**DEPARTMENT OF HEALTH & HUMAN SERVICES** Office of Inspector General

# Memorandum

Date NOV 13 1992

From Bryan B. Mitchell Bryan Mitchell
Principal Deputy Inspector General

Subject Review of Fiscal Year 1991 General and Administrative Expenses and Employee Benefit Costs Reported by Parkway Regional Medical Center, North Miami Beach, Florida (A-04-92-02042)

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

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

This report discloses that the Parkway Regional Medical Center (Parkway) reported unallowable general and administrative (G&A) and employee benefit costs totaling $1,260,560 on the Medicare cost report for the fiscal year (FY) ended March 31, 1991. We believe that these costs were unallowable because the costs were unrelated to patient care. We are recommending that Parkway discuss the costs with the fiscal intermediary (FI) during the FI audit of the cost report.

Parkway was one of the hospitals selected as part of a review to determine the nature of costs incurred by hospitals that serve Medicare beneficiaries. The review was requested by the House of Representatives, Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce, as part of an assessment of rapidly rising health care costs.

Our review showed that the Medicare cost report included unallowable costs such as:

- costs of meals, liquor, entertainment, and gifts for nonemployees;
- costs for tennis, golf, yacht dockage fees, tickets to sporting events, and a family membership at a private club for the chief executive officer;
- costs for an unsuccessful certificate of need application; and
- costs of a Bahamas retreat at a resort casino that included spouse travel, bar charges, and fishing boats.

We identified other costs in our review that were not expressly considered unallowable or were not allocated to Medicare. However, we believe these other costs may not be necessary to provide patient care. These costs, about $900,000, could unnecessarily drive up the cost of health care in general.

Hospitals for the most part are reimbursed for G&A expenses through fixed fees under the prospective payment system. However, about 12 percent of these costs or about $156,000 ($1.3 million X .12 = $156,000) may be subject to recovery by the Medicare FI.

We recommend that the hospital discuss the results of our review with the FI auditors when the hospital cost report for FY 1991 is audited. The hospital does not agree that the items identified in our report are unallowable.

For further information contact:
Emil A. Trefzger, Jr.
Regional Inspector General
for Audit Services, Region IV
(404) 331-2446

Attachment

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
P.O. BOX 2047
ATLANTA GEORGIA 30301

CIN: A-04-92-02042

Ms. Charlene Maxion
Chief Financial Officer
Parkway Regional Medical Center
1601 N.W. 170th Street
North Miami Beach, Florida 33159

Dear Ms. Maxion:

Enclosed are two copies of our final report entitled, "Review of Fiscal Year 1991 General and Administrative Expenses and Employee Benefit Costs Reported by Parkway Regional Medical Center, North Miami Beach, Florida." The objective of the review was to determine the nature of costs incurred by hospitals that serve the Medicare program. The review was requested by the House of Representatives, Subcommittee on Oversight and Investigations (Subcommittee) of the Committee on Energy and Commerce, as part of their assessment of rapidly rising health care costs.

The review showed that about $1.3 million of general and administrative (G&A) and employee benefit (EB) costs were reported on the cost report that were unallowable according to Medicare guidelines. The review also showed other costs not allocated to Medicare that may not be necessary in providing patient care. We are recommending that Parkway Regional Medical Center (Parkway) officials discuss these costs with the fiscal intermediary (FI) auditor during the settlement of the Fiscal Year (FY) 1991 cost report.

This report will be used by the Office of Inspector General (OIG) to prepare testimony before the Subcommittee assessing health care costs. We have also provided a copy to Mutual of Omaha Insurance Company, the Medicare FI.

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.

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 above common identification number on all correspondence relating to this report.

Sincerely yours,

Emil A. Trefzger, Jr.
Regional Inspector General
for Audit Services, Region IV

Direct Reply To:

Richard L. Warren
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Attachment

## SUMMARY

This report provides the results of our review of the G&A and EB costs claimed by Parkway on its Medicare cost report for the FY ended March 31, 1991. The purpose of our review was to determine the nature of costs incurred and to determine if the costs were reasonable, allowable, and related to patient care. Parkway reported about $28 million of G&A and EB costs as allocable to Medicare. Our review identified $1,260,560 of this total which we believe was not related to patient care and was considered unallowable for Medicare reimbursement.

The unallowable costs were made up of such costs as:

- costs for meals and gifts to nonemployee physicians, and to other nonemployees for events such as weddings and birthdays;

- costs for liquor, entertainment, and boutique purchases for nonemployees;

- costs for tennis, golf, yacht dockage fees, tickets to sporting events, and a family membership at a private club for the chief executive officer (CEO);

- costs for golf clubs and accessories, hotel and meals for patients scheduled for eye surgery, cruises, and tuxedo rentals to attend an opera;

- costs for rent and housewares for an apartment owned or leased by the CEO;

- costs for an unsuccessful certificate of need (CON) application and other ownership issues; and

- costs for a retreat at a casino resort in the Bahamas, pertaining to travel of spouses, bar charges, and fishing boats.

We also identified $49,558 which we considered to be costs for concern. Generally, these costs were incurred for the benefit of hospital employees. In our opinion, these costs were not necessary to provide patient care. However, in some cases such costs have been considered allowable under current regulations. We are concerned that such costs drive up the price of health care in general, and Medicare specifically.

Additionally, we reviewed some of the G&A costs which were not allocated to Medicare. These were costs which the hospital recognized as unallowable for Medicare reimbursement. Within these costs we identified $843,284 which was considered unnecessary in providing patient care. These costs included public relations costs, donations, and gift shop costs.

Hospitals are, for the most part, reimbursed under the Medicare program for their G&A and EB costs through fixed payments which are based on the volume and type of services performed, regardless of actual costs. A portion of these costs, those associated with outpatient services, are reimbursed based on charges.

During FY 1991, about 12 percent of Parkway's net costs allocable to Medicare pertained to Medicare outpatient services. Considering Medicare reimbursement methodology, about $156,000 of the approximate $1.3 million of unallowable costs allocated to Medicare may be subject to recovery by Parkway's FI.

We recommend that the hospital discuss the results of our review with the FI auditors when the hospital cost report for FY 1991 is audited.

The hospital did not agree with our findings and provided explanations as to why each item in our report was related to patient care. The FI agreed to consider the results of our review in the next audit of the Parkway Medicare cost report.

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# INTRODUCTION

## Background

The Subcommittee is conducting an inquiry into the Nation's health care system. As part of this inquiry, the Subcommittee is assessing the factors that contribute to rapidly rising health care costs. The Subcommittee requested that the OIG conduct a review of hospital G&A and EB costs allocated to patient care and other activities financed by the Federal Government.

Parkway, a 412-bed proprietary hospital, located in North Miami Beach, Florida, was one of the hospitals selected for review. Parkway is part of a nationwide chain of hospitals operated by Republic Health Corporation (RHC).

The Social Security Amendments of 1983 established the prospective payment system (PPS) of reimbursement to hospitals under Medicare. Effective with cost reporting periods beginning on or after October 1, 1983, Medicare payments for Part A hospital inpatient operating costs are made prospectively on a per discharge basis. Under the PPS, Medicare discharges are classified into diagnosis related groups (DRG). For periods beginning on or after October 1, 1986, a specific DRG payment rate, fixed nationally, was made to hospitals on the basis of the diagnosis classification system. These fixed DRG payments are based on the volume and type of services performed, regardless of actual costs. Thus hospitals are, for the most part, reimbursed for inpatient services under the Medicare program, including their G&A and EB costs, through DRG payments.

By comparison, Medicare reimbursement to hospitals for Part B outpatient services is made on an interim basis. After the end of the year, these charges are settled on the lower of allowable costs or charges.

Thus, to the extent that G&A or EB costs were allocated to inpatient hospital care, Parkway's reimbursement for these costs under Medicare was made through fixed payments under PPS. Therefore, unallowable costs have no direct effect on inpatient reimbursement. However, the unallowable costs do affect the reimbursement of outpatient services.

For FY 1991, Parkway reported total hospital costs of $106,704,661. After reclassifications and adjustments, the net amount allocated to Medicare was $101,700,590. Included in the Medicare allocation were G&A costs totaling $20,905,050 and EB costs totaling $6,765,928.

## Scope

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 a nationwide audit guide. 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.

The primary objective of our review was to determine whether Parkway's G&A and EB costs were related to patient care, reasonable, and allowable for Medicare reimbursement. We also reviewed G&A costs not allocated to the Medicare program to determine the nature of the costs and their relationship to patient care.

To accomplish these objectives, we reviewed Parkway's as-filed FY 1991 Medicare cost report. We traced the costs reported to the official accounting records, performed analytical reviews of departmental costs, and discussed the contents and preparation of the cost report with Parkway and RHC officials.

To determine the nature and allowability of the reported costs, we traced costs to source documents. We judgmentally selected G&A costs for review from the general ledger. When selecting costs, we included those items which we believed had the greater risk of noncompliance with Federal regulations. Therefore, our results cannot be considered to be representative of Parkway's FY 1991 operations.

We used the cost principles published in the Provider Reimbursement Manual (PRM) and the Commerce Clearing House Medicare and Medicaid Guide to determine whether the costs were reasonable, allowable, and related to patient care. We also held discussions with Parkway and RHC officials regarding certain costs and policies for charges reported as G&A and EB costs.

Total G&A costs included about $6 million representing an allocation of RHC home office costs. We determined the nature of these costs. However, these costs were excluded from our detailed review based on time restraints and the fact that the supporting documentation for these costs was maintained at RHC offices in Dallas, Texas.

Our site work at Parkway took place from February 12, 1992 to March 6, 1992.

We provided a draft of our review results to the hospital and requested their written comments. Their comments are summarized in the report and attached in their entirety as an Appendix.

## FINDINGS AND RECOMMENDATIONS

The Parkway FY 1991 cost report included some G&A costs which were unallowable for Medicare reimbursement. These costs were either unreasonable or not related to patient care. Further, some of these costs could be considered unnecessary in the interest of holding down health care costs. Parkway recognized some of these costs as unallowable and excluded certain costs from the Medicare allocation. However, included in the costs allocated to Medicare were costs totaling $1,260,560 which we considered unallowable and $49,558 which we considered costs for concern. We also identified $843,284 of costs which were not allocated to Medicare that we considered unnecessary for patient care. The results of our review are detailed in the following sections.

### UNALLOWABLE G&A COSTS ALLOCATED TO MEDICARE

Our review of various G&A costs allocated to Medicare identified $1,260,560 which we considered unallowable based on Medicare cost principles. In our opinion, these costs were either unnecessary, unreasonable, or not related to patient care.

The cost principles set forth in the PRM, part 1, section 2102.3 state 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."

Further, section 2102.1 of the PRM states that:

> "Reasonable costs of any services are determined in accordance with regulations establishing the method or methods to be used, and the items to be included. Reasonable cost takes into account both direct and indirect costs of providers of services, including normal standby costs. The objective is that under the methods of determining costs, the costs with respect to individuals covered by the program will not be borne by others not so covered, and the costs with respect to individuals not so covered will not be borne by the program."

The Medicare program recognizes that costs can and do vary from one institution to another as a result of variations in efficiency of operation, or the provision of amenities in plush surroundings. Commenting on the causes of variations in costs, the House Ways and Means Committee stated in Report No. 92-231:

> "It is not the committee's view that if patients desire unusually expensive service they should be denied the service. However, it is unreasonable for medicare or

> medicaid (which are financed by almost all people in the country rather than the patient or community that wants the expensive services) to pay for it."
>
> "Health care institutions, like other entities in our economy, should be encouraged to perform efficiently, and when they fail to do so should expect to suffer the financial consequences. Unfortunately, a reimbursement mechanism that responds to whatever costs a particular institution incurs presents obstacles to the achievement of these objectives. It is believed that they can only be accomplished by reimbursement mechanisms that limit reimbursement to the costs that would be incurred by a reasonably prudent and cost-conscious management."

We identified unallowable costs in several cost centers, however, most of the costs we considered unallowable were found in the Hospital Administration cost center. Following are details of the unallowable costs by cost center.

**Employee Benefits**

During FY 1991, Parkway allocated $6,765,928 of EB costs to Medicare. For the most part, this total represents Federal Insurance Contribution Act expenses of $2,432,567; State and Federal unemployment taxes of $97,680; workman's compensation self-insurance costs of $1,002,345; net life, medical, and dental insurance costs of $2,282,078; and employee continuing education expenses of $22,508.

The employee benefits also included a 401K pension plan, bereavement leave of up to 3 days a year, jury duty leave, voting leave, the use of a credit union, free parking, and a 50 percent discount on meals at the Parkway cafeteria. The Parkway educational assistance program reimburses 75 percent of tuition and textbooks, up to a maximum $2,000 per year, for job related courses. Management level employees are also provided long term disability insurance at no cost.

Other forms of employee benefits are also available. Employees at Parkway are encouraged to use RHC facilities through a company write off policy that eliminates deductibles ($300 per person or $600 per family per year) and 40 percent of hospital expenses. This benefit also extends to physician services, however, the write off is limited to 10 percent of the usual and customary rate.

In one instance, we noted that relocation expenses were provided to an employee. These expenses included the costs of travel to a new location, house hunting trips, temporary living expenses, household moving expenses, miscellaneous moving expenses, the cost of selling and purchasing a home, and weekend trips home. In this instance, the partial relocation costs of the employee totaled $21,714, and total costs were estimated to be $32,624.

We made inquiries of Parkway officials to determine whether top management received car allowances, or were provided with leased or Parkway owned vehicles. We also inquired as to aircraft, boats, yachts, homes, art work, apartments, or condominiums leased or owned by Parkway. We were advised that no vehicles or car allowances were provided to top management, nor were any type of the above items leased or owned by Parkway. We reviewed Parkway's asset listing prepared by an outside valuation company and did not find any of these types of assets listed.

**Hospital Administration (Cost Center 8410)**

The Hospital Administration cost center includes expenses incurred in the administrative offices of the CEO and the chief operating officer (COO). Our review of this cost center identified $1,104,520 which we considered to be unreasonable and/or unrelated to patient care, and therefore unallowable. The $1,104,520 is comprised of the following costs:

- A settlement payment of $1,000,000 to the City of North Miami. The payment was made to prevent the city from taking legal action against the owners of Parkway to prevent the owners from closing another RHC hospital. This cost is not related to Parkway and, further, is not related to patient care. This cost should not have been included in Parkway's cost report.

- Legal expenses totaling $23,681 connected to the closing of another RHC hospital.

- Expenses of $1,811 for a Governing Board Retreat held at a casino resort in the Bahamas. The costs included bar charges, spousal travel, and fishing boats.

- Repair costs of $1,066 for two nonemployee physicians' cars. In one case, supporting documents showed that Parkway appeared to have had no responsibility or liability to pay for the damage which was caused while the physician was parking his car in the hospital garage. The payment was made based on the physician's request, as follows:

  > "Would you consider reimbursing me for the repair? I can assure you such a gesture would fix itself firmly in my memory (and practice)."

- Purchases totaling $8,735 by the CEO for the following costs:

  (1) tees, $96; a television, $263; a book, $32; wedding and birthday gifts, $302; and a gift to a nonemployee physician, $103;

(2) liquor, yacht dockage, beach club and boutique purchases, tennis, golf, and family membership at a private club, totaling $4,457;

(3) Super Bowl tickets totaling $304, and $518 for Miami Dolphin playoff tickets and stadium parking; and

(4) dinners (one on New Year's Eve) and lunches (some including cocktails) with nonemployee physicians, spouses, and elected officials to discuss such things as how to increase patient volume and how to attract physicians to Parkway's joint venture, totaling $2,660.

- Undocumented purchases totaling $1,200 made by the CEO's spouse for housewares to be used in an apartment owned or leased by the CEO.

- Expenses of $3,717 for liquor served at an employee banquet.

- Expenses totaling $13,570 for consulting fees and travel related to an unsuccessful attempt to secure a psychiatric CON. Since no patient care resulted from this endeavor, the cost is unallowable. These costs would be subject to amortization if the CON was obtained in the future.

- Expenses of $6,243 in Internal Revenue Service penalties and interest related to a quarterly Federal tax return.

- Expenses of $1,128 for flowers, candy, and a gift basket to nonemployee physicians and others.

- Purchases of $1,014 for golf clubs, a bag, and other accessories purchased by the COO.

- Expenses of $370 for playing golf with physicians.

- Legal expenses totaling $16,548 related to the financing of Parkway construction loans. These costs should have been capitalized, rather than expensed. Section 104.10 of the PRM states that:

> "Historical cost is the cost incurred by the present owner in acquiring the asset and to prepare it for use. Generally such cost includes costs that would be capitalized under generally accepted accounting principles. For example, in addition to the purchase price, historical cost would include architectural fees, consulting fees, and related legal fees."

These legal expenses would qualify as historical costs. Therefore, these costs should be removed from G&A costs, be made a part of historical costs, and capitalized.

- o Expenses of $1,340 for cruise tickets for a medical record chart completion drawing and gift certificates for making 1,200 telemetry bags.
- o Expenses of $735 for chartering a boat and related food costs.
- o Parking rebates of $882 given to employees to encourage them to park on the upper levels of the hospital parking garage.
- o Purchased 70 club seats and 35 parking passes for $739 to an exhibition professional baseball game.
- o Paid $200 for first-class upgrades on commercial airline flights.
- o Costs of $72 for an evening dinner while traveling.
- o Costs of $3,775 for nonemployee physicians to attend seminars.
- o Expenses totaling $11,850 in unallowable nonemployee physician recruitment costs which Parkway officials indicated should not have been included in the cost report.
- o Costs of $2,000 for consultations by nonemployee physicians. In one case the physician met with another hospital's administrator, and in another case, the physician met with another hospital's staff member to discuss the expanding market.
- o Costs of $1,276 for replacing various items belonging to patients that were lost or broken during the patients' hospital stay. The items included a watch, glasses, orthopedic shoes, a hearing aid, and clothing.
- o Expenses of $634 related to recruiting physicians to participate in Parkway joint venture activities.
- o Contributions of $616 for a Dade County art exhibit, the co-sponsorship of a scientific session, and another unrelated donation.
- o Expenses of $540 for a cocktail party for department heads.

- Purchases of $392 for a compact stereo, a Video Cassette Recorder (VCR) cart, and a VCR by the administration department.

- Tuxedo rentals of $149 to attend a party and opera. Parkway officials advised us that tickets were also purchased for the opera, but we were unable to identify the cost.

- Expenses of $100 for an aerial photo of Parkway.

- Expenses of $76 for the shipment of a computer from Maryland. The computer is owned by the CEO and was being used by his daughter while attending college. Upon her graduation, she no longer needed the computer. Officials at Parkway indicated the CEO uses the computer at home.

- Expenses of $61 for a plaque and framing of a physician's picture.

**Communications (Cost Center 8155)**

The Communications cost center represents the total costs for the operation of Parkway's phone system. Our review of this cost center identified $86,774 which we considered unallowable.

A portion of the $86,774 represents an apparent oversight in preparing the cost report. During our review of Parkway's work papers used to support adjustments to the cost report, we noted a $28,180 adjustment to G&A that had been omitted from the report. The omitted adjustment represented Parkway's intent to remove 31 percent of operators' salaries from costs allocated to Medicare for the unallowable salary costs related to patient phones. While a calculation of unallowable costs was made, the applicable adjustment was not carried forward to the cost report.

In our opinion, a portion of this entire cost center should be considered unallowable, not just salary costs. Section 2106.1 of the PRM states:

> "The <u>full</u> costs of items or services such as telephone, television, and radio which are located in patient accommodations and which are furnished solely for the personal comfort of the patients (full costs include costs both directly associated with personal comfort items or services plus an appropriate share of indirect costs) are not includable in allowable costs of providers under the Medicare program."

Based on the above criteria, we believe a portion of total communications costs should be disallowed, not just salary costs. Using Parkway's figure of 31 percent, we believe an additional adjustment of $58,594 should be made, representing all costs associated with patient telephones. Our calculation takes into consideration previous Parkway adjustments. We did not evaluate whether the percentage used by Parkway was equitable, however, we did note that it was based on a ratio of total Parkway phones to the number of patient phones.

**Fiscal Administration (Cost Center 8125)**

The Fiscal Administration cost center included $373 in expenses applicable to an accounting department supervisor which we considered unallowable. The costs were considered unreasonable and/or unrelated to patient care. The $373 is comprised of the following:

- Expenses of $262 for entertaining of other RHC hospital controllers.

- Expenses of $111 for flowers sent to the supervisor of the Provider Audit and Reimbursement Section of Parkway's Medicare FI.

**Business Office (Cost Center 8145)**

The Business Office cost center included $303 in costs unrelated to patient care, and was comprised of the following:

- Paid $82 to provide hotel lodging and meals for a patient scheduled for eye surgery the following day. The hotel is located approximately 10 miles from Parkway.

- Paid $221 for the health insurance premium of a patient.

**General Accounting (Cost Center 8110)**

The General Accounting cost center included $307 for the costs of printing a champagne menu which is unrelated to patient care.

**Data Processing (Cost Center 8170)**

The Data Processing cost center included $63,917 in costs applicable to the closing of another RHC provider. These costs were unrelated to Parkway and not necessary for the provision of patient care.

**Medical Staff Administration (Cost Center 8580)**

The Medical Staff Administration cost center included $500 for the cost of a seminar held at a local hotel. The seminar cost was to be reimbursed by a grant; therefore, the costs should have been offset by the grant revenue. However, we found no record of a corresponding revenue offset.

**Unassigned Expense (Cost Center 8990)**

The Unassigned Expense cost center was established to accumulate the costs of depreciation, amortization, interest expense, rent expense, insurance, and taxes. Our review of these costs identified $3,866 which we considered unallowable.

This cost center included $1,208 in gift shop depreciation expense. Gift shop costs are not necessary for the provision of patient care and are unallowable.

The remaining $2,658 considered unallowable represents rental expenses. We noted that Parkway paid $2,658 for the use of an apartment and furniture owned or leased by the CEO. We did not obtain a complete understanding of the purpose for this expense. However, the expense appears to represent a related party transaction. Therefore, the costs are considered unallowable, based on section 1011.5 of the PRM which states:

> "A provider may lease a facility from a related organization within the meaning of the principles of reimbursement. In such case, the rent paid to the lessor by the provider is not allowable as cost. The provider, however, would include in its costs the costs of ownership of the facility. Generally, these would be costs such as depreciation, interest on the mortgage, real estate taxes, and other expenses attributable to the leased facility. The effect is to treat the facility as though it were owned by the provider."

If Parkway wants to claim any costs related to this rental arrangement, the costs would have to be considered ownership costs. We did not determine what would be considered reasonable or allowable under the circumstances.

**Recommendations**

We recommend that the hospital discuss the results of our review with the FI auditors when the hospital cost report for FY 1991 is audited.

Parkway Comments

The hospital responded with explanations why each of the above items was related to patient care. Pertinent excerpts from Parkway's response are provided below.

In the Hospital Administration cost center, the $1,000,000 settlement to the City of North Miami allowed Parkway's new owner, RHC, to transfer and consolidate its health care operations in North Dade to one facility, namely Parkway, without the possibility of delays and additional costs related to legal action to prevent this transfer. Prior to the settlement, the two facilities involved were operating inefficiently. Through consolidation, more services were offered in one location and cost efficiency was improved. These benefits clearly benefitted the community, and were directly related to improved patient care. Further, the $23,681 in legal fees related to the closing of another RHC hospital and $13,570 for consulting fees related to a psychiatric CON would not have been incurred if the Florida CON and licensure laws were not so restrictive as to prevent an entity to electively close in an orderly manner.

Many of the other expenses cited as unallowable in the Hospital Administration cost center are attributed to maintaining good medical staff relations and to physician recruitment and retention programs. Others were related to staff appreciation and employee recruitment and retention programs. These relationships allow the hospital to practice cost efficient medical care. The purpose of these expenses is consistent with the policies of the hospital.

The hospital agreed that $16,548 in legal expenses related to the financing of Parkway construction loans should have been capitalized.

The hospital notes that all identifiable donations and contributions were offset in the cost report.

In the Communications cost center, Parkway acknowledged that due to clerical oversight a $28,180 adjustment was not carried forward to the cost report. The hospital does not accept the $58,594 adjustment representing 31 percent of nonsalary expenses in this cost center. In its cost report, Parkway reports an estimate of nonallowable costs, then upon audit, the FI determines nonallowable costs and adjusts to that figure.

In the Data Processing cost center the $63,917 applicable to closing another RHC provider was a part of the consolidation efforts of two hospitals. This plan provided more services at one location in a more cost efficient manner for the community.

In the Medical Staff Administration cost center the $500 seminar costs were offset in the cost report through a worksheet adjustment in either line 29 or 30 in Worksheet A-8.

OIG Response

The Parkway's response to our draft report did not provide any evidence or documentation which caused us to revise our draft report. However, Parkway's response does provide the hospital's perspective on costs considered related to patient care. Costs which we considered discretionary and unallowable, Parkway considers necessary for patient care.

More specifically, the $1,000,000 plus of settlement costs are clearly not related to patient care nor allocable to Medicare. The hospital's own response states that the expenses allowed the new owners, RHC, to close another hospital. We consider these costs to be RHC costs of doing business, and see no basis for charging these costs to Medicare through the Parkway cost report.

Regarding the $58,594 adjustment in the Communications cost center, our adjustment was based on a previously established percentage (31 percent). As stated, we did not determine the reasonableness of that percentage. We recommend that the FI consider the results of our review in their audit of the cost report.

We were unable to verify that the donations cited in our report and the $500 seminar costs were offset in the cost report. This is an issue that the FI may be able to resolve in their audit.

## OTHER MATTERS

During our review, other matters came to our attention which we believe are noteworthy. We identified other hospital costs which tend to drive up the cost of health care. The hospital incurred $843,284 of costs which were not allocated to Medicare. However, we believe these costs were not necessary to provide patient care. Additionally, we identified $49,558 which we considered costs for concern. Following are details on these costs.

### COSTS NOT ALLOCATED TO MEDICARE

In response to the Subcommittee's request, we reviewed some of the G&A costs which Parkway incurred but which Parkway did not allocate to Medicare. We identified $843,284 of costs which we considered unnecessary in providing patient care. These costs included:

- Payment of $804,443 for public relations costs and advertising. This represents an 80 percent deduction of the Parkway marketing department costs for unallowable advertising costs, such as brochures, which seek to increase patient utilization at Parkway.

- Donations of $15,425 to charitable organizations. For example, Parkway donated $3,000 to the North Miami Beach Optimist Club for the Special Olympics program, $2,000 to the Miami Heart Association, and $1,200 to sponsor the Big Sun Classic, a local sporting event.

- Gift shop costs of $23,416 which are not essential to providing patient care.

### COSTS FOR CONCERN

We identified $49,558 which we considered to be costs for concern. Generally, these costs were incurred for the benefit of hospital employees. In our opinion, these costs are not necessary to provide patient care. However, in some cases such costs have been considered allowable under current regulations. We are concerned that such costs drive up the price of health care in general, and Medicare specifically. A summary of these costs by cost center is provided below.

**Hospital Administration**

- Paid $11,062 for a Governing Board retreat held at a casino resort in the Bahamas. As previously reported the costs of the retreat included bar charges, costs for spouses, and entertainment. To the extent we could identify such costs we disallowed them. The $11,062 was not supported by detailed expense documents. Therefore, we could not isolate all unallowable costs incurred at the retreat. However, the location of the retreat and expenses incurred are considered extravagant. Therefore, we considered the $11,062 to be costs for concern.

- Paid $13,912 for an employee banquet at a local hotel.

- Paid $4,304 for a company picnic, for the related purchase of custom T-shirts, and a disc jockey.

- Purchased various items totaling $6,216 for a holiday raffle. The items included televisions, phones, toasters, and cameras.

- Contributed $100 for a first place prize in an essay contest for Hospital Week.

- Paid $4,361 for tuition reimbursement of employees' educational expenses.

- Paid $3,946 for flowers and candy to employees.

- Paid $534 for other gifts to employees.

- Paid $363 for dinner at the Fountainbleu with unknown hospital personnel to discuss morale.

- Paid $1,157 for Christmas gifts.

- Purchased movie tickets for $700 to sell to employees. We could not find an offset for any revenue associated with this cost.

- Paid $562 for the cost of setting up a softball league.

- Paid $532 for bowling trophies.

- Paid $553 for printing invitations to volunteer luncheons held at a local hotel.
- Paid $483 for pizza, donuts, and bagels for employees and a sympathy gift.
- Paid $243 for lunches with no business purposes shown.
- Paid $64 in airphone calls from a commercial airliner for which no apparent urgency was documented.

**Fiscal Administration**

- Paid $92 for a Secretary's Week luncheon and breakfast for Employee Appreciation Day.
- Paid $60 for late meals for the accounting department staff.
- Paid $14 for a baby shower gift to an employee.

**Business Office**

- Paid $238 to provide a cake and meals to the staff for extra effort.
- Paid $62 for Business Office employees' lunches and Secretary's Day danish.

**Recommendation**

We recommend that the hospital discuss these costs with the FI auditors when the cost report is audited to ensure that they comply with Medicare reimbursement guidelines. If questions arise regarding allowability, guidance should be obtained from the Health Care Financing Administration.

Parkway Comments

The hospital response did not address the costs for concern section of our report, but did address the costs not allocated to Medicare. The hospital believes all these costs are reasonable, related to Parkway's continuing ability to provide quality cost efficient patient care, and incurred in the ordinary course of business. All such costs are supported by a valid business purpose. The brochures cited under advertising costs provide information to the public regarding the range of services provided by Parkway. Since none of these costs were reimbursed by the Medicare program or any other governmental program, Parkway makes no further response regarding such costs.

Parkway Regional
Medical Center

160 N.W. 170th Street, North Miami Beach, Florida 33169 • 305/651-1100

May 29, 1992

DHHS. OIG. Office of Audit Services
RECEIVED
MAY 29 1992
REGION IV, ATLANTA, GEORGIA

Mr. Al Bustillo
Dept. of Health and Human Services
Office of Inspector General
51 S.W. 1st Avenue
Box 20
Miami, Florida 33132

Dear Mr. Bustillo:

This is to acknowledge that Parkway Regional Medical Center is in receipt of correspondence dated May 12, 1992 from the Dept. of Health and Human Services, Regional Inspector General for Audit Services.

A draft report is attached to the Regional Inspector General's correspondence. The draft report is designated not to be considered final. Nonetheless, Parkway Regional Medical Center has carefully reviewed this material including each of the items identified as "not related to patient care" and unallowable for Medicare reimbursement. Parkway Regional Medical Center encloses herewith its response to each of these items, and provides its explanation as to why each of these items is related to patient care.

Sincerely,

Charlene Maxion

Charlene Maxion
Chief Financial Officer

CM/ar

enc.

cc: Emil A. Trefzger, Jr.
Regional Inspector General for Audit Services

## HOSPITAL ADMINISTRATION (COST CENTER 8410)

* $1,000,000 settlement to the City of North Miami not to prevent the owners from consolid~~ating~~ two facilities, one of which was Parkway Regional Medical Center.
  $23,681 in legal fees connected to the closing of another Republic Health Corporation hospital.
  $13,570 for consulting fees related to the filing of a Psychiatric CON.

The above expenses are related to patient care at Parkway Regional Medical Center for various reasons. The expenses allowed Parkway Regional Medical Center's new owner, Republic Health Corporation, to transfer and consolidate its health care operations in North Dade to one facility, namely Parkway Regional Medical Center, without the possibility of delays and additional costs related to legal action to prevent this transfer. Furthermore, prior to settlement, Parkway Regional Medical Center and North Miami Medical Center were operating inefficiently, each had high operating costs and substantial capital requirements. Republic Health Corporation's plan was to combine these two facilities to provide a wider spectrum of services in one location and maximize cost efficiency. These benefits provided by a consolidated Parkway Regional Medical Center clearly benefitted our community, and in turn, were directly related to improved patient care.

These costs would not have been incurred by Parkway Regional Medical Center if the Florida CON and licensure laws were not so restrictive as to prevent an entity to electively close in an orderly manner.

* $1,811 for Governing Board Retreat.

The attendance of the Governing Board at the annual conference affords Parkway Regional Medical Center the opportunity to compare its services to other similar facilities and implement superior operational and planning techniques in an effort to improve patient care as a whole. It also provides Parkway Regional Medical Center a forum to keep abreast of changes in existing law and implementation of new laws related to health care.

* $1,066 repair to two (2) non-employee physicians' cars.

The physicians' cars were damaged while they were at Parkway treating their patients. Good medical staff relations are important for physician retention which allows the Hospital to practice cost efficient medical care.

* $8,735 in purchases by the Chief Executive Officer for various items.

These expenses are related to Parkway Regional Medical Center's physician recruitment and retention programs. In order to maintain and improve quality patient care, Parkway Regional Medical Center must continually recruit the most skilled physicians in the various areas of patient care offered at its facility. It is equally important in this highly competitive community to exercise these programs to retain our existing qualified physicians committed to quality patient care.

* $2,558 rental of a condominium and furniture owned by the Chief Executive Officer. $1,200 for housewares purchased to supply Chief Executive Officer's condominium.

During this time period the condominium was not occupied by the Chief Executive Officer and was utilized by out of town corporate personnel who assisted Parkway Regional Medical Center in the consolidation of the two hospitals. Had the condominium not been available, Corporate personnel would have had to use more costly hotel accommodations. These costs would have been allocated to Parkway Regional Medical Center through the Home Office Cost Report and therefore, are an allowable Home Office expense.

* $3,717 for liquor charges served at an employee banquet.

The annual employee banquet is a tool used in Parkway Regional Medical Center's employee recruitment and retention programs in an effort to demonstrate to deserving employees the hospital's appreciation for a job well done. Recruitment and retention of qualified employees is crucial to the hospital's ability to provide quality and cost effective health care.

* $6,243 in IRS penalties and interest related to quarterly federal tax return.

This expense is related to patient care in so far as it is related to compliance with federal laws by Parkway Regional Medical Center. Failure to comply with the government's action would result in heightened operating expenses.

* $1,128 for flowers, candy and gift basket to non-employee physicians and others; $1,014 for golf clubs and accessories; and $370 for playing golf.

The above expenses represent tools used in Parkway Regional Medical Center's physicians recruitment and retention programs. It is important for Parkway Regional Medical Center to recruit the most qualified physicians in the various areas of medical services provided to our patients, as well as to retain existing qualified physicians committed to maintaining excellence in patient care.

* $16,548 in legal expenses related to the financing of Parkway Regional Medical Center construction loans.

This item should have been capitalized.

* $1,340 for cruise tickets for medical record chart completion drawing and gift certificates for making 1,200 telemetry bags.
  $735 for chartering a boat and related food costs.

The purpose of these expenses was staff appreciation for those individuals who demonstrated extra effort in performing their jobs and supporting the needs of our patients. These expenses were part of the hospital's employee and physician retention and recruitment efforts.

* $882 for parking rebates to employees.

The parking rebate was directly associated with a plan to meet increased patient demand for easy access to entry level parking.

The rebate was implemented as a motivational tool for Parkway Regional Medical Center's employees to park in the highest spaces of our garage and leave lower, more desirable spaces for our patients to facilitate entry to our facility and expedite their required medical services. All employees who participated in this program were given $2.00 as a means to demonstrate Parkway Regional Medical Center's appreciation for employee support of this program, which enhanced the provision of patient care by the hospital.

* $739 for club seats and parking passes to an exhibition professional baseball game.

The purpose for this expense was staff appreciation and is consistent with the policies of Parkway Regional Medical Center's employee recruitment and retention program.

* $200 for first class upgrades.

Corporate policy permits officers to use frequent flyer program coupon upgrades on economy and coach tickets, if space is available. Booking first class reservations is prohibited.

* $72 for dinner while traveling.

Corporate policy reimburses its employees for the actual documented costs of breakfast and dinner meals while traveling. No meal per diem allotments are paid if no meals are eaten.

* $3,775 for the cost of non-employee physicians to attend a seminar.

It is Parkway Regional Medical Center's policy to send some of its Medical Directors to the Annual Conference relating to their area of responsibility. For instance the Medical Director for Quality Assurance was sent to the Annual Conference on Quality Assurance to ensure Parkway Regional Medical Center has first hand knowledge and exposure to the most recent trends, developments and ideas to improve the quality of its health care services.

* $11,850 in non-employee physician recruitment costs.

Good medical staff relations are imperative for physician recruitment and retention which allows the hospital to practice efficient cost effective medicine.

* $2,000 for consultants by non-employee physicians.

The purpose was to explore the means and create a plan to expand the delivery infrastructure of a routine medical service to additional geographic areas beyond Parkway Regional Medical Center's current market thereby reaching and accommodating additional local residents arthritis treatment.

* $1,276 for replacing various items belonging to patients.

Expenditures related to Parkway Regional Medical Center's patients' personal belongings are necessary for the continuance of the patients' health care needs.

* $634 related to recruiting physicians to participate in Parkway Regional Medical Center's Joint Venture.

The Joint Venture activities are to assist Parkway Regional Medical Center's medical staff physicians in applying for membership into the Joint Venture and to resolve any interrelated hospital and physician issues that may arise. The Joint Venture is a mechanism to promote responsible, quality patient care. Physician involvement in decision making is a important component of providing cost effective quality medical services.

* $6,126 for a Dade County Art Exhibit, the co-sponsorship of a scientific session and another donation.

Community involvement provides the public with information regarding Parkway Regional Medical Center's facility, location and services rendered, thereby educating patients in our service area as to the availability of needed cost effective health care services. On the as filed cost report all identifiable donations and contributions were offset per line 31 of worksheet A-8.

* $540 for a Department Head cocktail party.

The purpose for this expense was staff appreciation and is consistent with the policies of Parkway Regional Medical Center's employee recruitment and retention programs.

* $392 for the purchase of compact stereo, VCR cart and VCR.

Educational equipment for in-house employee and medical staff's training regarding patient care. This expense is directly related to maintanence of quality patient care.

* $149 for tuxedo rentals.

Tickets were also purchased for the opera as a staff appreciation activity for our department managers and executive staffs. This purchase is consistent with the policies of Parkway Regional Medical Center's employee recruitment and retention programs.

* $100 for an aerial photo of Parkway Regional Medical Center.

The purpose was to create a master site plan for Parkway Regional Medical Center. The master site plan includes, but is not limited to, the evaluation and location of new services, traffic flow through the Parkway Regional Medical Center campus, and evaluation of an additional Medical Office Building with adequate required parking facilities. The use of the aerial photo was directly related to completing the master site plan which would provide more efficient, cost effective medicine at Parkway Regional Medical Center.

* $76 for shipping of a computer.

The CEO had a need for a computer at home to work after hours and weekends on hospital issues. It was more cost effective to ship the computer no longer being used by his daughter rather than purchase a new computer.

* $61 for a plaque and framing of a physicians' picture.

Good medical staff relations are imperative for physician recruitment and retention which allows the hospital to practice efficient cost effective medicine.

## COMMUNICATIONS (COST CENTER 8155)

* $28,180 adjustment to G & A that was omitted from the cost report.

The calculation to remove the unallowable cost was made, but due to a clerical oversight was not carried forward to the cost report.

* $58,594 additional non-allowable costs representing 31% of non-salary expenses in this cost center to be consistent with the salary allocation percentage.

Parkway Regional Medical Center does not accept the 31% figure identified. On the filed medicare costs reports an estimate of non-allowable costs is made by the hospital, then upon audit, our fiscal intermediary determines non-allowable costs and adjusts to that figure.

## FISCAL ADMINISTRATION (COST CENTER 8125)

* $262 for entertaining of other Republic Health Corporation Hospital Controllers.

The purpose of the meeting was to discuss financial and operational issues in an effort to improve services and make our health care delivery system more efficient and cost effective.

* $111 for flowers sent to the supervisor of the provider audit and reimbursement section of Parkway Regional Medical Center's medicare intermediary.

Purpose of flowers sent to Medicare Intermediary employee was a token of appreciation in resolving claims processing problems encountered in the change to Aetna as our final intermediary.

## BUSINESS OFFICE (COST CENTER 8145)

* $82 to provide hotel lodging and meals for a patient scheduled for eye surgery the following day.

It is Parkway's policy for patients who are coming from out of town for early morning eye surgery to provide them overnight accommodations at a hotel in order to reduce that patient's anxiety of their scheduled surgery and give them an opportunity to be well rested. This plan is not only better for the patient, but it is also more cost effective than the patient incurring overnight hospital expenses, which would exceed the costs of a hotel room.

* $221 for the health insurance premium of a patient.

Insurance premium for inpatient who was incapacitated to ensure uninterrupted quality patient care.

## GENERAL ACCOUNTING (COST CENTER 8110)

* $307 for printing costs of a Champagne Dinner menu.

During an individual's hospitalization, meals and visitors are highlights for the patients. A nicely printed menu with several selections helps to keep the patients morale positive which aids in the patients well-being, and helps in expediting the patient's recovery.

## DATA PROCESSING (Cost Center 8170)

* $63,917 costs applicable to the closing of another Republic Health Corporation provider.

The acquisition of Parkway Regional Medical Center by Republic Health Corporation was undertaken to consolidate two hospitals. Parkway Regional Medical Center and North Miami General Hospital were operating inefficiently, each had high operating costs and substantial capital requirements and were located in the same geographic location (within 10 miles of each other). Republic's plan was to consolidate these two facilities to provide a wider spectrum of services in one location in a more cost efficient manner for our community. For example, prior to consolidation, Parkway Regional Medical Center did not have OB services and North Miami Medical Center did not have a Cancer Center or Cardiac Cath Services. The consolidated Parkway Regional Medical Center offers all of these services at one location.

**MEDICAL STAFF ADMINISTRATION (COST CENTER 8580)**

* $500 Seminar held at a local hotel which was to be reimbursed by a grant. No revenue offset was found.

This item was offset in the filed cost report through a worksheet adjustment in either line 29 or 30 in worksheet A-8.

**UNASSIGNED EXPENSE (COST CENTER 8990)**

* $208 gift shop depreciation expense.

All direct expenses for the Gift Shop were offset in the filed cost report per line 56.04 on worksheet A-8. The original amount of depreciation expense should have been offset on the filed cost report.

**NON-MEDICARE EXPENSES**

With respect to G & A costs which Parkway Regional Medical Center incurred but did not allocate to the Medicare program, identified on pages 10 and 11 of the Report, please be advised that Parkway Regional Medical Center believes all of these expenses to be reasonable, related to Parkway Regional Medical Center's continuing ability to provide quality cost efficient patient care, and incurred in the ordinary course of Parkway Regional Medical Center's business. All such costs are supported by a valid business purpose. With regard to advertising costs, such as brochures, the Report seems to suggest that their purpose is to increase patient utilization at Parkway Regional Medical Center. To the contrary, the purpose of such expenditures is to provide information to their public regarding the range of health care services provided by Parkway Regional Medical Center and thereby to facilitate the delivery of needed health care services to patients in Parkway Regional Medical Center's service area in a cost-effective manner. Because no portion of the G & A costs which Parkway Regional Medical Center did not allocate to the Medicare program was reimbursed by the Medicare program or any other governmental program, Parkway Regional Medical Center makes no further response regarding such costs.

Parkway Regional Medical Center uses its best efforts to identify all non-allowable expenses prior to the filing of the Medicare statement of reimbursable costs.