

**Memorandum**

Date .NOV 13 1992

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

Subject Review of General and Administrative, Fringe Benefits, and
Other Costs Reported by Saint Joseph Hospital, Denver,
Colorado (A-08-92-00555)

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

This memorandum alerts you to the issuance on November 16, 1992, of our final audit report. A copy is attached.

The review was of general and administrative (G&A), fringe benefits, and other costs reported by Saint Joseph Hospital (SJH), Denver, Colorado. The review was one of several reviews performed at selected hospitals nationwide at the request of the House of Representatives Subcommittee on Oversight and Investigations (Subcommittee) of the Committee on Energy and Commerce. The purpose of the review was to determine (1) if the costs for Medicare participation were allowable, reasonable, and allocable to Medicare; and (2) if any of the costs not allocated to Medicare were inappropriate or extravagant for the hospital as a business entity.

Our review showed that reported costs totaling \$564,488, subject to Medicare participation, were not allowable under the Medicare cost reimbursement principles since these costs were not related to patient care. These unallowable costs consisted of G&A costs of \$551,647 incurred for planning and marketing, air flights to rural sites, food, gifts, entertainment, alcoholic beverages, outside printing costs, and dues and donations; depreciation costs of \$909 for paintings, pictures, and similar assets; and fringe benefits costs of \$11,932 incurred for entertainment and alcoholic beverages.

We are recommending that \$564,488 of unallowable costs be eliminated by SJH before claiming Medicare participation. The effect to the Medicare program would be approximately 2.7 percent or \$15,241.

In the OTHER MATTERS section of the report, we have presented a "Costs for Concern" category in response to the Subcommittee's interest in rising health care costs. The

Page 2 - William Toby, Jr.

Subcommittee was concerned as to whether there were any unnecessary (inappropriate or extravagant) costs incurred by the hospital as a business entity. We have classified \$73,874 of SJH's costs as "Costs for Concern." Medicare participated in \$47,624 of the "Costs for Concern." These costs, which included food, gifts, gift certificates, and recreation, historically have been treated by the fiscal intermediary as allowable under the Medicare cost reimbursement principles.

Medicare did not participate in the remaining \$26,250 of "Costs for Concern" related to contributions to charitable organizations, since these costs had already been "self-disallowed" by SJH. Historically, the Medicare cost reimbursement principles consider charitable contributions as being unnecessary to patient care.

The SJH agreed to the major portion of the recommended G&A adjustments, disagreed with the depreciation and fringe benefits adjustments, and did not comment on our recommendation that procedures be established to prevent unallowable costs from being reimbursed in the future.

Also, SJH did not agree with our position regarding "Costs for Concern," stating that employee benefit costs clearly improve employee morale which improves the delivery of patient care. The SJH believed contributions to charitable organizations were appropriate in that these organizations provide benefit to both the hospital and to the people served in terms of improving access to health care.

For further information contact:

Vincent R. Imbriani
Regional Inspector General for
Audit Services, Region VII
(816) 426-3591

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
801 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-08-92-00555

Mr. Thomas M. Evans
Director, Financial Services
Saint Joseph Hospital
1835 Franklin Street
Denver, Colorado 80218

Dear Mr. Evans:

This report provides you with the results of our "REVIEW OF GENERAL AND ADMINISTRATIVE, FRINGE BENEFITS, AND OTHER COSTS REPORTED BY SAINT JOSEPH HOSPITAL, DENVER, COLORADO." The Office of Inspector General (OIG) is reviewing these costs at selected hospitals nationwide at the request of the House of Representatives Subcommittee on Oversight and Investigations (Subcommittee) of the Committee on Energy and Commerce. The purpose of the review was to determine (1) if the costs for Medicare participation were allowable, reasonable, and allocable to Medicare; and (2) if any of the costs not allocated to Medicare were inappropriate or extravagant for the hospital as a business entity.

Our review showed that reported costs totaling \$564,488, subject to Medicare participation, were unallowable under the Medicare cost reimbursement principles since these costs were unrelated to patient care. These unallowable costs consisted of (1) general and administrative (G&A) costs of \$401,941 for planning and marketing; \$113,122 for air flights to rural sites; \$29,620 for food, gifts, entertainment, and alcoholic beverages; \$6,068 for outside printing costs; and \$896 for dues and donations; (2) depreciation costs of \$909; and (3) fringe benefits costs of \$8,460 for entertainment and \$3,472 for alcoholic beverages.

We are recommending that \$564,488 of unallowable costs be eliminated by Saint Joseph Hospital (SJH) before claiming Medicare participation. The effect to the Medicare program would be approximately 2.7 percent or \$15,241.

In the OTHER MATTERS section of this report, we have presented a "Costs for Concern" category in response to the Subcommittee's interest in rising health care costs. The Subcommittee was concerned as to whether there were any unnecessary (inappropriate or extravagant) costs incurred by the hospital as a business entity. We have classified \$73,874 of SJH's costs as "Costs for Concern."

Medicare participated in \$47,624 of the "Costs for Concern." These costs were expended on food, gifts, gift certificates, and recreation. Historically, costs of this nature incurred for employee morale purposes have been treated by SJH's fiscal intermediary (FI), New Mexico Blue Cross and Blue Shield, Inc. (BC/BS), and the Health Care Financing Administration (HCFA) as allowable under the Medicare cost reimbursement principles.

Medicare did not participate in the remaining \$26,250 of "Costs for Concern" since these costs had already been "self-disallowed" by SJH. These costs consisted of contributions to charitable organizations. Historically, the Medicare cost reimbursement principles consider charitable contributions as being unnecessary to patient care.

The SJH agreed with the major portion of the recommended G&A adjustments, disagreed with the depreciation and fringe benefits adjustments, and did not comment on our recommendation that procedures be established to prevent unallowable costs from being reimbursed in the future.

Also, SJH did not agree with our position regarding "Costs for Concern" stating that the employee benefit costs clearly improve employee morale which improves the delivery of patient care. The SJH believed contributions to charitable organizations were appropriate in that these organizations provide benefit to both the hospital and to the people served in terms of improving access to health care.

BACKGROUND

The SJH is a licensed 602-bed medical complex owned by the Sisters of Charity of Leavenworth Health Services Corporation. The hospital is exempt from Federal income taxes as an organization described under section 501(c)(3) of the Internal Revenue Code. The hospital officially opened in 1873.

The most common method of reimbursement under Medicare is the prospective payment system (PPS) which was established by the Social Security Amendments of 1983. 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 SJH is a PPS hospital.

Under PPS, Medicare's payment for most Part A hospital inpatient operating costs is made prospectively on a perdischarge basis, under which Medicare discharges are classified into diagnosis related groups (DRG). Hospitals under the PPS reimbursement methodology are reimbursed for most Medicare inpatient services through fixed DRG payments which are based on the volume and type of services 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 a PPS hospital receives the same DRG payment for a particular discharge regardless of its costs, inappropriate G&A costs have no immediate direct effect on Medicare reimbursement to the hospital for inpatient services provided to Medicare beneficiaries. Such inappropriate overhead expenditures, however, directly affect Medicare reimbursement for outpatient services and for services provided by excluded units. Excluded units are psychiatric, rehabilitation, and alcohol/drug units of general hospitals. At SJH, Medicare's participation in noninpatient services is approximately 2.7 percent.

For the year ended May 31, 1991, SJH showed total hospital costs of \$134.5 million before reclassifications and adjustments. Reclassifications and adjustments of \$5.3 million were made to properly account for revenues generated from support cost centers, malpractice insurance liability adjustments, charitable contributions, and other. Thus, for Medicare participation purposes, the net amount subject to sharing was \$129.2 million.

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 provided by the lead region. The audit guide was 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.

Our review covered the two objectives requested by the Subcommittee. The first objective was to determine whether SJH's G&A, fringe benefits, and certain other costs were allowable, reasonable, and allocable to patient care and other activities financed by the Federal Government. Because of the Subcommittee's overall interest in hospital expenses and profitability, our second objective was to evaluate certain other costs not included in SJH's net costs allocable to Federal programs to determine whether we considered any of these costs to be inappropriate or extravagant for the hospital as a business entity.

To accomplish these objectives, we reviewed transactions selected from the G&A, fringe benefits, and certain other accounts identified in SJH's Hospital and Health Care Cost Report (HCFA-2552) for the year ended May 31, 1991. We reviewed pertinent supporting documentation provided by SJH officials for charges reported in these cost centers. We also discussed the selected charges with SJH officials. In selecting costs for analysis, we included only those items which we believed had the

greatest risk of noncompliance with Federal requirements. Therefore, the results of our analysis cannot be considered to be representative of the operations of SJH.

We also reviewed the BC/BS cost report settlement process for the years ended May 31, 1987, 1988, and 1989 respectively. The BC/BS's audit of SJH for Fiscal Year (FY) 1990 has not yet been conducted. Our field work was conducted at SJH during February 1992.

RESULTS OF REVIEW

We considered certain G&A costs, fringe benefits costs, and depreciation costs to be unallowable under Medicare cost reimbursement principles since these costs did not relate to patient care.

THE G&A COSTS ALLOCABLE TO MEDICARE

The SJH included G&A costs of \$8,517,572 in the pool of costs allocable to Medicare. Of this amount, we reviewed \$638,195 and found \$551,647 was unallowable under title 42 of the Code of Federal Regulations (CFR), part 413 (42 CFR 413) and the Medicare Provider Reimbursement Manual (PRM), section 2100, criteria which states, "All payments to providers of services must be based on the 'reasonable cost' of services covered under [Medicare] and related to the care of beneficiaries." The unallowable costs were incurred for planning and marketing; air flights to rural sites; food, gifts, entertainment, and alcoholic beverages; outside printing costs; and dues and donations.

Planning and Marketing

During the FY under review, SJH implemented a new accounting system. In prior years, SJH excluded planning and marketing costs from Medicare participation. However, due to the addition of a new account, \$401,941 of planning and marketing costs were inadvertently included for Medicare participation. According to PRM section 2136.2, "Costs of advertising to the general public which seeks to increase patient utilization of the provider's facilities are not allowable."

Air Transportation

We identified \$113,122 for air flights to rural sites. In prior years, the FI questioned similar costs as being unnecessary. The SJH officials stated these costs were to support the "Rural Outreach Program." The outreach program provides chartered flights for physicians to rural areas to perform services not usually available in those areas. The costs for chartered flights are unallowable because the physicians do not provide services to SJH patients, but to the patients of the rural

hospitals. Per PRM section 2102.3, costs of this nature are not allowable, "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."

Food, Gifts, Entertainment, and Alcoholic Beverages

We identified \$29,620 of costs for food, gifts, entertainment, and alcoholic beverages that were unallowable because they were not related to patient care. The total unallowable costs consisted of \$19,302 for food, \$662 for gifts and gift certificates, \$7,712 for entertainment, and \$1,944 for alcoholic beverages. The PRM section 2102.3 states, "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." Food, gifts, and entertainment in G&A accounts are not employee benefits and are not related to patient care. Therefore, such costs are not allowable in computing reimbursable costs. Also, the Provider Reimbursement Review Board (PRRB) released Decision No. 80-D84, dated October 7, 1980, in which it upheld disallowed costs for the purchase of alcoholic beverages for medical staff meetings, on the basis that such costs were not related to patient care.

Outside Printing

We identified \$6,068 incurred for printing of pocket folders for the Women's Pavilion. We believe these costs, which were incurred to increase patient utilization, are not allowable under PRM section 2136.2.

Dues and Donations

We identified \$896 paid for social club dues and donations. These costs are unallowable under PRM section 2102.3 because they did not relate to or were unnecessary in providing patient care. In addition to the PRM section 2102.3 requirement that costs be related to patient care, the PRRB released Decision No. 80-D88, dated October 10, 1980, which stated that payments made to specific civic and charitable organizations did not constitute Medicare reimbursable costs, as they were not related to patient care.

DEPRECIATION COSTS ALLOCABLE TO MEDICARE

The SJH included depreciation costs of \$10,465,423 in the pool of costs allocable to Medicare. Of that amount, we reviewed \$10,465,423 and found \$909 was unallowable under PRM section 2102.3. These charges for paintings, pictures, and similar

assets are unrelated to patient care and, as such, are unallowable for Medicare reimbursement.

FRINGE BENEFITS COSTS ALLOCABLE TO MEDICARE

The SJH included employee benefits costs of \$13,481,354 in the pool of costs allocable to Medicare. Of that amount, we reviewed \$59,536 and found \$11,932 was unallowable employee benefits consisting of \$8,460 for entertainment at parties and \$3,472 for alcoholic beverages. According to PRM section 2102.3, these are unallowable Medicare costs.

RECOMMENDATIONS

We recommend that SJH:

1. As part of the FI audit and final settlement process, adjust the unallowable costs of \$564,488 from costs allocable to the Medicare program (effect is approximately 2.7 percent or \$15,241).
2. Establish procedures to ensure that only appropriate costs related to patient care are included in Medicare cost reports submitted to the FI.

AUDITEE RESPONSE AND OIG COMMENTS

The SJH agreed with the major portion of the recommended G&A adjustments, disagreed with the depreciation adjustment, and did not comment on our recommendation that procedures be established to prevent unallowable costs from being reimbursed in the future.

Auditee Response

The SJH concurred with \$401,941 of G&A costs related to planning and marketing.

OIG Comments

The SJH has agreed that the adjustment will be made at the time of the FI's final cost report audit.

Auditee Response

The SJH did not concur with \$113,122 of G&A costs questioned for air flights to rural sites. According to SJH, these flights provide a continuum of health care services, information to patients, physicians, and other rural hospitals of the services available at SJH, and health care and physician education services. Thus, most, if not all, of the costs of this program are allowable since patients are seen at SJH as a result of the outreach effort. The SJH officials cited PRM section 2136.1

which basically states that professional contacts with groups and institutions apprising them of the provider's covered services are allowable.

OIG Comments

Since these types of costs were specifically not related to inpatient care as required by the Medicare reimbursement principles, we continue to recommend that adjustments be made.

Auditee Response

The SJH did not concur that \$29,620 of G&A costs for food, gifts, entertainment, and alcoholic beverages was an unallowable cost, citing 42 CFR 413.9(a) and (b)(2) and PRM section 2102.2. The SJH officials stated that they were not aware of any regulation, manual provision, or PRRB decision that would specifically disallow these costs.

OIG Comments

Patient care costs, which are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities, are unallowable.

Auditee Response

The SJH did not concur with our adjustment of \$6,068 of G&A costs for outside printing costs. The SJH stated that the Women's Pavilion pocket folders are patient information packets developed internally. Most of the packets are given to prenatal and postnatal patients and contain information pertinent to their health care. The folders also hold other educational materials about health and health care. The SJH cited PRM section 2136.1.

OIG Comments

We continue to maintain that these costs were incurred to increase patient utilization and are not allowable under PRM section 2136.2.

Auditee Response

The SJH concurs with our adjustment of \$896 of G&A costs for dues and donations. The SJH stated that the issue has been discussed with the FI, and an adjustment will be made during the final audit.

OIG Comments

The SJH has agreed that the adjustment will be made at the time of the FI's final cost report audit.

Auditee Response

The SJH did not concur with our adjustment of \$909 for depreciation expense. The SJH stated that any paintings, pictures, and similar assets were modest and were purchased to assure an environment conducive to assisting patients and their families through the healing process. The SJH considers these costs to be not only necessary and proper costs, but common and accepted in health care as defined in 42 CFR 413.9 and PRM section 2102.2.

OIG Comments

We continue to maintain that these charges for paintings, pictures, and similar assets are unrelated to patient care and are unallowable for Medicare reimbursement.

Auditee Response

The SJH did not concur with our adjustment of certain costs charged to employee benefits. The SJH stated that improved employee morale has a direct benefit to patient care and that these costs are allowable under PRM section 2102.2. The PRRB Decision No. 85-D62, dated June 12, 1985, addressing the allowability of costs for a Christmas party was also cited by the auditee.

OIG Comments

As was determined by our audit, some employee benefits were determined to be allowable. Other costs (entertainment and alcoholic beverages) were determined to be unallowable. We continue to base our adjustment on PRM section 2102.3.

OTHER MATTERS

The "Costs for Concern" presented in this section of the report were reviewed in response to the Subcommittee's concern on whether rising health care costs were due to any unnecessary (inappropriate or extravagant) costs incurred by the hospital as a business entity.

COSTS FOR CONCERN

We classified \$73,874 of hospital costs as "Costs for Concern."

**Food and Gratuities for Parties and Banquets,
And Gifts and Recreation**

Our review showed that Medicare participated in \$47,624 of the "Costs for Concern" by sharing in \$26,506 for food and gratuities at employee parties and banquets and \$21,118 for employee gifts

and recreation. Historically, costs of this nature that have been incurred for employee morale purposes have been treated by BC/BS and HCFA as allowable under the Medicare cost reimbursement principles.

While these costs may have an indirect effect on patient care by improving employee morale, we believe that in view of the concern regarding increased health care costs, consideration should be given as to whether these costs are necessary for patient care.

"Self-Disallowed" Charitable Contributions

Medicare did not, however, participate in \$26,250 of SJH's "self-disallowed" costs. These costs were for contributions to charitable organizations. Historically, the Medicare cost reimbursement principles consider charitable contributions as being unnecessary to patient care.

AUDITEE RESPONSE AND OIG COMMENTS

Auditee Response

The SJH stated that the employee benefits addressed in the "Costs for Concern" section serve a purpose of improving employee morale, which thereby improves the delivery of patient care.

The SJH also stated that the charitable organizations to which contributions were made provide benefit to both the hospital and to the people served in terms of improving access to health care.

OIG Comments

Due to the interest in rising health care costs, there is concern that these costs are not necessary for patient care.

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 official named below, presenting any comments or additional information that you believe may have a bearing on his final decision.

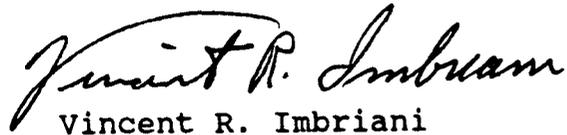
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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general 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.)

Page 10 - Mr. Thomas M. Evans

To facilitate identification, please refer to the Common Identification Number (CIN) in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script, reading "Vincent R. Imbriani". The signature is written in dark ink and is positioned above the typed name.

Vincent R. Imbriani
Regional Inspector General
for Audit Services, Region VII

Enclosure

Action Official:

Mr. Francis Ishida
Regional Administrator, Region VIII
Health Care Financing Administration
Federal Office Building, Room 598
1961 Stout Street
Denver, Colorado 80294

Saint Joseph Hospital

THE LEADER. THE CHOICE.

May 29, 1992

Mr. Vincent R. Imbriani
Regional Inspector General
for Audit Services, Region VII
Department of Health and Human Services
601 East 12th Street, Room 284A
Kansas City, MO 64106

RE: CIN:A-08-92-00555

Dear Mr. Imbriani:

This letter is written in response to your draft report dated May 15, 1992, entitled "Review of General and Administrative, Fringe Benefits, and Other Costs Reported by Saint Joseph Hospital."

INTRODUCTION

As an initial matter, we appreciate the opportunity to participate in this national audit project and to work with your fine staff. We were gratified that your audit concluded of the almost \$23 million in Medicare payments received by Saint Joseph Hospital for services provided to beneficiaries during fiscal 1991, your office has asked for a further explanation of only some \$15,000, or .07% of our annual Medicare payments. As explained below, over 70% of this amount was due to a single mistake in the preparation of our cost report, which most likely would have been detected by our fiscal intermediary. The mistake in the cost report has been corrected. The balance of the costs in question is discussed below.

AMOUNT AT ISSUE

The draft report concludes that of the costs at issue, only some 2.7% affect the final amount of Medicare reimbursement received by the Hospital. This reflects your calculation of the costs at issue attributed to outpatient services, which to some degree Medicare reimburses on a reasonable cost basis. In our view, because of the impact of other reimbursement methods now applicable to the outpatient area, which often blend fixed rates and costs, the ultimate percentage effect on outpatient reimbursement is actually only 1.7%, with a consequent effect on reimbursement of only \$9,788.

Mr. Vincent R. Imbriani
Department of Health and Human Services
Page 2

The G & A COSTS ALLOCABLE TO MEDICARE

Planning and Marketing

We set up a new cost center during fiscal year 1991 that was inadvertently excluded from the planning and marketing costs which historically we have self-disallowed from our annual Medicare cost report. This oversight was discussed with our fiscal intermediary, and we offered to file an amended cost report. They indicated that they would rather prepare an adjustment disallowing the entire \$401,941 at the time they audit our 1991 Medicare cost report instead of amending at this time. As noted above, this single error accounted for more than 70% of the costs you identified.

Air Flights to Rural Sites

We offer an outreach program which takes specialist physicians to underserved rural areas in western Nebraska and Kansas, southern Wyoming and eastern Colorado. The outreach program includes private physicians on the Saint Joseph medical staff who travel to rural communities. This program is undertaken for several reasons. First, it is an essential element of our mission, which is to provide a continuum of healthcare services--ambulatory and tertiary--in partnership with the medical staff. Second, the program provides information to patients, physicians and other rural hospitals about the services that are available at Saint Joseph. Third, the program provides needed healthcare and physician education services to communities that now lack the resources of certain physician specialists. Finally, the program results in patients coming to Saint Joseph Hospital so that they can receive much-needed care that is not available in their local communities.

Since many rural communities are unreachable through commercial means, some Saint Joseph physicians travel on charter flights. To be cost-effective, several physicians travel to each location and flights are grouped to allow each flight to stop in more than one community.

In our view, most, if not all, of the costs of this program are allowable in that patients are seen at Saint Joseph as a result of the outreach effort. Also, the Provider Reimbursement Manual (PRM) specifically provides that:

Costs of activities involving professional contacts with physicians, hospitals, public health agencies..and similar groups and institutions to apprise them of the availability of the provider's covered services are allowable.

PRM Section 2136.1

Mr. Vincent R. Imbriani
Department of Health and Human Services
Page 3

Accordingly, we believe that you should revise your conclusion as to the allowability of these costs.

In the event you elect not to do so, we will continue to undertake this service as it is critically important to the people we serve. We will, however, cease to claim this cost as a Medicare reimbursement expense in the future so that our fiscal intermediary will not have to disallow the cost on full audit of our cost report.

Food, Gifts, Entertainment, and Alcoholic Beverages

The \$29,620 in question relates to costs that were incurred on behalf of the Hospital's employees, board members and physicians. These costs are reimbursable under the fundamental regulation defining what constitutes reimbursable "reasonable costs":

Reasonable cost includes all necessary and proper costs incurred in furnishing the services...[Included are] costs that are appropriate and helpful in developing and maintaining the operation of patient care facilities and activities...[and] that are common and accepted occurrences in the field of the provider's activity.

42 C.F.R. §413.9(a) & (b)(2). See also, PRM §2102.2.

Further, we are aware of no regulation, manual provision, or PRRB decision that would specifically disallow these costs. To the contrary, all of the appropriate costs that you have identified in this section were appropriate and helpful in developing and maintaining our operations and are common and accepted occurrences in hospitals.

Outside Printing

The Women's Pavilion pocket folders are patient information packets we developed internally. Most of the packets are given to pre- and postnatal patients and contain information pertinent to their healthcare. The folders also hold other educational materials that we distribute about health and healthcare. As a result, the cost of these folders is allowable under PRM Section 2136.1.

Dues and Donations

The \$896 noted relates to civic and charitable organizations which we have discussed with our intermediary and they will adjust this amount during their audit.

Mr. Vincent R. Imbriani
Department of Health and Human Services
Page 4

DEPRECIATION COSTS APPLICABLE TO MEDICARE

Any paintings, pictures and similar assets which we have acquired are modest and were purchased to assure an environment conducive to assisting patients and their families through the healing process. We consider these costs to be necessary and proper costs which are common and accepted occurrences in healthcare as defined in 42 C.F.R. §413.9 and PRM Section 2102.2.

FRINGE BENEFITS COSTS ALLOCABLE TO MEDICARE

Costs incurred as part of our employee picnic, longterm employee dinner and Christmas party represent costs which improve employee morale. Improved employee morale has a direct benefit to patient care. As a result, these costs are also allowable under PRM Section 2102.2. Please note that the Provider Reimbursement Review Board has expressly addressed the issue of the allowability of costs incurred in connection with a hospital's employee Christmas party. In PRRB Hearing Dec. No. 85-D62 (June 12, 1985), the Board found:

that the provider is entitled to Medicare reimbursement for the Christmas party as provided under [applicable regulations]...The costs are necessary and proper costs which are helpful in developing and maintaining the operation of patient care facilities and activities and are common and accepted occurrences in the field of the provider's activity.

The logic applies with equal force here.

COSTS FOR CONCERN

Food and Gratuities for Parties and Banquets, and Gifts and Recreation

The amounts listed in this section also refer to costs incurred for our employee picnic, longterm employee dinner and Christmas party. As you have noted, these costs have been considered as allowable under existing interpretations of the regulations (and relevant PRRB precedents). We are unclear as to why you have considered these "costs for concern" inasmuch as they clearly improve employee morale, thereby improving the delivery of patient care. To put these costs in perspective, they amount to approximately \$15 per employee per year for all three events. If this amount were simply given to our employees in the form of an increase in their wages, no issue would arise. We believe that the impact of these functions on increased employee morale is much greater than would be achieved through a pay increase of the same dollar amount.

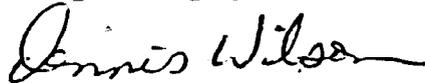
Mr. Vincent R. Imbriani
Department of Health and Human Services
Page 5

Self-Disallowed Charitable Contributions

You noted that we incurred some charitable contributions which we did not allocate to Medicare on our 1991 cost report. The \$26,251 which you question was donated to other not-for-profit organizations in Colorado that impact healthcare delivery in our state. These include the Colorado Cancer Research Program, the University of Colorado School of Nursing Continuing Education, education funds for Colorado physicians, and support for the Boy Scouts. With regard to the latter, the Hospital sponsors an Explorer Post that encourages young people to learn about career opportunities in healthcare. We believe all of these organizations provide benefit to both the Hospital and to the people we serve in terms of improving access to healthcare.

If you have any questions regarding our response, please call me at (303) 837-7870.

Very truly yours,



Dennis G. Wilson
Vice President
Fiscal Services

DGW:cjt