



**SUFFOLK COUNTY  
OFFICE OF THE COMPTROLLER  
AUDIT DIVISION**

**Joseph Sawicki, Jr.  
Comptroller**

An Audit of  
**Southside Hospital Health Centers**  
For the Period  
January 1, 2009 through December 31, 2009

**Audit Report No. 2014-17  
Date Issued: December 23, 2014**

**SUFFOLK COUNTY  
OFFICE OF THE COMPTROLLER**

**Joseph Sawicki, Jr.**  
Comptroller

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**LETTER OF TRANSMITTAL**

November 17, 2014

Ms. Donna Moravick, Executive Director  
Southside Hospital Center  
301 East Main Street  
Bay Shore, NY 11707

Dear Ms. Moravick:

In accordance with the authority vested in the County Comptroller by the Suffolk County Charter (Article V), a performance audit was conducted of the Brentwood Family Health Center located at 1869 Brentwood Road, Brentwood, New York 11717, the Central Islip Health Center located at 45 West Suffolk Avenue, Central Islip, New York 11722, and the Tri-Community Health Center located at 1080 Sunrise Highway, Amityville, New York 11701. These Health Centers are administered under contract (Contract) with the Suffolk County Department of Health Services (Department) by Southside Hospital Center (Hospital), which has its principal place of business at 301 East Main Street, Bay Shore, New York 11706.

The objective of our audit was to determine whether the expenses claimed by the Hospital to Suffolk County present fairly, in all material respects, and in conformity with contractual requirements and all applicable laws and regulations, the reimbursable expenses that were incurred and paid by the Hospital for the operation of the Health Centers for the period of January 1, 2009 through December 31, 2009.

With the exception of the external peer review requirement, we conducted our audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. Such standards require that we plan and perform our audit to adequately assess those operations that are included in our audit scope. Further, these standards require that we understand the internal control structure of the Agency and the compliance requirements stated in laws and regulations that are significant to our audit objectives.

An audit includes examining, on a test basis, evidence supporting the transactions recorded in the accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings and recommendations.

The accompanying Combining Statement of Budgeted, Reported and Audited Expenses and the related Statements (collectively referred to as the Statements) for the period January 1, 2009 through December 31, 2009 were prepared for the purpose of reporting expenses claimed and reimbursed resulting from the Hospital's contract with Suffolk County. As described in Note 1 (p. 21), these Statements were prepared in conformity with the accounting practices prescribed by the Hospital's contract with Suffolk County, which is a comprehensive basis of accounting other than generally accepted accounting principles and not intended to be a complete presentation of the Hospital's expenses on the basis described.

The Statements disclose that, for the period of January 1, 2009 through December 31, 2009, reported expenses exceeded audited expenses by \$26,179 (Schedule 1, p. 17). Accordingly, an audit adjustment in this amount is required.

Furthermore, since the audit of the January 1, 2009 through December 31, 2009 period resulted in expense adjustments, some of which affected subsequent reporting periods, we determined that certain expense classifications should be subjected to audit testing for the period January 1, 2010 through December 31, 2011. Although our tests of the additional expense classifications will be considerably less in scope than those performed for the January 1, 2009 through December 31, 2009 period, our additional audit procedures, which will be the subject of a separate audit report, will provide a reasonable basis for our findings and recommendations.

Respectfully submitted,

Office of the County Comptroller  
Division of Auditing Services

## SUMMARY OF SIGNIFICANT FINDINGS

**County Funding** - Our audit of the period January 1, 2009 through December 31, 2009, disclosed an amount due to the County from the Hospital of \$26,179 (Schedule 1, p. 17). The amount due resulted primarily from the disallowance of reported costs that were not in accordance with the Contract; were determined to be unreasonable or inaccurate; were not sufficiently evidenced by supporting documentation and did not provide a benefit to the Suffolk County programs. In addition, the overpayment includes \$323 of disallowed Agency administration costs resulting from the recalculation of administrative overhead costs based on a percentage of audited direct expenses.

**Compliance with Laws, Regulations and Contracts** – Our audit disclosed the following instances of noncompliance that are material to the subject matter and are required to be reported under government auditing standards (p. 9):

- The Hospital claimed and was reimbursed for Resident Physician wages that were not commensurate with the level of direct patient care services provided at the Brentwood Health Center by the Physicians, resulting in over reported personnel costs totaling \$212,711 and fringe benefit costs in the amount of \$16,272 (p. 9).
- The Hospital claimed and was reimbursed for \$645 of costs that were determined to be personal in nature and therefore unreasonable (p.10).
- The Hospital did not always maintain vigilance and take all reasonable precautions to protect the furniture, fixtures and equipment purchased pursuant to the County contract from loss or damage (p. 11).

**Internal Controls** – Our review of internal controls disclosed the following significant deficiencies (p. 11):

- The Hospital's review process to ensure that reported transactions are complete, accurate and properly classified was inadequate, resulting in Fringe Benefit expenses being under reported by \$87,263 (p. 12).
- The Hospital's review process to ensure that reported transactions are complete, accurate and properly classified was inadequate, resulting in Fee for Service and Other Than Personnel Service expenses being under reported by \$116,509 (p. 15).

## **GENERAL INFORMATION**

Pursuant to an Agreement (Contract) between the Suffolk County Department of Health Services (Department) and Southside Hospital (Hospital), the Hospital operated three comprehensive health care centers that are located at 1869 Brentwood Road, Brentwood, New York (Brentwood), 45 West Suffolk Avenue, Central Islip, New York (Central Islip) and 1080 Sunrise Highway, Amityville, New York (Tri-Community) during the audit period. The Central Islip Health Center closed at the end of the audit period (December 2009).

Under the Agreement, the Hospital is required to make available the staff and facilities necessary to assist the County in the efficient, competent and professional operation of the Health Centers. In return, the Hospital is reimbursed by Suffolk County for expenses actually and necessarily incurred for the operation of the Health Centers in accordance with the terms and conditions of the Contract.

The Health Centers provide patient health care services in accordance with the regulations and standards issued by the Department. The health care services include screening, diagnosis, treatment, prevention and maintenance, prenatal care and obstetrical services. Referrals are made for services that cannot be performed at the Health Centers.

Patients are charged a fee for services rendered, based upon income and family size, according to a schedule prescribed by the Department. The Hospital is required to cooperate with the Department with respect to billing and collecting fees from Medicaid, Medicare, private health insurance plans and any other third party, as well as from patients that are financially able to make direct payments. However, no person can be denied the health services provided by the Contract as a result of an inability to pay.

Southside Hospital is a division of the North Shore-LIJ Health System which provides financial and accounting oversight to the Hospital including the processing and payment of all employee and vendor expenses, as well as the retention of all primary documentation related to the operations of the Health Centers. In addition, North Shore-LIJ Health System prepares the final Fringe Benefit reconciliation of fringe expenses associated with Health Center personnel, which were a material component of overall Health Center expenses.

## SCOPE AND METHODOLOGY

To accomplish the objectives as stated in the Letter of Transmittal (page 1), we performed the following audit procedures:

- Reviewed the Contract and applicable laws to determine the rules, regulations and other compliance requirements that are related to the audit objectives.
- Interviewed Hospital personnel responsible for the authorization, payment and recording of payroll, fringe benefit, fee for service and other-than-personnel service expenses related to the Contract to determine those internal controls instituted by the Hospital to ensure that reported expenses were in compliance with the requirements of the Contract.
- Interviewed Hospital personnel responsible for the collection of patient revenues at the Health Centers to determine the revenue collection and billing procedures in effect during the audit period.
- Interviewed Hospital personnel responsible for purchasing, accounts payable and petty cash disbursement functions at the Health Centers to determine those procedures in effect during the audit period.
- Interviewed Department of Health Services' personnel to determine the procedures employed for the verification, reconciliation and recording of revenues collected at the Health Centers and the transmittal of revenues to the County Treasurer.
- Reconciled amounts claimed by the Hospital on Suffolk County Payment Vouchers to amounts approved and paid as evidenced by the County's Contract Agency Payment Records and the County's IFMS.
- Reviewed grant funding for the Hospital's Ryan White HIV Health Program to ensure that the Hospital's expenses paid by the grant were not charged to, and reimbursed by, the County.
- Reviewed Suffolk County Appropriation and Suffolk County Legislative Introductory Resolutions applicable to the Health Centers during the audit period.
- Randomly selected three biweekly pay periods for thirty employees reported/claimed by the Hospital pursuant to the Contract for audit testing. In addition, we also selected eight Fringe Benefit expense categories, thirteen individual Fee-for-Service expense transactions and sixty-three Other Than Personal Service expense transactions determined to be individually significant, unusual transactions, or those transactions randomly selected from account balances for testing. The following procedures were performed for each audit

selection to ensure that the Hospital's reported expenses were actually incurred, paid on behalf of the Health Centers, and in compliance with applicable laws, contracts and regulations:

- Examined employee time records, Hospital payroll records, Form W-2s, employee personnel files, collective bargaining agreements, fringe benefit plan documents, vendor invoices, purchase requisitions and orders, vendor contracts/agreements and any other available documentation in support of the selected audit transactions.
  - Examined cancelled checks and bank statements to verify that payment for the audit selection was actually made and the check information (amount, date and payee) agreed with the information reflected in the Hospital's financial records.
  - Reviewed the transaction to determine if it was an allowable and reimbursable expense pursuant to the Contract.
  - Determined if the audit selections were reasonable, necessary, directly related to and provided a benefit to, the Hospital's operation of the Health Centers.
- Randomly selected sixty patients seen at the Health Centers during the audit period to ensure that fees received by the Health Centers were remitted to the County in their entirety and the Hospital complied with all applicable laws, regulations and contracts with regard to maximizing the receipt of revenue for the County. The following procedures were performed for each audit selection:
    - Reviewed the patient's medical file to determine dates that services were provided to the patient at the Health Centers during the audit period and selected one patient visit for testing.
    - Reviewed the income verification form maintained in patient's medical file to confirm that fees were set in accordance with the County approved fee schedule and that the patient's level of income was properly verified.
    - Verified that all charges and corresponding payments were posted to the patient's account in the Department's Health Care Information System.
    - Traced all payments and reimbursements associated with the patient visit to the Department's bank accounts, and verified that the revenue was properly transferred to the Suffolk County Treasurer.

We utilized a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on operations that have been identified through preliminary planning procedures as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an “exception basis.” This report, therefore, highlights those areas needing improvement and does not address operations that may be functioning properly.

## FINDINGS AND RECOMMENDATIONS

### Compliance

Our examination disclosed the following violations of contract provisions that are material to the subject matter and are required to be reported under Government Auditing Standards:

**The Hospital claimed and was reimbursed for Resident Physician wages that were not commensurate with the level of direct patient care services provided at the Brentwood Health Center by the Physicians, resulting in over reported personnel service costs totaling \$212,711, and related fringe benefit costs totaling \$16,272.** Although the Contract directs that the Hospital maintain adequate documentation supporting the attendance of all staff at the Health Centers, the Hospital did not maintain adequate documentation to confirm the attendance of Resident Physicians at the Brentwood Family Health Center. Unlike all other Health Center employees, Resident Physicians were not required to utilize the Health Center's electronic time recording system. We also found that personnel costs associated with the Residency Program were claimed to the County based strictly on a contractual budget limit rather than the actual amount of hours the Resident Physicians provided direct care to patients at the Health Center. As a result, an audit analysis of the direct patient care services provided by the Resident Physicians to Health Center patients revealed that only 60% of the level of funding provided by the County was supported by direct patient care services at the Health Center. Consequently, an audit adjustment was necessary to disallow the related overfunded personnel and fringe benefit expenses.

***Recommendation 1***

The Hospital should maintain adequate documentation supporting the attendance of all staff at the Health Centers by requiring Resident Physicians to utilize the electronic time recording system. This system, in conjunction with the actual level of direct care patient services, should be utilized by the Hospital to ensure that the County is receiving a level of service from the Residency Program that is commensurate with the level of County funding.

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**The Hospital claimed and was reimbursed for \$645 of costs that were determined to be personal in nature and therefore unreasonable.** The Hospital's contract with the County requires that the Hospital provide qualified and trained personnel to the Health Centers and ensure that all staff, including physicians, are appropriately trained, qualified and have appropriate credentials. However, we found that the Hospital claimed and was reimbursed for the costs associated with the renewal of several New York State Medical Licenses for Health Center personnel. We determined that such costs are personal in nature and therefore the responsibility of the Hospital and/or the medical staff. As a result, the Hospital over reported office expense by \$645 for the Brentwood Health Center.

***Recommendation 2***

The Hospital should not claim the costs of professional medical licenses of Health Center staff to the County for reimbursement.

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**The Hospital did not always maintain vigilance and take all reasonable precautions to protect the furniture, fixtures and equipment purchased pursuant to the County contract from loss or damage.** The Contract directs that the Hospital shall maintain an accurate inventory of all assets acquired pursuant to the Contract. Despite this directive, the Hospital did not maintain an accurate, up-to-date inventory of assets purchased by the Hospital and reimbursed by the County during the audit period.

***Recommendation 3***

To effectively safeguard the fixed assets purchased pursuant to the Contract, the Hospital must maintain an accurate, up-to-date inventory of all assets acquired pursuant to the Contract. The Hospital should conduct an annual physical count of the furniture, removable fixtures and equipment in use at each of the Health Centers. In addition, the Hospital's inventory listing should be adjusted to reflect the results of the annual physical count and should include sufficient detail to distinguish between assets purchased and reimbursed pursuant to the Contract and those purchased with Hospital funds. Any material discrepancies between the inventory listing and the annual physical count should be investigated by the Hospital.

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**Internal Control**

Our review of the Hospital's internal controls that are material to the subject matter disclosed the following significant deficiencies that are required to be reported under Generally Accepted Government Auditing Standards:

**The Hospital's review process to ensure that reported transactions are complete, accurate and properly classified was inadequate resulting in Fringe Benefit being under reported by \$87,263.** The Contract states that the Hospital may submit a monthly claim for the reimbursement of fringe benefit expenses based on a fixed percentage of Health Center budgeted salaries contained in the contract budget (34% for 2009). No later than February 1<sup>st</sup> of each calendar year following the contract period, the Hospital is required to submit a final claim (Fringe Reconciliation) that reflects the actual costs of employee benefits for each Health Center. However, we found that the Hospital's review process designed to ensure the accuracy and propriety of the Fringe Reconciliation is inadequate and, as a result, certain methodologies utilized by the Hospital to determine the actual fringe benefit costs of Health Center employees were improper or inaccurate. Our audit disclosed the following:

- The Hospital determined the annual cost for employee medical expenses by multiplying a bi-weekly premium/accrual by 26 pay periods in a calendar year. However, we found that since two of the three major medical plans offered by the Hospital to Health Center employees were self-insured plans, the Hospital was only required to pay the claims submitted by health care providers and pharmacies for the actual services provided to the employees (not premium related). As a result, an audit analysis was performed to determine the actual medical claims and premiums that were paid by the Hospital on behalf of the Health Centers' employees net of any employee cost-share contributions. The analysis disclosed that the Hospital over reported Medical expense by \$143,096 (\$121,173 for the Brentwood Health Center and \$21,923 for the Central Islip Health Center).
- The Hospital over reported Social Security (Employer FICA) expense due to calculation inaccuracies made by the Hospital during preparation of the final claim to the County. An audit analysis was performed to determine audited Social Security expense utilizing employee gross wages that were reimbursed by the County and subject to FICA tax as well as the Federal FICA tax rate of 7.65%. However, when compared to audited FICA expense, we found that the Hospital over reported FICA expense by \$728 (Brentwood Health Center).
- The Cash Balance Pension Plan of the North Shore Long Island Jewish Health System directs that certain classes of employees such as Resident Physicians,

Per Diem Nurses and new or part time employees are not eligible to enroll in the plan. However, we found that although the Hospital did not contribute to the pension plan on behalf of certain ineligible Health Center employees, these employees were reported on the Fringe Reconciliation as receiving pension contributions. As a result, the Hospital over reported Pension expense by \$45,265 (\$40,199 for the Brentwood Health Center and \$5,066 for the Central Islip Health Center).

- Although the Cash Balance Pension Plan of the North Shore Long Island Jewish Health System directs that employee overtime wages must not be included when determining pension plan contributions, we found that overtime wages were included in the determination of reported pension expense on the Fringe Reconciliation. We also found that the Hospital inappropriately utilized an inflated contribution rate in the determination of reported 1199 United Health Care Workers Union pension fund contributions. As a result, the Hospital over reported Pension expense by \$13,947 (\$10,847 for the Brentwood Health Center and \$3,100 for the Central Islip Health Center).
- The Hospital inappropriately reported \$4,451 (Central Islip Health Center) of New York State Nurses Association (NYSNA) Benefit Fund contributions that were never actually paid. We found that the purported contributions related to a per diem employee and a terminated employee, neither of which were eligible for the reported contribution. Accordingly, the related reported expenses were disallowed.
- The 1199 United Healthcare Workers Union agreement with the Hospital requires Benefit Fund contributions of 23.4% of eligible union members' gross wages which were duly made by the Hospital. However, we found that the Hospital reported 1199 Benefit Fund contributions which were determined on the Fringe Reconciliation utilizing a rate of 22.5% based on base wages (excluding overtime). As a result, the Hospital under reported 1199 Benefit Fund contributions by \$48,299 (\$37,204 for the Brentwood Health Center and \$11,095 for the Central Islip Health Center).
- Pursuant to the Hospital's agreements with the 1199 United Healthcare Workers union as well as the New York State Nurses Association union, the Hospital's contributions to the respective Benefit Funds shall be used to provide enrolled employees with social benefits such as Life Insurance and Short/Long Term Disability coverage. We found that the Hospital duly claimed and was reimbursed for these contributions; however, the Hospital also claimed and was reimbursed for purported additional payments specifically to the Hospital's disability and life insurance plans on behalf of the associated union employees. Furthermore, the Hospital did not provide supporting documentation to substantiate that additional disability and life insurance expenses were paid on behalf of Health Center union employees. As a result, the Hospital over reported Disability and Life Insurance expense by \$61,191 (\$47,223 for the Brentwood Health Center and \$13,968 for the Central Islip Health Center).

- The Hospital did not report on the Fringe Reconciliation the actual contributions made to the 403(b) pension plan on behalf of the Health Center employees. An audit analysis of the associated pension plan statements disclosed that the Hospital under reported contributions to the pension plan by \$112,777 (\$92,534 for the Brentwood Health Center and \$20,243 for the Central Islip Health Center).
- The 1199 United Healthcare Workers Union agreement with the Hospital requires percentage contributions to their Training & Upgrading, Child Care and Job Security Funds based on eligible union members' gross wages which were duly made by the Hospital. However, we found that the Hospital reported 1199 Benefit Fund contributions on the Fringe Reconciliation based on base wages (excluding overtime). As a result, the Hospital under reported 1199 Fund contributions by \$2,088 (\$1,967 for the Brentwood Health Center and \$121 for the Central Islip Health Center).
- The Hospital did not report on the Fringe Reconciliation the actual contributions made to the NSLIJ Cash Balance pension plan on behalf of the Health Center plan participants. An audit analysis of financial statement disclosure information provided by the 3<sup>rd</sup> party actuary of the plan revealed that actual contributions to the plan on behalf of Health Center employees totaled \$535,121. Since original audit adjustments pertaining to the NSLIJ Cash Balance Plan reduced the Hospital's claim for these expenses from \$316,998 to \$260,529 due to the inclusion of non-participants and ineligible wages when these costs were claimed to the County, an audit adjustment of \$274,592 would be required to recognize unclaimed but allowable Cash Balance pension plan costs. However, the audit adjustment to allow these unclaimed pension costs is limited to \$192,777, due to the contractual budget limit of 34% of budgeted payroll (\$165,604 for the Brentwood Health Center and \$27,173 for the Central Islip Health Center).

#### ***Recommendation 4***

The Hospital should institute in-depth second party review procedures that will ensure the overall reasonableness and accuracy of the methodologies utilized to determine the actual fringe benefit costs associated with the Health Centers, and that only those fringe benefit costs incurred on behalf of Health Center employees are claimed to the County for reimbursement.

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**The Hospital's review process to ensure that reported transactions are complete, accurate and properly classified was inadequate resulting in Fee for Service and Other Than Personnel Service Expenses being under reported by \$116,509. Our audit revealed the following:**

- The Hospital claimed and was reimbursed \$15,147 by Suffolk County for Obstetrician-Gynecological services provided by an independent contractor for the month of June 2009. However, we found that this amount exceeded the \$6,667 monthly payment dictated by the related Fee for Service agreement between the Hospital and the Physician. As a result, the Hospital over reported Fee for Service expense by \$8,480 (Brentwood Health Center).
- In accordance with New York State Tax Law, effective March 1, 2009 the Hospital began paying the Metropolitan Commuter Transportation Mobility Taxes related to both Hospital and Health Center employees. However, our audit disclosed that the Hospital did not claim these expenses for reimbursement from the County. As a result, the Hospital under reported Other Than Personnel Service expenses by \$5,159 (\$645 for the Brentwood Health Center and \$4,514 for the Central Islip Health Center).
- The Hospital incorrectly claimed language interpretation service costs under the Other Than Personal Service/Telephone Expense budget lines rather than under the Fee for Service budget line. As a result, an audit adjustment is necessary to correctly classify language interpretation service costs in the amount of \$126,689 (\$77,363 for the Brentwood Health Center and \$49,326 for the Central Islip Health Center). Furthermore, the incorrect classification of language interpretation service costs also caused the Other Than Personal Service budget line total to materially exceed its contractual maximum which resulted in numerous claimed expenses being disallowed by the Department. As a result, audit adjustments are necessary to recognize unreimbursed language interpretation service costs in the amount of \$42,188 (\$40,624 for the Brentwood Health Center and \$1,564, for the Central Islip Health Center) as Fee for Service as well as various Other than Personnel service expenses in the amount of \$77,642 (\$77,363 for the Brentwood Health Center and \$279 for the Central Islip Health Center).

***Recommendation 5***

The Hospital should strengthen internal controls over the preparation and review of the expenditure claim to ensure that all expenses claimed to the County for

reimbursement are complete, accurate and properly claimed. These internal control procedures should include a final review by a Financial Manager prior to the submission of the claim to the County.

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This report is intended solely for the information and use of the Hospital's Board of Directors and management, and responsible Suffolk County officials and is not intended to be used by anyone other than these specified parties.

## **SCHEDULES**

Note: The accompanying schedules are an integral part of this report and should be read in conjunction with the Letter of Transmittal (p.1)

Schedule 1

Southside Hospital Health Centers  
Brentwood, Central Islip and Tri-Community Health Centers  
Combining Statement of Budgeted, Reported and Audited Expenses  
For the Period January 1, 2009 Through December 31, 2009

<u>Notes</u>	<u>Expense Category</u>	<u>Amount Budgeted</u>	<u>Amount Reported</u>	<u>Amount Over (Under) Reported</u>	<u>Audit Allowance</u>
	Direct Expenses - Brentwood (Schedule 2)	\$ 9,692,091	\$ 9,091,430	\$ 42,337	\$ 9,049,093
	Direct Expenses - Central Islip (Schedule 3)	2,322,787	2,212,364	(16,481)	2,228,845
	Direct Expenses - Tri-Community (Schedule 4)	407,119	384,825	-	384,825
(2)	Administrative Charge	244,650	235,483	323	235,160
	Total Gross Expenses	\$ 12,666,647	\$ 11,924,102	\$ 26,179	\$ 11,897,923
(3)	Less: Anticipated Savings	(509,005)	-	-	-
	Net Contract	\$ 12,157,642	\$ 11,924,102	\$ 26,179	\$ 11,897,923

See Notes to Schedules (p. 22).

Schedule 2

Southside Hospital Health Centers  
Brentwood Health Center  
Statement of Budgeted, Reported and Audited Expenses  
For the Period January 1, 2009 Through December 31, 2009

<u>Notes</u>	<u>Expense Category</u>	<u>Amount Budgeted</u>	<u>Amount Reported</u>	<u>Amount Over (Under) Reported</u>	<u>Audit Allowance</u>
(4)	Personnel Services	\$ 6,010,605	\$ 5,642,213	\$ 212,711	\$ 5,429,502
(5)	Fringe Benefits	1,865,106	1,804,239	(60,867)	1,865,106
(6)	Fee For Service	1,530,000	1,372,822	(109,507)	1,482,329
	Equipment	22,560	8,336	-	8,336
	Other than Personnel Service:				
(7)	Office Supplies		44,599	\$ (18,397)	62,996
	Postage		13	-	13
(9)	Janitorial Supplies		37,640	(12,415)	50,055
(9)	Uniforms & Laundry		616	(941)	1,557
(9)	Medical Supplies		59,485	(24,400)	83,885
(9)	Equipment Repair		3,409	(3,307)	6,716
(9)	Service Contract		15,261	(4,032)	19,293
(8)	Telephone		79,061	74,571	4,490
(9)	Conference		1,094	(2,722)	3,816
(9)	Staff Travel		12,361	(4,956)	17,317
(9)	Patient Travel		7,978	(2,756)	10,734
(10)	Other		1,223	(645)	1,868
	Renovations		1,080	-	1,080
	Total OTPS:	<u>263,820</u>	<u>263,820</u>	<u>-</u>	<u>263,820</u>
	Total Direct Expenses	<u>\$ 9,692,091</u>	<u>\$ 9,091,430</u>	<u>\$ 42,337</u>	<u>\$ 9,049,093</u>

See Notes to Schedules (p. 22).

Schedule 3

Southside Hospital Health Centers  
Central Islip Health Center  
Statement of Budgeted, Reported and Audited Expenses  
For the Period January 1, 2009 Through December 31, 2009

<u>Notes</u>	<u>Expense Category</u>	<u>Amount Budgeted</u>	<u>Amount Reported</u>	<u>Amount Over (Under) Reported</u>	<u>Audit Allowance</u>
(4)	Personnel Services	\$ 1,619,817	\$ 1,593,028	\$ -	\$ 1,593,028
(5)	Fringe Benefits	550,738	540,614	(10,124)	\$ 550,738
(6)	Fee For Service	75,000	1,490	(50,890)	52,380
Other than Personnel Service:					
(7)	Office Supplies		5,426	-	5,426
	Janitorial Supplies		4,673	-	4,673
	Laboratory Supplies		60	-	60
	Medical Supplies		4,576	-	4,576
	Equipment Repair		130	-	130
	Service Contract		4,549	-	4,549
(8)	Telephone		50,987	49,326	1,661
(9)	Conference		588	(175)	763
(9)	Staff Travel		6,243	(104)	6,347
(10)	Other		-	(4,514)	4,514
	Total OTPS:	<u>77,232</u>	<u>77,232</u>	<u>44,533</u>	<u>32,699</u>
	Total Direct Expenses	<u>\$ 2,322,787</u>	<u>\$ 2,212,364</u>	<u>\$ (16,481)</u>	<u>\$ 2,228,845</u>

See Notes to Schedules (p. 22).

Schedule 4

Southside Hospital Health Centers  
Tri-Community Health Center  
Statement of Budgeted, Reported and Audited Expenses  
For the Period January 1, 2009 Through December 31, 2009

<u>Notes</u>	<u>Expense Category</u>	<u>Amount Budgeted</u>	<u>Amount Reported</u>	<u>Amount Over (Under) Reported</u>	<u>Audit Allowance</u>
	Personnel Services	\$ 303,820	\$ 281,526	\$ -	\$ 281,526
(5)	Fringe Benefits	<u>103,299</u>	<u>103,299</u>	<u>-</u>	<u>103,299</u>
	Total Direct Expenses	<u>\$ 407,119</u>	<u>\$ 384,825</u>	<u>\$ -</u>	<u>\$ 384,825</u>

See Notes to Schedules (p. 22).

**Notes to Schedules**

**Southside Hospital Health Centers**

- (1) Basis of Accounting - The Hospital's Combining Statement of Budgeted, Reported and Audited Expenses for the contract period ended December 31, 2009, and the related Statements of Budgeted, Reported and Audited Expenses were prepared in conformity with the accounting practices prescribed by the Hospital's contract with Suffolk County, which is a comprehensive basis of accounting other than generally accepted accounting principles. As such, these statements were prepared on the basis of cash disbursements whereby expenses were recognized during the contract period in which they were paid and claimed for reimbursement from the County rather than when the obligation was incurred.
- (2) Administrative charges were reported and reimbursed to the Hospital based on a percentage of direct expenses. Therefore, due to the overpayment of reported direct expenses, an audit adjustment was necessary to disallow \$3,464 of reported administrative costs.
- (3) Anticipated savings is an amount used to reduce the Hospital's budgeted expenses, when the budgeted expenses are greater than the amount the County has contracted to fund.

- (4) The Personnel Service adjustment consists of the following:

	<u>Brentwood</u>	<u>Central Islip</u>
Resident physician wages disallowed because they were not sufficiently evidenced by supporting documentation.	\$ 212,711	-
Totals	<u>\$ 212,711</u>	<u>\$ -</u>

- (5) The Fringe Benefit adjustment consists of the following:

	<u>Brentwood</u>	<u>Central Islip</u>
Medical Insurance expenses disallowed because they exceeded the actual payments made on behalf of Health Center employees by the Hospital's self-insured medical plan.	\$ 121,173	\$ 21,923
Social Security expenses disallowed due to an accounting error. The Hospital's determination of reported Social Security expense included calculation inaccuracies.	\$ 728	-
Disallowed pension expenses associated with employees who were not eligible to receive the benefit.	40,199	\$ 5,066

**Notes to Schedules**

**Southside Hospital Health Centers**

(5) (Cont'd)	<u>Brentwood</u>	<u>Central Islip</u>
Disallowed pension expense because it related to overtime and bonus wages that were not eligible for pension contributions or because it exceeded the Hospital's actual contributions to the Pension Fund.	10,847	3,100
Disallowed NYSNA Benefit Fund expenses associated with employees who were not eligible to receive the benefit.	-	4,451
Additional 1199 Benefit Fund expenses resulting from the exclusion of overtime wages and use of an incorrect contracted contribution percentage.	(37,204)	(11,095)
Disallowed Social Security expense associated with resident physicians salaries disallowed.	16,272	-
Life Insurance and Long and Short Term Disability expenses disallowed because they were not sufficiently evidenced by supporting documentation.	47,223	13,968
Additional costs resulting from an accounting error. Certain 403 (b) paid during the audit period were not claimed for reimbursement by the Hospital.	(92,534)	(20,243)
Additional 1199 Training & Upgrading, Child Care and Job Security Funds resulting from the exclusion of overtime wages in calculating these costs.	(1,967)	(121)
Additional pension expense resulting from an accounting error. Certain pension costs paid during the audit period that were not claimed to the County.	<u>(165,604)</u>	<u>(27,173)</u>
Totals	<u><u>\$ (60,867)</u></u>	<u><u>\$ (10,124)</u></u>

(6) The Fee for Service adjustment consists of the following:

	<u>Brentwood</u>	<u>Central Islip</u>
OB/GYN contractual service expense disallowed because it was not sufficiently evidenced by supporting documentation.	\$ 8,480	-

**Notes to Schedules**

**Southside Hospital Health Centers**

(6) (Cont'd)	<u>Brentwood</u>	<u>Central Islip</u>
Reclassification of language interpretation service costs from Other Than Personal Service, Telephone Expense to Fee For Service expense (see related notes 8 and 9).	(77,363)	\$ (49,326)
Additional costs resulting from an accounting error. Language interpretation service costs disallowed by the Department due to expense coding error (see related note 9):	<u>(40,624)</u>	<u>(1,564)</u>
Totals	<u>\$ (109,507)</u>	<u>\$ (50,890)</u>
(7) The Office Supplies adjustment consists of the following:	<u>Brentwood</u>	<u>Central Islip</u>
The renewal of professional medical licenses for certain Health Center Physicians that were disallowed because they were personal in nature and deemed unreasonable.	\$ 645	\$ -
Additional costs resulting from an accounting error. Telephone expenses disallowed by the Department due to expense coding error (see related note 9):	<u>(19,042)</u>	<u>                    </u>
Totals	<u>\$ (18,397)</u>	<u>\$ -</u>
(8) The Telephone Expense adjustment consists of the following:	<u>Brentwood</u>	<u>Central Islip</u>
Reclassification of language interpretation service costs from Telephone Expense to Fee For Service expense (see related notes 6 and 9).	\$ 77,363	\$ 49,326
Additional costs resulting from an accounting error. Telephone expenses disallowed by the Department due to expense coding error (see related note 9):	<u>(2,792)</u>	<u>                    </u>
Totals	<u>\$ 74,571</u>	<u>\$ 49,326</u>

**Notes to Schedules**

**Southside Hospital Health Centers**

(9) The Hospital incorrectly reported \$126,689 of language interpretation service costs (\$77,363 for the Brentwood Health Center , \$49,326 for the Central Islip Health Center) under the Other Than Personal Service, Telephone Expense, budget line rather than under the Fee For Service, Translation Services budget line. The incorrect classification of language interpretation service costs caused the Other Than Personal Service budget line to prematurely reach its maximum which resulted in numerous expenses being disallowed by the Department. As a result, an audit adjustment was necessary to recognize those expenses that were incurred by the Hospital but disallowed by the Department (see related notes 6, 7 and 8).

(10) The Other adjustment consists of the following:

	<u>Brentwood</u>	<u>Central Islip</u>
Additional costs that were incurred and paid by the Hospital pursuant to the County Contract but were not claimed to the Department (MTA taxes for employees of Brentwood and Central Islip Health Centers).	\$ (645)	\$ (4,514)

## **APPENDICES**



North Shore-Long Island Jewish Health System

November 27, 2014

Mr. Frank A. Bayer, CPA  
Executive Director of Auditing Services  
Office of the County Comptroller  
H. Lee Dennison Building  
100 Veterans Memorial Highway  
P.O. BOX 6100  
Hauppauge, NY 11788-0099

Dear Mr. Bayer:

I respectfully submit the following response to the unofficial reports of the results of the performance audit of Southside Hospital Health Centers for the period January 1, 2009-December 31, 2009 and subsequent Limited Scope Audit for the period January 1, 2010- December 31, 2011; Southside Hospital objects to the findings in both reports.

On January 22, 2013, County representatives from Timothy Smith's audit team and North Shore LIJ Health System representatives Bob Nigro, Larry Katz, Diane Quinn and Andrea Curran, met to discuss the proposed disallowances. In particular, the parties focused on the County's concern regarding the reimbursement for Southside Hospital Family Practice Residents ("Residents") who perform services at Brentwood Health Center and in other settings for Brentwood Health Center patients. During the meeting, Southside Hospital representatives explained that Southside Hospital's twenty-seven (27) Residents played a vital role in the support of the Health Centers patients. All Residents participated in an approved residency under the auspice of the Accreditation Council for Graduate Medical Education (ACGME). Under the direction/supervision of Physician Educators (Preceptors), the Residents performed direct patient care services for Brentwood Health Center patients and were scheduled based on an approved rotation by IPRO and ACGME. Services provided by the Residents included:

- a. Providing care to patients at the Brentwood Family Health Center (BFHC). Source documents are County's Health Care Information System (HCIS) and BFHC Schedule Block. Typically, each outpatient session lasted 4 hours and sessions were held six (6) days/week including Saturdays.
- b. In-house senior Residents covered the after-hours service for the Brentwood, Central Islip and Tri-Community Health Centers. Source document is Southside Hospital's after-hour logs.

- c. In-house Residents covered Southside Hospital's ER on a 24 x 7 basis for the admission of Health Center patients. Source document is Southside Hospital's Family Medicine Residents On-Call Schedule.
  - Only for Health Center patients 7:00 am – 4:00 pm Monday through Friday.
- d. In-house Residents covered the inpatient units at Southside Hospital for the management of the Health Centers' patients. For continuity of care, after discharge, the Resident called up the Health Center to schedule an appointment, ensuring appropriate follow-up care. Source document is Resident On-Call Schedules.

In addition to the information provided on January 22, 2013, a conference call was held on March 8, 2013 with Timothy Smith, Bob Nigro, Dr. Iroku-Malize (Residency Program Director) and Lillian Cargill (Residency Program Administrator). Dr. Iroku provided Timothy with more insight of the Residents many duties for the Health Centers and Health Center patients at Southside Hospital. The valued agreed to by the County's Division of Patient Care Services and Southside Hospital for the above services was \$525,000 annually and was approved in the 2009 budget.

The Draft Audit Reports claim that Southside Hospital's reimbursement for Resident wages "were not commensurate with the level of direct patient care services provided at the Brentwood Health Center." This is clearly not true. As discussed above, these Residents performed numerous direct patient care services both at the Brentwood Health Center and at Southside Hospital. In the 2010-2011 County Health Center Agreement, Exhibit E sets forth the Resident Physician Services contemplated by the Agreement which includes services provided by Residents at the Health Center and Southside Hospital. Accordingly, all the work performed by Residents for the benefit of County Health Center patients must be considered and the entire amount agreed to, and budgeted, for the Residents must be deemed payable to Southside Hospital. In addition, the County and Southside Hospital had many discussions regarding the role and duties of the Residents over the years and both parties agreed, as reflected in the County Health Center Agreements, that the Residents were critical to the care of Health Center Patients which is why Residents' were included in each applicable budget.

Southside Hospital also disputes the other findings in the Draft audit report for calendar year 2009 including:

1. Salary/OT disallowance (\$ 139,489.83 plus fringes)
2. Administrative charge allowed on Contract significantly less than the federally approved indirect off-site cost rate of 17.5%.
3. Questioned costs arising from disallowed pension expenses associated with employees who were not eligible to receive the benefit. Questioned costs arising from disallowed pension expense because it related to overtime and bonus wages that were not eligible for pension contributions or because it exceeded the Hospital's actual contributions to the Pension Fund **(Total Brentwood and Islip combined disallowed amount \$59,212).**

Although the audit finding sites employees who did not receive pension benefits, the overall expense for those employees that were eligible for the cash balance plan exceeded the value claimed/disallowed. That information which was derived from Buck Consultants (The Health System's actuaries), which had been previously discussed and submitted does not appear to have been taken into account.

4. Medical Insurance expenses disallowed because they exceeded the actual payments made on behalf of Health Center employees by the Hospital's self-insured medical plan (**Total Brentwood and Islip combined disallowed amount \$143,096**).

Medical Insurance expenses disallowed does not take into account the cost associated for services provided to covered health center employees or their covered family members at Health System facilities.

5. Life Insurance, Long and Short Term Disability expenses disallowed because they were not sufficiently evidenced by supporting documentation. (**Total Brentwood and Islip combined disallowed amount \$61,191**).

The health system has further documentation which we feel can be produced in support of Life Insurance, Long and Short Term Disability and would like to be afforded the additional time necessary in which to submit this.

We also request further clarification on the furniture, fixture and equipment findings.

In response to the unofficial report on the results of your performance audit of Southside Hospital Health Center's for the period 1/1/10-12/31/11, there needs to be further discussion on the Disallowance of Resident expenses of \$ 507,656 (includes administrative charge) as highlighted above and the County not considering fringe benefits submitted in excess of contractual budget limit.

The information set forth in this letter does not constitute a waiver of any defense and does not constitute an admission as to any factual allegations. Southside Hospital reserves all rights available by law. Please call me with any questions concerning the above. I look forward to speaking with you soon.

Very truly yours,



Robert B. Power  
Deputy Executive Director

**APPENDIX B**

**Exit Conference Report**

**Auditee: Southside Hospital**

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The unofficial draft audit reports for the audit periods January 1, 2009 through December 31, 2009 and January 1, 2010 to December 31, 2011 were transmitted to the Hospital on November 17, 2014 with a letter inviting the Hospital to submit a formal written response and/or request an exit conference by December 1, 2014. The letter also directed the Hospital to submit a Final Representation Letter by November 26, 2014.

On December 1, 2014 we received a formal response to the unofficial draft audit report from the Hospital (Appendix A, pp. 25 – 27) and an exit conference was held on December 9, 2014 to discuss points of contention cited in their response to our audit. Those in attendance were as follows:

<u>Name</u>	<u>Title</u>	<u>Organization</u>
Frank Bayer	Executive Director of Auditing Services	Audit & Control
Stephen McMaster	Senior Investigative Auditor	Audit & Control
Timothy Smith	Senior Auditor	Audit & Control
Thomas Murphy	Consultant	Audit & Control
Diane Quinn	Director of Finance GMO	NSLIJHS
Rich Diem	Senior Director of Finance	NSLIJHS
Robert Nigro	Administrator	NSLIJHS (BFHC)
Lawrence Katz	Director of Finance	NSLIJHS
Bob Power	Regional CFO	NSLIJ (Southside)

We began the exit conference by explaining to representatives of the Hospital that this was an opportunity to clarify or further explain assertions made in the Hospital's response. In addition, we emphasized that we would review any additional written documentation provided by the Hospital in support of assertions made in the formal response.

**APPENDIX B** (Cont'd)

**Exit Conference Report**

At the exit conference, the Hospital's Chief Financial Officer expressed disagreement with our audit disallowance relating to Resident Physician salaries. Hospital representatives stated that the audit recognized only the direct care patient services provided by the Residents at the Brentwood Health Center and did not consider services rendered to Health Center patients at Southside Hospital.

The Hospital contends that the Residents provide most of the physician care services to Health Center patients admitted to the emergency room and inpatient units of the Hospital. In addition the supervising 3<sup>rd</sup> year Resident on duty at the Hospital responds to after-hour Health Center patient telephone calls. The Hospital emphasized that many discussions regarding the role and duties of the Residents were held with the Department over the years and that the contractual budgeted amount of \$525,000 represented an allotment to the Hospital for the overall costs of the Residency program and services provided to Health Center patients at both the Brentwood Health Center and the Hospital (Our assessment of the Hospital's points of contention associated with the Resident Physicians can be seen at pp. 31 to 33).

The Hospital also sought clarity on some of the items discussed at the preliminary exit conference held on January 22, 2013. The Hospital was concerned that we did not consider the additional documentation provided for contributions to the NSLIJ Cash Balance pension plan. Although our audit disallowed purported contributions made on behalf of employees who were not eligible to receive pension benefits, the Hospital indicated that contributions to the plan were significantly greater than the amount claimed to the County for eligible health center employees. We agreed to reevaluate the supporting documentation provided and make any necessary revisions to the audit reports (Our assessment of Hospital's response related to the NSLIJ Cash Balance pension plan contributions can be seen at p. 34).

The Hospital also expressed concern that we did not fully allow additional other-than-personnel service costs (OTPS) that were discussed at the preliminary exit conference. We explained that we were only permitted to allow additional expenses up to the expense category's budgetary maximum. In addition, the Hospital expressed concern regarding our audit allowance related to MTA taxes. The Hospital did not claim MTA taxes for January 1, 2009 through December 31, 2009 period, but were seeking an audit allowance to reimburse the MTA taxes attributable to and paid on behalf of Health Center employees to NYS. We explained that we were only permitted to allow additional expenses up to the expense category's budgeted line item maximum.

The Hospital raised several other issues for our consideration; however, since the discussions did not significantly differ from the Hospital's formal response, these areas will be addressed in detail in Audit and Control's Assessment of the Auditee's response which can be seen on the following pages. At this time, we agreed to review the additional documentation provided and contact the Hospital if further clarification was required.

**APPENDIX B**

**Exit Conference Report**

**1. Resident Physician Salaries**

The Hospital strongly disagrees with the disallowance of Resident Physician wages. The Hospital asserts that the audit only allowed costs related to direct care patient services provided by the Resident Physicians at the Brentwood Family Health Center (BFHC) and did not consider the costs associated with services provided by the Residents to health center patients at the Hospital. These additional purported services consist of the after-hours phone-in service for the Brentwood and Tri-Community Health Centers, which was covered by the Senior Residents; the Hospital's Emergency Room, which was covered by in-house Residents on a 24 hours per day 7 days per week basis for the admission of Health Center patients, and; the inpatient units at Southside Hospital, which were covered by in-house Residents for the management of Health Center patients. The Hospital also believes that, unlike all other budget line totals, the \$525,000 budget line total reflected in the contract budget reflects an agreed upon price (allotment) that encompasses all of the related services; and therefore, it should not be reduced to reflect actual verifiable services. The only written documentation to verify the Hospital's contention was a resident physician schedule for the Hospital and telephone call-in logs which revealed that 512 Health Center patient related calls were received by the Hospital during the period of audit (less than 2 per day).

An inquiry made by our office to Health Services (Department) following the exit conference dispelled contentions made by the Hospital in their formal response to the unofficial draft audit report and those made at the exit conference. According to the Department, the services provided by the Residents during scheduled hours at the Hospital was not an issue of consideration for the Personal Services amount budgeted for the Residents. The budget amount of \$525,000 represented a maximum amount intended to cover the cost of Resident wages for verifiable services provided to patients at the Brentwood Family Health Center only, and did not represent an agreed upon fee for the overall cost of the Hospital's Residency program. Furthermore, the Hospital's contract with the County indicates that no reimbursement will be made to the Hospital for any services provided by the Resident Physicians unless specifically approved in the budget. Since the budget does not delineate the purported Resident Physician services provided at the Hospital, no revision of the audit adjustment is deemed warranted.

**2. Salary/OT Disallowance**

The Salary/OT disallowance referred to in the Hospital's response represents an adjustment made by the Department to a claim for reimbursement submitted by the Hospital for the period of audit. The Hospital contends that due to a budgeting error on the part of the Hospital budgeted wages were understated by one payroll period. The Hospital strongly believes that this amount should be included in audited wages. We believe that it was the Hospital's responsibility to duly inform the Department of the budgeting error at the time when the expenditure claim was adjusted by the Department.

**APPENDIX B**

**Exit Conference Report**

It is important to note that the Hospital did not file expenditure claims for the 2009 contract year until early 2010, which was sufficient time for the Hospital to recognize the budgeting error and seek corrective action via a budget modification request. As a result, no revision of the audit adjustment is deemed warranted.

**3. Administrative Charge**

The Hospital contends that its actual overhead rate substantially exceeds the rate that provided for in the County Contract. The Hospital also asserts that at minimum it should receive a rate comparable to the federally approved indirect off-site rate. However, we believe that the administrative and overhead rate provided in the 2009 contract budget was mutually agreed upon by the Department and the Hospital and that any increase should have been negotiated with the Department prior to signing the contract. Consequently, a revision to the audit report is not required.

**4. Pension Expense**

After further consideration, we agree with the Hospital's contention that actual contributions to the NSLIJ Cash Balance pension plan exceeded the amount claimed by the Hospital on the 2009 Fringe Benefit Reconciliation. Our review of the Hospital's revised methodology to allocate the NSLIJ Cash Balance pension plan expenses to eligible plan participants of the Health Center disclosed that the Hospital underreported the related allowable pension expense by \$274,592. However, since the County Contract limits total fringe benefits to a maximum of 34% of budgeted payroll, the audit adjustment necessary to allow these unclaimed pension costs will be limited to \$192,777, bringing the fringe benefit reimbursement up to contractual budget limits (\$165,604 for the Brentwood HC and \$27,173 for the Central Islip HC).

**5. Medical Insurance**

We do not agree with the Hospital's contention that our audit allowance must include the cost associated with services provided to covered Health Center employees or their covered family members at Health System facilities. Based on our review of additional documentation provided by the Hospital we found that the employee allowances for hospital services are internal charges, which did not result in the actual outlay of cash. We also found that the Hospital's analysis of 2009 Employee Health Insurance Benefit Costs includes an amount for Dental expense, which was claimed separately on the 2009 Fringe Benefit Reconciliation and therefore is not applicable. It should be noted that the Hospital's analysis allocates system wide medical and pharmacy claims by the Health Centers' percentage of covered lives. Since our audit adjustment was based on the actual medical and pharmacy claims indicated on vendor invoices as attributable to Health Center employees, which agreed to the amounts recorded on the Hospital's general ledger, no revision to the audit report is warranted.

**APPENDIX B**

**Exit Conference Report**

**6. Life Insurance, Short & Long Term Disability**

At the exit conference, the Hospital withdrew their objection to the audit finding and agreed that the original audit finding was correct. The Hospital concurred that no additional costs for Life, Short and Long Term Disability insurance were paid by the Hospital on behalf of union employees to private insurance plans and; as a result, a revision to the audit report is warranted.