the FY 1991 Medicare cost report that was spent on the Premier Years Club. We reviewed \$80,131 of these costs to determine the relationship of the costs to patient care and determined that none of the costs related to patient care.

In our opinion, the Premier Years Club is, at least in part, a marketing venture aimed at encouraging senior citizens to use AEMC services. Members of the Club receive various types of perks, none of which are directly related to the care that they receive while a patient in the hospital.

For instance, among the services provided to members are a free daily newspaper while patients at AEMC, complimentary hospital meals for guests, and gift shop discounts. Club members also receive free valet or self-serve parking at AEMC. Most of the \$80,131 of costs that we reviewed related to parking. We found parking charges of \$53,977 for Club members. Other types of costs included:

- consulting services for a cooking contest--\$500.
- daily Philadelphia Inquirer Newspaper for members--\$2,358.
- counselor for a finance lecture to members--\$3,798.

We believe that the purpose of the Premier Years Club does not relate to patient care, and the cost of the perks provided to members should not be borne by the Medicare program. We have, therefore, concluded that the \$346,548 should not be included in the FY 1991 Medicare cost report.

Social Events

We identified \$34,500 of G&A costs in the FY 1991 Medicare cost report that was spent for various social events such as receptions and parties either attended by AEMC personnel, or sponsored by AEMC. In our opinion, these social events were not related to patient care. The events include:

- a dinner dance costing \$19,077 held on May 1, 1991 at the Twelve Caesars Banquet Hall for the Maimonides Society. This Society is an association exclusively for AEMC's physicians. Of this amount, \$16,069 was for food and alcohol. The other costs related to such things as programs, photography services, plaques, and so forth.
- several receptions for newly hired and retired physicians costing \$15,423.

These events benefit AEMC physicians certainly but, in our opinion, do not benefit Medicare beneficiaries or relate to patient care, and do not benefit the majority of AEMC's employees. Rather, these costs relate more to entertainment than patient care, and should not be included in the FY 1991 Medicare report.

Conclusions and Recommendations

Our selected review of \$861,765 of G&A costs included in AEMC's FY 1991 Medicare cost report showed that \$381,048 should not have been included in the cost report. In our opinion, these costs were not related to patient care, and, therefore, were unallowable.

As stated previously, our review was selective in that we deliberately chose those types of costs that, on the basis of their titles, were most likely to be unrelated to patient care. Therefore, the results of our review cannot be considered to be representative of all of the G&A costs included in the FY 1991 cost report. It is also possible, however, that because our review was selective, there may have been other costs included in the FY 1991 Medicare cost report that were not related to patient care, but were not selected for inclusion in our review.

We, therefore, recommend that AEMC:

1. Delete the \$381,048 identified in this report from the FY 1991 Medicare cost report, and halt future charges of these costs to Medicare.
2. Review its FY 1991 Medicare cost report in detail and delete from it all costs similar to the costs that we have identified.

AEMC Response and OIG Comments

On March 13, 1992, AEMC responded to a draft of this report. In its response, AEMC addressed issues that were reported in the draft audit report, and provided additional support for some of the costs that we had questioned. Based on AEMC's response, we have made several revisions to this report. Therefore, the total questioned costs referred to in AEMC comments are not reflected in this report.

The AEMC response relative to the findings included in this report, along with our comments are summarized below.

Premier Years Club

The AEMC agreed that \$150,992 of the \$346,548 that we questioned was unallowable. The agreed to amount consisted of \$133,502 for parking costs, and \$17,490 for daily newspapers. The AEMC believed that the remaining \$195,556 was allowable. It stated that the Premier Years Club was a community service, and not a marketing venture to entice senior citizens to use AEMC facilities. The program is open to anyone 55 years of age. Participation is not predicated on past or future use of AEMC facilities, and, in fact, the large majority of Premier Years services are geared to keeping older adults out of the hospital. The AEMC listed a number of services that are provided.

We are not questioning the value of these services to the elderly. We are stating that Medicare should not pay for them because the services are not related to patient care while in AEMC. For example, services such as health seminars designed to promote disease prevention, community supermarket tours to promote healthy eating habits, and insurance counseling and assistance with billing paperwork may very well provide a needy service to the elderly, but the services do not relate to patient care. Therefore, we believe that these costs are unallowable for allocation to the Medicare program.

Social Events

The AEMC believed that the \$34,500 questioned in this report were allowable as they directly related to its business. It contended that the events in question, the Maimonides Society dinner dance and physician receptions were to reward physicians. This was a standard business practice and therefore should be considered allowable.

In our opinion, the costs related to these events did not relate to the provision of patient care at AEMC. The costs incurred for these events included a \$90 per person dinner dance for 175 individuals, invitations, photographs, and orchestra. These costs did not benefit patients at AEMC, and were not necessary in developing and maintaining the operation of patient care facilities and activities at AEMC.

OTHER MATTERS

Costs for OIG Concern

During our review, we identified employee-related costs which are being disclosed for further study and consideration. These costs, which total \$28,481, have been historically allowed by the FI or PRRB; however, we question their true relationship to patient care. These costs were for such things as retreats, holiday lunches, fashion shows, flowers, and gifts. Those benefitting were AEMC employees or their relatives. Some examples of the items or events that we are concerned about include:

- Chairman's retreats at a cost of \$3,866. The AEMC described these retreats as full-day formal, intensive business sessions held with the executive management staff at a local conference center. We are not concerned with the purpose of the retreats, only with their costs. With proper planning and execution, it may very well be possible that the same activities could be conducted, and the same achievements attained, at AEMC during a regular business day, with no added costs.

- Staff holiday lunches at a cost of \$2,697. The AEMC described these activities as having intrinsic value in that they

increase employee morale. We agree that this could be the case. However, their relationship to patient care is indirect, at best, and when funds are in short supply, other less costly ways of improving staff morale might be considered.

- Flowers at a cost of \$2,092. The AEMC stated that it sends flowers to board members, physicians, and employees when they are hospitalized. It is a small token of appreciation, and the costs are commonly incurred in the normal cost of doing business. While this may be correct, the need for such costs, and their relationship to patient care are questionable.
- The Frugal Genius contest at a cost of \$1,892. The AEMC described this as a contest among employees to come up with cost savings ideas. To encourage participation, special prizes were offered, including a trip to Cancun, Mexico. The AEMC estimated that the ideas generated through this contest resulted in \$42,000 worth of cost savings. We did not question the value of the contest, only its relationship to patient care.

We are not questioning the above costs. We believe, however, that there is a need to study these costs more closely to determine their true relationship and value to patient care. Costs that appear to improve employee morale have been historically allowed, and one can argue that the higher employee morale, the better the services rendered by the employees. Our concern is that the Medicare program may no longer be able to afford the luxury of paying for employee-related benefits such as those described in this report. The relationship of these benefits to patient care is not clear as there is no reasonable way to measure whether these benefits, or the lack thereof, have any bearing on the level of patient care provided by the employees who receive them.

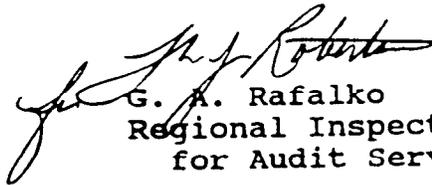
Final determination as to actions to be taken on all matters reported will be made by the Department of Health and Human Services (HHS) official named below. We request that you respond to the recommendations in this report within 30 days from the date of this letter to the HHS action official named below, presenting and comments or additional information that you believe may have a bearing on his final decision.

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act, which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to the referenced common identification number in all correspondence relating to this report.

Sincerely yours,



G. A. Rafalko
Regional Inspector General
for Audit Services

HHS Official

Health Care Financing Administration
Associate Regional Administrator
Division of Medicare
3535 Market Street
Philadelphia, Pennsylvania 19104

ALBERT
EINSTEIN
MEDICAL
CENTER



Executive Offices
215-456-7090

March 13, 1992

Mr. G. A. Rafalko
Regional Inspector General - Audit Services
Department of Health & Human Services
3535 Market Street
Philadelphia, PA 19101

RE: A-03-92--00005

Dear Mr. Rafalko:

This letter is to reply to the OIG draft audit report entitled "Review of General and Administrative Costs Included in the Fiscal Year 1991 Medicare Cost Report by Albert Einstein Medical Center, Philadelphia, Pennsylvania." Our reply is made in the same order as presented in your draft report. We appreciate the extension you gave us to reply to this draft report. We understand your need for appropriate time to prepare for the Oversight and Investigation Subcommittee meeting. We tried to be as complete and thorough as possible with respect to our response. We would be happy to meet with you at your convenience to further discuss and clarify our position with respect to the items referred to in your draft report.

I. Premier Years Senior Program (\$346,548)

The Albert Einstein Medical Center is the predominant provider of geriatric services in the Delaware Valley. Approximately 45% of our acute care hospital admissions are Medicare. Many of these patients are the frail elderly. Our Medicare case mix index is approximately 1.70 - one of the highest in the Delaware Valley. Approximately 70% of the patient days in our skilled nursing facility are covered by Medicare. The mission of our skilled nursing facility is to safely and quickly return its patients to their home and community. The Medical Center provides many additional specialized services to the elderly. A Medicare-certified hospice provides the special care needed by terminally-ill patients and their families. Our Geriatric Assessment Team is a group of health care professionals who specialize in caring for older adults. The team, consisting of a geriatrician, geriatric fellow, social worker, nutritionist, and pharmacist, focuses on medical and social areas that are of special concern to the elderly. A geriatric department of psychiatry provides comprehensive psychiatric

care to geriatric patients on an inpatient unit, in the outpatient clinic, in the partial hospitalization program, in a long-term structured residence, and in the neuropsychiatric evaluation unit. The Premier Years Senior Program is another of these specialized geriatric services offered by Albert Einstein. It provides a wide range of services to men and women age 55 and over. The Program educates seniors about health care, focusing primarily on prevention and early detection, and fosters an awareness of preventive health issues among older adults. Services include:

- Health seminars designed to promote disease prevention.
- A bi-monthly newsletter highlighting health issues and preventive measures of importance to seniors.
- Speakers visit community seniors groups to lecture about healthy eating and food preparation.
- Community supermarket tours to promote healthy eating habits.
- Insurance counseling and assistance with billing paperwork whether or not the member was hospitalized at Einstein.
- Valet parking for members coming to the hospital for care or a visit.
- Emergency response system for anyone who has health problems, or is concerned about personal safety.
- An ombudsman to troubleshoot any medical or service problems arising during a hospital stay.

We disagree with your conclusion that Premier Years is a marketing venture to entice senior citizens to use Albert Einstein Medical Center services. Premier Years is a community service. The program is open to anyone 55 years or older. Participation is not predicated on past or future use of Albert Einstein Medical Center for health care services. We do not waive deductibles and co-insurance. In fact, the large majority of Premier Years services are geared toward keeping older adults out of the hospital and the lowering of utilization. However, we went back and reviewed the details of the Program's expenditures and its services. We know that parking costs are allowable (Section 2107 of the Provider Reimbursement Manual Part I). Since we did not offer the free parking privilege to all patients and visitors, we believe it may have been inappropriate to classify such costs as allowable. Consequently, we agree that \$133,502 in parking costs (\$53,977 you reviewed and \$79,525 that you did not review) should be excluded in fiscal 1991. We will re-examine our overall policy with respect to this matter. We also believe that the cost of daily newspapers (\$17,490) should be excluded from allowable costs. We believe that the remaining Premier Year's costs are allowable.

II. Costs of Social Events (\$41,063)

The use of the term "social events" in your report implies that there was no business activity related to the expenditures that you are

proposing to disallow. To the contrary, these costs directly relate to the business of Albert Einstein Medical Center and should be allowable as such.

A. Maimonides Society (\$19,077)

The Maimonides Society is a group of Albert Einstein physicians who have served at the Medical Center for twenty-five years or more. Members of the Society are primarily our active attending physicians. Throughout their careers at the Medical Center, they have given liberally of their time on a non-compensated basis. They serve on numerous medical staff committees such as the credentials, quality assurance and utilization review committees, and provide support to our numerous teaching programs. The awards dinner is the event at which outstanding physicians are honored in the presence of his/her peers for their accomplishments over the years. This type of recognition is what helps sustain their willingness to participate in committee work and to support our teaching programs. This is a standard business practice to show appreciation to valued members of the organization for a job well done. These expenditures should be considered allowable.

B. Physician Receptions (\$15,423)

These events give Albert Einstein Medical Center board members, peers in the professional community, and employees an efficient opportunity to meet with individuals they will work with and to honor departing physicians. They were and will be valued employees of the organization. These expenditures should be considered allowable.

C. Chairmen's Retreats and Staff Holiday Lunches (\$6,563)

1. Chairmen's Retreats (\$3,866)

The chairman's retreats are full-day formal, intensive business sessions held with the executive management staff. The agenda includes, but is not limited to, a review and evaluation of existing clinical programs, and the planning of new clinical programs. The sessions are usually held during the period when we are preparing our budget. The executive management and clinical chairman meet at a local conference center to insure an atmosphere conducive to uninterrupted, thought-provoking dialogue. These are allowable expenses related to patient care.

2. Staff Holiday Lunches (\$2,697)

Fringe benefits that have some intrinsic benefit to the provider, such as increasing employee work efficiency and productivity, reducing personnel turnover, or increasing employee morale are allowable costs. The expenses related to holiday lunches and the employee holiday party serve to increase employee morale and should be allowable. These are standard business related expenditures that, while extremely low cost in amount, show the employees that Albert Einstein Medical Center considers them to be extremely valuable and appreciates their efforts and contributions.

PRRB Hearing Decision No. 85-D62 also supports the conclusion that these expenses are allowable.

III. Liability Costs (\$24,929)

Albert Einstein Medical Center maintains adequate insurance coverage to protect itself in case of an accident, etc. However, in an effort to keep our insurance premiums as low cost as possible, we maintain deductibles on most of our policies. These deductible limits in fiscal 1991 were:

Automobile	\$ 500/incident
Property Theft	\$ 5,000/incident
General Liability	\$10,000/incident

Payment of losses is allowable under Medicare principles of reimbursement. Retention of these reasonable and customary levels of self-insured deductibles holds down policy costs. Therefore, the aggregate cost of smaller individual losses paid within these deductibles combined with the resulting reduced policy premiums is reasonable, prudent, and allowable.

Section 2162.5 of the Provider Reimbursement Manual Part I indicates that losses relating to insurance deductibles are allowable costs.

IV. Miscellaneous Costs (\$21,918)

There were 38 specific items that you contend are not related to patient care. These include:

A. Equipment Purchase (\$5,000)

This equipment produces slides to be used by physicians for their presentations to peers and education of interns and residents. This cost is allowable and related to patient care.

B. Patient Survey (\$3,346)

In order to monitor our patients' levels of satisfaction with their care and treatment, we contract to periodically survey Albert Einstein Medical Center's patients. This survey is part of our Quality Assurance program; the results are reviewed with the Quality Assurance Committee. This cost is allowable and related to patient care

C. Moving Expenses (\$3,143)

Packing and moving costs for the chairman of the Department of Obstetrics and Gynecology was negotiated during the recruitment of the physician. Payment of moving expenses for key employees is a standard business practice and should be allowable.

PRRB Hearing Decision No. 83-D48 also supports the conclusion that this cost is allowable.

D. Flowers (\$2,092)

It is Albert Einstein Medical Center's practice to send flowers to board members, physicians and employees when they are hospitalized. This is a small token of our appreciation for the many hours of dedicated labor provided to Albert Einstein by these people. These costs are commonly incurred in the normal course of doing business and should be allowable.

E. Frugal Genius (\$1,892)

Albert Einstein Medical Center held a contest among its employees to come up with cost saving ideas (which in turn benefits the Medicare program through reduced costs). In order to encourage employees to participate, special prizes were offered for the best ideas. Since many sound cost savings ideas were received (for an estimated savings of \$42,000) these prizes were prudent business expenditures that should be considered an allowable cost.

F. Administrative Residency Stipend (\$1,840)

Albert Einstein Medical Center hired a summer intern as a temporary employee. The student gained insights into the healthcare industry and assisted management with several studies including the formulation of the cancer oncology center, and a plan to improve and increase communications with the medical staff. We believe the stipend paid to this temporary employee was reasonable and related to patient care; as such, these costs should be considered allowable. As a footnote, upon graduation, this individual has accepted a full-time position in our radiation oncology department.

G. "Hello Hospital" Magnets (\$1,618)

Albert Einstein Medical Center adopted a local public school to provide education and general information about hospitals, illness, health care careers, etc. These magnets were given to these school children when Albert Einstein Medical Center staff visited their school. These are community service activities that qualify as public relations costs and are allowable under current regulations.

H. Equipment Appraisal (\$600)

Since this appraisal was for equipment used in our gift shop (non-allowable area), we concur that this cost should be non-allowable.

I. Other (\$2,387)

The other items in this category (plaques, awards, t-shirts, plants, etc.) are customary costs of doing business, that a prudent and reasonable employer would incur and, as such, should be considered as an allowable cost.

V. Costs For Which Documents Could Not Be Located (\$43,397)

We have attached the required supporting documentation.

A. President of Medical Staff (\$20,000)

These expenditures were for payments to the physician who is President of our Medical Staff (\$10,000 on 8/15/90 for fiscal year 1990 and \$10,000 on 6/26/91 for fiscal year 1991) related to his administrative services as President. These payments were incorrectly assigned to the "membership dues" account when, in fact, they should have been charged to the "physician fees" account. Nevertheless, this expenditure is reasonable and related to patient care.

B. Consulting Fees (\$13,036)

1. Institute for Safe Medication (\$8,036)

Attached is an invoice from the Institute for Safe Medication Practices for reviewing our internal operations and control practices related to medications. This cost is reasonable and related to patient care.

2. Cardiovascular Consultant (\$5,000)

This consultant reviewed the internal operations and control practices in our cardiovascular division. This cost is reasonable and related to patient care.

C. Philadelphia Buy-Right (\$8,989)

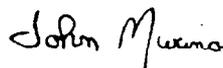
Our membership dues to this organization, whose mission, as enumerated on the attached statement, is the promotion of quality health care at reasonable costs, is related to patient care and should be considered allowable.

D. Other (\$1,372)

Support for the remaining items are attached.

If you have any questions on any of our explanations or if you require further clarification, please call me at 215-456-7030.

Sincerely,



John Murino

JM/bb
enclosures

187L