



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

**Joseph Sawicki, Jr.
Comptroller**

A Limited Scope Audit of
Southside Hospital Health Centers
For the Period
January 1, 2010 through December 31, 2011

**Audit Report No. 2014-18
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 11706

Dear Ms. Moravick:

In accordance with the authority vested in the County Comptroller by the Suffolk County Charter (Article V), a limited scope audit was conducted of the Brentwood Family Health Center located at 1869 Brentwood Road, Brentwood, New York 11717 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.

A performance audit was conducted of the Health Centers administered by the Hospital for the period January 1, 2009 through December 31, 2009 (Report No. 2014-17). The audit identified material instances of noncompliance with contractual requirements and reportable internal control deficiencies which resulted in material expense adjustments, some of which were also evident in subsequent reporting periods. It was, therefore, determined that certain reported account classifications should also be subjected to audit testing for the period January 1, 2010 through December 31, 2011.

The objective of our limited scope audit was to determine whether the material instances of noncompliance with contractual requirements and reportable internal control deficiencies disclosed by our audit of the period January 1, 2009 through December 31, 2009, adversely affected the Hospital's reported account balances for the period January 1, 2010 through December 31, 2011.

With the exception of the external peer review requirement, we conducted our limited scope audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. Although our limited scope audit of the subsequent accounting periods was considerably less in scope than the audit performed for the January 1, 2009 through December 31, 2009 period, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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, 2010 through December 31, 2011 were prepared for the purpose of summarizing the audit adjustments disclosed by our limited scope audit with respect to those account balances tested, and therefore may not be a complete presentation of the Hospital's expenses in accordance with generally accepted accounting principles.

As a result of our limited scope audit procedures for the period of January 1, 2010 through December 31, 2011, it was determined that the Hospital was overpaid by Suffolk County in the amount of \$507,656 (Schedules 1 and 2, p. 13 and 14). However, it should be noted that the issuance of this report does not preclude our performing a full audit of the Hospital's Health Centers for the period January 1, 2010 through December 31, 2011, at some future date.

Respectfully submitted,

Office of the County Comptroller
Division of Auditing Services

SUMMARY OF SIGNIFICANT FINDINGS

County Funding – As a result of our audit of the period January 1, 2010 through December 31, 2011, we determined that the Hospital was overpaid \$507,656 by Suffolk County (Schedules 1 and 2, p. 13 and 14, respectively). The overpayment resulted from the disallowance of reported costs that did not provide a benefit to the Suffolk County program. In addition, the overpayment includes \$6,267 of disallowed Hospital 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. 6):

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 \$501,389 (p. 6).

Internal Controls – Our review of internal controls disclosed the following significant deficiency (p. 7):

The Hospital's review process designed to ensure the accuracy and propriety of the Fringe Benefit 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. (p. 7).

GENERAL INFORMATION

Pursuant to an Agreement (Contract) between the Suffolk County Department of Health Services (Department) and Southside Hospital (Hospital), the Hospital operated two comprehensive health care centers that are located at 1869 Brentwood Road, Brentwood, New York (Brentwood) 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.

A performance audit was conducted of the Health Centers operated by the Hospital for the period January 1, 2009 through December 31, 2009 (Report No. 2014-17). The audit identified material instances of noncompliance with contractual requirements and reportable internal control deficiencies which resulted in material audit adjustments, some of which were also evident in subsequent reporting periods. It was, therefore, determined that certain reported account classifications should also be subject to audit testing for the period January 1, 2010 through December 31, 2011.

As a result, we reviewed the Contract, the Hospital's Form 599 Expenditure Claim and the final Fringe Benefit Reconciliation for the period January 1, 2010 through December 31, 2011. We also reviewed the Hospital's collective bargaining agreements with union employees and third-party documentation supporting certain fringe benefits to ensure that similar conditions did not exist during the subsequent periods.

SCOPE AND METHODOLOGY

To accomplish the objectives as stated in the Letter of Transmittal (p. 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.
- 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 for the period January 1, 2010 through December 31, 2011.
- Verified that the total fringe benefit expenditures reported by the Hospital on the final Fringe Benefit Reconciliation reconciled to the actual fringe benefit expenditures reimbursed by the County per the Hospital's Form 599 Expenditure Claim details for the period January 1, 2010 through December 31, 2011.
- Determined the full population of payroll expense transactions associated with Resident Physicians performing services on behalf of the Hospital at the Brentwood Health Center for the period January 1, 2010 through December 31, 2011.
- Analyzed the Department's HCIS Patient Visit Details for the Resident Physicians at the Brentwood Health Center for the period January 1, 2010 through December 31, 2011 to determine if the Residents were providing a level of service to the County funded Health Centers that was commensurate with the funding of their positions.
- Reviewed the Hospital's final Fringe Benefit Reconciliation for the period January 1, 2010 through December 31, 2011 to determine if audit adjustments similar to those disclosed by our audit of the January 1, 2009 through December 31, 2009 audit period are necessary.

FINDINGS AND RECOMMENDATIONS

Compliance

Our limited scope audit disclosed the following instances of noncompliance 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 \$501,389. 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. Our audit analysis of the direct patient care services provided by the Resident Physicians to Health Center patients revealed that only 52% 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 service expenses (\$257,193 and \$244,196 for the calendar years 2010 and 2011, respectively). Since the Hospital claimed fringe benefit expenses in excess of the amount reimbursed by the County due to contractual budget limitations, audit adjustments for the related FICA expense was unnecessary.

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.

Internal Control

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

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. 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 salaries contained in the contract budget. No later than February 1st of each calendar year following the contract period, the Hospital is required to submit a final claim (Fringe Benefit Reconciliation) that reflects the actual costs of employee benefits for each Health Center. The Hospital is then reimbursed for the lesser of the actual cost of employee benefits or the contractual budget limit determined by multiplying the fixed fringe benefit percentage by total approved budgeted wages (excluding resident physicians). Although our audit disclosed that certain methodologies

utilized by the Hospital to determine the actual fringe benefit costs of Health Center employees were improper or inaccurate since the Hospital claimed fringe benefit expenses in excess of the contractual budget limit, the following significant deficiencies that were disclosed by our audit did not result in a monetary audit disallowance:

- 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 required to pay the claims submitted by health care providers and pharmacies for the actual services provided to the Health Center employees. An audit analysis performed to estimate the medical claims that were paid by the Hospital on behalf of the Health Centers' employees, net of the employee cost-share contributions for the period January 1, 2010 through December 31, 2011 disclosed that they were substantially less than the Medical expense reported by the Hospital on the related Fringe Benefit Reconciliations.
- The Cash Balance Pension Plan of the North Shore Long Island Jewish Health System directs that certain classes of employees such as Resident Physicians and part time employees are not eligible to enroll in the plan. The plan also dictates that overtime wages must be excluded from the wage base utilized to determine the Hospitals required contribution to the plan. Although the Hospital did not include these wages when determining the actual contribution to the plan, it did include these wages in the determination of reported Pension Expense on the related Fringe Benefit Reconciliations for the period January 1, 2010 through December 31, 2011. As a result, Pension Expense reported by the Hospital on the Fringe Benefit Reconciliations substantially exceeded the actual contributions made to the plan on behalf of the Health Centers' employees.
- The Hospital inappropriately reported New York State Nurses Association (NYSNA) Benefit Fund contributions that were never actually paid. We found that the purported contributions were related to employees that did not work the full year at the Health Center. Consequently, NYSNA Benefit Fund expense reported by the Hospital on the Fringe Benefit Reconciliations exceeded the actual contributions made to the fund on behalf of the Health Centers' employees.
- The 1199 United Healthcare Workers Union agreement with the Hospital required Benefit Fund contributions of 26.88% of eligible union members' gross wages for the period January 1, 2011 through December 31, 2011. However, we found that the Hospital inappropriately utilized an inflated rate (27.05%) that was erroneously prorated to reflect the number of months that the employee was employed at the Health Center when preparing the Fringe Benefit Reconciliation. As a result, although the actual contributions to the Benefit Fund were determined correctly, they substantially exceeded the related Benefit Fund

expense reported by the Hospital on the Fringe Benefit Reconciliation.

- 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. As a result, Disability and Life Insurance Expense reported by the Hospital on the Fringe Benefit Reconciliations for the period January 1, 2010 through December 31, 2011 substantially exceeded the actual insurance payments made by the Hospital on behalf of the Health Centers' employee.
- The Hospital did not report on the Fringe Benefit Reconciliations, the actual contributions made to the 403(b) pension plan on behalf of the Health Center employees. An audit analysis performed to estimate the 403(b) pension plan contributions for the period January 1, 2010 through December 31, 2011 disclosed that the Hospital substantially under reported contributions to the pension plan on the related Fringe Benefit Reconciliations.
- The 1199 United Healthcare Workers Union agreement with the Hospital requires percentage contributions to the Benefit, Training & Upgrading, Child Care and Job Security Funds based on eligible union members' gross wages. However, we found that the Hospital reported contributions to the 1199 Funds on the January 1, 2010 through December 31, 2011 Fringe Benefit Reconciliations utilizing base wages that excluded eligible overtime wages. As a result, the Hospital substantially under reported 1199 Fund contributions.
- The Hospital inappropriately claimed and was reimbursed for FICA expense associated with Resident Physician wages that were disallowed by the audit for the period January 1, 2010 through December 31, 2010. However, since the Hospital did not claim any FICA expense for the Resident Physicians for the period January 1, 2011 through December 31, 2011 this amount was offset by allowable Resident Physician FICA expense resulting in under reported FICA Expense.

Recommendation 2

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.

The Hospital corrected certain claiming errors that were disclosed by our audit of the January 1, 2009 through December 31, 2009 period. Due to an inadequate review process to ensure that reported transactions are complete, accurate and properly classified, the Hospital did not claim the Metropolitan Commuter Transportation Mobility Taxes which were paid on behalf of the Health Center's employees during the January 1, 2009 through December 31, 2009. In addition, 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 which caused the Other Than Personal Service budget line total to materially exceed its contractual maximum, resulting in numerous claimed expenses being disallowed by the Department. We notified the Hospital of these claiming errors during the course of the audit, whereby the Hospital duly instituted all necessary corrections to the Suffolk County claims in the subsequent periods.

Recommendation 3

We are pleased that the Hospital has taken steps to correct the claiming errors that were disclosed by our audit. However, we believe that the Hospital should continually strive to 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.

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 and Tri-Community Health Centers
Combining Statement of Budgeted, Reported and Audited Expenses
For the Period January 1, 2010 through December 31, 2010

<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 3)	\$ 11,083,943	\$ 10,456,468	\$ 257,193	\$ 10,199,275
	Direct Expenses - Tri-Community (Schedule 4)	424,219	403,359	-	403,359
(2)	Administrative Charge	233,227	220,081	3,215	216,866
	Total Gross Expenses	\$ 11,741,389	\$ 11,079,908	\$ 260,408	\$ 10,819,500
(3)	Less: Anticipated Savings	(433,747)	-	-	-
	Net Contract	\$ 11,307,642	\$ 11,079,908	\$ 260,408	\$ 10,819,500

See Notes to Schedules (p. 19).

Schedule 2

Southside Hospital Health Centers
Brentwood and Tri-Community Health Centers
Combining Statement of Budgeted, Reported and Audited Expenses
For the Period January 1, 2011 through December 31, 2011

<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 5)	\$ 10,784,809	\$ 10,127,306	\$ 244,196	\$ 9,883,110
	Direct Expenses - Tri-Community (Schedule 6)	191,624	189,673	-	189,673
(2)	Administrative Charge	226,580	215,966	3,052	212,914
	Total Gross Expenses	\$ 11,203,013	\$ 10,532,945	\$ 247,248	\$ 10,285,697
(3)	Less: Anticipated Savings	(461,111)	-	-	-
	Net Contract	\$ 10,741,902	\$ 10,532,945	\$ 247,248	\$ 10,285,697

See Notes to Schedules (p. 19).

Schedule 3

Southside Hospital Health Centers
Brentwood Health Center
Statement of Budgeted, Reported and Audited Expenses
For the Period January 1, 2010 through December 31, 2010

<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	\$ 7,070,697	\$ 6,641,670	\$ 257,193	\$ 6,384,477
	Fringe Benefits	2,105,536	2,105,536	-	2,105,536
	Fee For Service	1,524,423	1,423,941	-	1,423,941
	Equipment	14,300	14,199	-	14,199
	Other than Personnel Service	368,987	271,122	-	271,122
	Total Direct Expenses	<u>\$ 11,083,943</u>	<u>\$ 10,456,468</u>	<u>\$ 257,193</u>	<u>\$ 10,199,275</u>

See Notes to Schedules (p. 19).

Schedule 4

Southside Hospital Health Centers
Tri-Community Health Center
Statement of Budgeted, Reported and Audited Expenses
For the Period January 1, 2010 through December 31, 2010

<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	\$ 316,201	\$ 295,415	\$ -	\$ 295,415
	Fringe Benefits	106,945	106,945	-	106,945
	Other than Personnel Service	1,073	999	-	999
	Total Direct Expenses	<u>\$ 424,219</u>	<u>\$ 403,359</u>	<u>\$ -</u>	<u>\$ 403,359</u>

See Notes to Schedules (p. 19).

Schedule 5

Southside Hospital Health Centers
Brentwood Health Center
Statement of Budgeted, Reported and Audited Expenses
For the Period January 1, 2011 through December 31, 2011

<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	\$ 6,912,773	\$ 6,406,958	\$ 244,196	\$ 6,162,762
	Fringe Benefits	2,046,043	2,046,043	-	2,046,043
	Fee For Service	1,465,500	1,458,336	-	1,458,336
	Equipment	8,300	1,995	-	1,995
	Other than Personnel Service	352,193	213,974	-	213,974
	Total Direct Expenses	<u>\$ 10,784,809</u>	<u>\$ 10,127,306</u>	<u>\$ 244,196</u>	<u>\$ 9,883,110</u>

See Notes to Schedules (p. 19).

Schedule 6

Southside Hospital Health Centers
Tri-Community Health Center
Statement of Budgeted, Reported and Audited Expenses
For the Period January 1, 2011 through December 31, 2011

<u>Notes</u> <u>Expense Category</u>	<u>Amount</u> <u>Budgeted</u>	<u>Amount</u> <u>Reported</u>	<u>Amount Over</u> <u>(Under)</u> <u>Reported</u>	<u>Audit</u> <u>Allowance</u>
Personnel Services	\$ 143,274	\$ 141,337	\$ -	\$ 141,337
Fringe Benefits	47,863	47,863	-	47,863
Other Than Personnel Service	<u>487</u>	<u>473</u>	<u>-</u>	<u>473</u>
Total Direct Expenses	<u>\$ 191,624</u>	<u>\$ 189,673</u>	<u>\$ -</u>	<u>\$ 189,673</u>

See Notes to Schedules (p. 19).

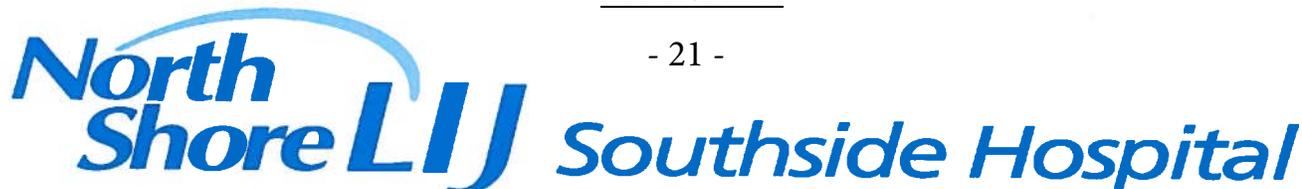
Notes to Schedules

Southside Hospital Health Centers

- (1) Basis of Accounting - The Hospital's Combining Statement of Budgeted, Reported and Audited Expenses for the contract periods ended December 31, 2010 and December 31, 2011 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 \$6,267 of the related reported administrative costs (\$3,215 for 2010 and \$3,052 for 2011).
- (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:

	January 1, 2010 through December 31, 2010	January 1, 2011 through December 31, 2011	Combined Total
Brentwood Health Center resident physician wages disallowed because they were not sufficiently evidenced by supporting documentation.	\$ 257,193	\$ 244,196	\$ 501,389

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 Counsel 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

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. 21 – 23) 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 3rd 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 below).

The Hospital raised several other issues for our consideration; however, these areas will be addressed in detail in Audit and Control's Assessment of the Auditee's response which can be seen herein. At this time, we agreed to review the additional documentation provided and contact the Hospital if further clarification was required.

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).

APPENDIX B (Cont'd)

**Audit and Control's Assessment of
Southside Hospital's Response to the Audit**

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. Administrative Charge

The Hospital contends that its actual overhead rate substantially exceeds the rate 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 2010 and 2011 contract budgets was mutually agreed upon by the Department and the Hospital and that any increase in the rate should have been negotiated with the Department prior to signing the contract. Consequently, since the audit allowed the maximum administrative and overhead expenses permitted by the Contract, no revision to the audit report is warranted.

3. Actual Fringe Benefits in Excess of 2010 and 2011 Contractual Budget Limits

The Hospital contends that actual fringe benefits paid on behalf of the Health Center employees exceed the rate of 34% of budgeted payroll required by the County Contract and has therefore requested that audited fringe benefits be adjusted accordingly. However, we believe that the contractual fringe benefit rate was mutually agreed upon by the Department and the Hospital and that any increase in the rate should have been negotiated with the Department prior to signing the contract. Consequently, since the audit allowed the maximum fringe benefit expenses permitted by the Contract, no revision to the audit report is warranted.