Nassau County
Office of the Comptroller

Limited Review of Nassau Health Care Corporation

George Maragos
Comptroller

March 29, 2011

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

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Background

Nassau Health Care Corporation ("NHCC") is a public benefit corporation created in 1997 by an act of the New York State Legislature for the purpose of acquiring and operating the health facilities of Nassau County ("County")[1]. Effective September 29, 1999, an agreement ("Acquisition Agreement") was executed whereby NHCC acquired the following:

- Nassau University Medical Center ("NUMC"),
- A. Holly Patterson Extended Care Facility ("AHP"),
- Faculty Practice Plan ("FPP"),
- Nassau Health Care Foundation, Inc. ("Foundation") and,
- Health Centers located in:
    - Elmont;
    - Freeport-Roosevelt;
    - Inwood-Lawrence;
    - Long Beach;
    - Hempstead;
    - New Cassel-Westbury; and
    - Roosevelt School-Based Programs.

The acquisition was funded through the issuance of NHCC bonds, which are insured and guaranteed by the County. Consequently, any default by NHCC of its debt servicing will likely result in the County having to assume the obligation to the debt holders.

Effective November 2007, NHCC and the County executed a successor agreement ("Successor Agreement") to clarify the services provided by NHCC to the County and establish the mechanism for payments to NHCC by the County. The Successor Agreement also provides NHCC with capital funding and is in effect until 2029.

NHCC is considered a component unit of the County and is included as a discreetly presented component unit in the general-purpose financial statements of the County ("CAFR")[2]. The Board of Directors of NHCC consists of fifteen voting and three non-voting directors. Of the 15 voting directors, eight are appointed by the New York State Governor, four by the County Legislature, and three by the County Executive. The County Executive appoints one of the voting directors as Chairman of the Board.

The non-voting directors are the Chief Executive Officer of NHCC, one individual appointed by the County Executive, and one individual appointed by the County Legislature.

Total transactions with the County in 2009 and 2008 amounted to $105.8 million and $99.9 million, respectively, as shown in the following chart:

[1] New York State Public Authorities Law, Article 10-c,Title 2,
[2] Comprehensive Annual Financial Report

	(In thousands)[3] 2009	2008
Revenue earned from the County:		
Patient care	$ 7,283	$ 6,902
Space charges	1,851	1,788
Non-patient care	24,427	24,101
Health insurance for retiree charges	7,492	7,170
Intergovernmental transfer- County	22,410	-
Grants for capital asset acquisitions-IGT	33,745	37,888
Subsidy for historical mission services	-	13,000
Article VI health center subsidies	5,000	5,000
	$ 102,208	$ 95,849
County pass-through transactions:		
Amounts paid on behalf of the County	$ 2,693	$ 3,246
State aid and other amounts collected by the County	870	849
Total transactions with the County	$ 105,771	$ 99,944

Revenue earned from the County for *patient care* is earned for services provided to various County departments and agencies, including, the Correctional Center, the Health Department, the Juvenile Detention Center, Mental Health, and the Police Department. *Space charges* are for the rental of space to County Departments, such as, the Medical Examiner, and Drug and Alcohol. *Non-patient care* is for the operation of the infirmary at the Correctional Center, and nursing services provided for Social Services. *Health insurance for retiree charges* represents the County's share of retirees' health insurance premiums for those retirees who provided service before the creation of the public benefit corporation. *Intergovernmental transfer* is a locally sponsored funding mechanism to assist certain public benefit hospitals in fulfilling their mission of providing health care services to Medicaid and the uninsured population. A portion of this funding is restricted to capital asset acquisitions and is funded by the Tobacco Master Settlement Agreement of 1998. The *Article VI health center subsidies* are subsidies given to NHCC as part of the agreement to provide medical services such as HIV screening and Tuberculosis testing; most of this subsidy is reimbursed to the County by New York State.

Since the execution of the Acquisition Agreement in September 1999, NHCC's inpatient accounts receivable aging as of 12/31/2009 listed $3,201,832 of unbilled accounts greater than 90 days. The outpatient accounts receivable aging as of 12/31/2009 listed $3,366,313 of unbilled accounts more than 90 days.

[3] Source: Notes to Consolidated Financial Statements, NHCC, years ended 12/31/09 and 12/31/08, p.30.

Audit Scope, Objectives, and Methodology

The objective of our audit was to examine the adequacy and effectiveness of the internal controls surrounding patient accounts receivable, to review the allowance for doubtful accounts, to evaluate hospital performance against key benchmark indicators, to review procurement policies, and to review internal controls related to employee overtime.

We also reviewed for compliance with the Acquisition Agreement as it related to severance payments to employees. Finally, we reviewed fleet management policies.

The period audited was the year 2009 through June 30, 2010.

The audit was planned and performed to obtain reasonable assurance that the audit information is free of material misstatements. An audit includes examining documents and other available evidence that would substantiate the accuracy of the information tested, including all relevant records and contracts. It includes testing for compliance with applicable laws and regulations, and any other auditing procedures necessary to complete the examination. We believe that this audit provides a reasonable basis for the audit findings and recommendations.

Summary of Significant Findings

NHCC's Aging of its Accounts Receivable as of 12/31/2009, showed Unbilled Patient Services and Lost Gross Charges of $3.5 million to $6.5 million, Resulting from Pre-billing Errors and Missing Patient Registration Information

NHCC's aging of the accounts receivable dated 12/31/2009 included total unbilled inpatient and outpatient gross charges of $6,568,145. These charges represent accounts receivable that have not been billed to insurance providers or patients due to pre-billing errors and missing patient registration information.

The failure to correct the patient information in a timely manner results in failure to issue the invoices and the unrecoverable charges. On 12/31/2009 from the Aged Receivables, we found $3.5 million and possibly as high as $6.5 million in unrecoverable gross charges. This outcome highlights the serious failure to properly supervise and correct in a timely manner pre-billing errors.

Inpatient Pre-Billing Errors Resulted in the Loss of Gross Charges Amounting to at least $2.5 million By the End of 2009.

Our review of six months of inpatient pre-billing reports identified 108 inpatient stays with gross charges totaling $1,493,583, which had billing errors that were not corrected in a timely manner, and as a result, remained in an unbilled status.

The objective of our review was to determine if the reports generated by management to address pre-billing errors were being used effectively and efficiently, and whether errors were being corrected in a timely manner, which we defined as within three months of the report date.

We then looked at the Aged Receivables to determine the total lost revenues from unrecoverable billings. We assumed that unbilled receivables of 90 or more days on the Aged Receivables would not be reimbursed by insurance as untimely billing. The total estimated amount of unrecoverable billing on 12/31/2009 was found as $2,551,294. This amount excludes Medicaid and Medicare accounts under two years, and "self pay" accounts which remained more than 90 days unbilled and which may or may not still be recovered.

Outpatient Pre-Billing Errors Resulted in the Loss of Gross Charges of $934,280 Through the End of 2009

NHCC's electronic charge entry system called Medaptus failed to remedy pre-billing errors. NHCC failed to ensure that its billing and reporting system called Eagle was fully compatible with Medaptus. Physicians did not enter the required data into Medaptus in a timely fashion.

The total dollar value of the unbilled open visits for outpatient services for the periods January 2010 – April 2010 and January 2009 – April 2009 were $7,215,157 (representing 8% of total visits) and $706,969 (representing 2% of total visits), respectively, indicating that the unbilled charges actually increased after the May 2009 implementation of the Medaptus system.

We then looked at the Aged Receivables to determine the total lost gross charges from unrecoverable billings. We assumed that unbilled receivables of 90 or more days on the Aged receivables would not be reimbursed by insurance as untimely billing. The total estimated amount of unrecoverable billing was found as $934,280. This amount excludes Medicaid and Medicare under two years, and "self pay" accounts which remained more than 90 days unbilled and which may still be recovered.

Management's Effectiveness In Controlling Pre-Billing Errors Worsened From 2009 To 2010

NUMC management was not effectively using the *Missing Data/Element* report to reduce the number of patient registration errors. The *Missing Data/Element* report is generated on a weekly basis and identifies outpatient accounts that have missing data that was not entered during patient registration. We compared the number of registration errors occurring during the period January 2009 to April 2009 with the number of registration errors occurring during the period January 2010 to April 2010. We determined that even though the number of outpatient visits decreased in the 2010 period compared to the 2009 period, the number of patient registration errors increased from 1.45% in the 2009 period to 2.05% in the 2010 period.

Contracts Were Awarded Without Competitive Bidding and With a Possible Conflict of Interest

Contracts Were Awarded Without Use of the Competitive Bidding Process

In May 2009, NHCC management entered into a $250,000 contract with Deloitte & Touche Consulting, Inc. (“D&T”) for the term May 2009 through August 2009, to provide a comprehensive assessment and analysis of NHCC’s financial and operational performance. This contract was procured through the competitive bid process, and was amended with D&T four times.

Four amendments to the original May 2009 contract with D&T were for new services. These additional services were not procured through the competitive bidding process in accordance with NHCC’s policy for contracts above $50,000, and they represented services that were outside the scope of the original contract. NHCC may not have received the best price for the services as the competitive bidding process was circumvented.

Contracts Were Awarded With A Possible Conflict of Interest:

We noted that NHCC management negotiated contracts with its consultants outside of the competitive bidding process, awarded a contract that resulted in a conflict of interest, and paid contingency fees based upon consultant estimates without verifying those estimates.

Based upon D&T’s assessment and analysis NHCC implemented a denial management system, which it purchased from D&T without the benefit of a competitive bidding process. Since the denial management system was purchased based upon D&T’s assessment, this represents a potential conflict of interest. In addition, we found no evidence that NHCC management performed an independent analysis of D&T’s assessment.

Contingency Fees Were Paid to A Consultant Without The Required Support

NHCC pre-paid $550,000 in contingency fees to its consultant prior to any financial improvement achieved from NHCC’s use of the consultant’s software, Denial Management Tool (“DMT”).

The lack of data provided by the DMT makes it impossible to determine the financial improvement attributable to the DMT, which is the basis for the contingency fees paid to the consultant, D&T.

The contingency fees that are to be paid to D&T will be based upon complex estimated benefit formulas calculated by D&T itself. In interviews with the Medicaid Billing Director and Patient Accounts Supervisors who are responsible for overseeing the usage of the DMT, they indicated that they were not aware of the method used by D&T to calculate the contingency fees.

NHCC Violated Its Personal/Procurement Policy

Our audit noted a lack of compliance with the procurement policy established by NHCC. In addition, there was no process in place to monitor that the procurement policy was being followed.

In August 2002, NHCC instituted a pre-contract process to track procedural compliance for all professional service contracts, called the LD200. The LD200 is an electronic routing slip that documents authorization to proceed in the negotiation process and accompanies a contract through each phase of the approval process.

We selected a sample of 15 professional service contracts from a list of 2009 contracts totaling $291.7 million. We reviewed the contract files for compliance with NHCC policy and pre-approval procedures to ensure that the there was competitive bidding prior to selecting the vendor, when required, and that the LD200 routing evidenced proper authorization and approvals. Our review noted six contracts with exceptions.

<u>Payment Vouchers Were Approved and Paid Without Complete Information or Adequate Supporting Documentation</u>

During our audit we identified payment vouchers that were missing adequate supporting documentation, that were not properly completed, and payments that did not comply with contract terms.

We reviewed a sample of 48 payment vouchers from a list of active 2009 contracts that were associated with invoices for the purchase of goods and services, and professional services. Nineteen of the 48 payment vouchers related to the purchase of goods and services. Twenty-nine related to professional service contracts.

We identified 15 of the 19 payment vouchers that were related to the purchase of goods or services that were missing information including purchase order numbers, "three way match types" (invoice to purchase order to receiving report), general ledger account numbers, and department head signatures. Three of the 19 payment vouchers did not have adequate supporting documentation, and two of the 19 payment vouchers were not properly approved.

Of the remaining 29 payment vouchers totaling $2,415,412 relating to professional service contracts, we noted 13 exceptions.

<u>The NHCC Board Approved Procurement Policy For Legal Services Is Flawed and May Have Resulted in a Conflict of Interest and Improperly Charged Legal Services</u>

Rates charged for legal services on two invoices were inconsistent with the rates agreed upon as per the contract with NHCC.

We reviewed 29 payment vouchers totaling $2,415,412 that related to professional service contracts. Two of the 29 invoices reviewed pertained to legal services provided by the firm of Abrams, Fensterman, Flowers, Greenberg & Eisman, LLP for the A. Holly Paterson Extended Care Facility.

Our review of the two invoices, one for 2009 in the amount of $10,587 and the other in 2010 for $5,383, determined that the hourly rates invoiced for legal services incurred did not comply with the Tier II rates as per the contract.

We estimated that NHCC was overcharged $448 on the invoice that totaled $5,383 ($1,678 of which represented hourly charges) and was overcharged $189 on the invoice that totaled $10,587 ($2,565 of which represented hourly charges).

Formal Policies and Procedures for Capital Budgets Are Lacking, Which Resulted in Unsupported Expenditures for Capital Projects and Legal Expenses

Our audit noted that there was no supporting documentation to determine how two budget line items were estimated. In addition, while we noted that written policies and procedures for the development of the Operating Budget exist, there was a lack of written policies and procedures for the development of the NHCC Capital Budget.

During our audit, we noted that there was no written policy or procedures dictating under what assumptions the capital budget should be computed, or how it should be reviewed and approved.

The Finance Department was not able to provide us with supporting documentation explaining how budgeted amounts were arrived at for two of 15 items selected; these were the Information Technology Capital Budget of $8 million and the Legal Expense Operating Budget item for $6.5 million.

Poor Management of Non-Medical Employees Resulted In Excessive Overtime Work

Our audit identified employees at NHCC working excessive amounts of overtime of up to 117% of their base pay. In addition, we noted instances where employees approved their own overtime.

We reviewed and analyzed the NHCC 2009 W-2 report and noted that there were approximately 1,239 non-medical employees within its 310 departments. Of the 1,239 non-medical employees at NHCC, we found 34 that were paid overtime equivalent to more than 30% of their 2009 base pay. The 34 employees earned a total of $811,230 in overtime in 2009.

Our analysis of overtime paid to non-medical employees at NUMC revealed that six of the 157 departments were responsible for 60% or $1,297,868 of the $2,067,930 of total overtime paid by NUMC in 2009.

We noted that the employees were able to amass these extraordinary amounts of overtime by working excessive hours and working on days they were not scheduled.

The Comptroller's Office Identified Two Employees Which Were Promoted To and Functioned In Titles Outside of Their Civil Service Titles

We selected the personnel files of 16 employees whose job titles and duties are classified by the Nassau County Civil Service Department and were included in the bargaining unit. We then interviewed 15 of the 16 employees (one had retired), in order to gain an understanding of their job duties. The duties were then compared to the Nassau County Civil Service job specifications. Based upon our interviews and our review of the personnel files of the employees, we concluded that two of the 15 employees were promoted and functioning in titles outside of their civil service titles. We also determined that NHCC is using overtime and other pay to compensate these employees.

NHCC Overcharged Nassau County for Billing of Termination Pay $47,828

As part of the Acquisition Agreement between the County and NHCC the County is responsible for the portion of the retirement and termination pay for personnel who were employed by the County prior to the Acquisition Agreement. According to the Agreement, this expense is to be pro-rated between the County and NHCC based upon the number of days of service prior to the Acquisition Agreement date.
On an annual basis, NHCC invoices the County for its portion of the termination pay.

We reviewed two invoices from NHCC for the period from 2/15/2009 to 2/13/2010, invoice numbers 5310 and 5186 for $1,864,749 and $233,991, respectively, submitted to the County for reimbursement of payments made to severed employees.

The review of the invoices revealed that the County was overbilled for termination pay and FICA expense of $44,612 on invoice 5310, and $3,217 on invoice 5186.

Inadequate Payroll Procedures Resulted in Underpayment of Vacation and Sick Leave Severance to Employees

The Acquisition Agreement required that NHCC make full and timely payment of all salaries, compensation and benefits earned for time and services provided in accordance with any labor agreement. NHCC is responsible for the payment of vacation and sick leave at the rate of pay applicable to the value of such days as of the date of separation from NHCC service and increased thereafter to the date of payment by the cumulative applicable base wage increases contained in the collective bargaining agreements.

Our audit noted that NHCC did not have adequate procedures in place to ensure that severed employees were paid at the correct rate each year.

Our review of the two invoices billed to the County for termination payments made to NHCC employees from February 2009 thru February 2010 revealed that 14 employees were underpaid their severance pay. The underpayment amounted to $25,030.

A Privately-Owned Vehicle Was Allowed To Fuel at A. Holly Patterson's Depot Without Written Authorization or Supporting Documentation to Account for Business Use

A Vice President ("VP") of NHCC fueled his personal vehicle at the AHP nursing home facility. For the period reviewed, we noted that 992 gallons of fuel were pumped into the VP's vehicle.

We performed a review of the fuel logs maintained at AHP's Public Safety Office for the period January 2009 thru August 2010 to determine whether only authorized vehicles were being fueled at the fuel depot. Our review revealed 20 vehicle plate numbers that were not on the list of authorized vehicles, including one private license plate number belonging to a VP of NHCC.

NHCC Management Allowed Unauthorized Vehicles and Drivers to Fuel Vehicles

Unauthorized vehicles are fueling at AHP's fuel depot. In addition, we noted that drivers who were not authorized by management used NHCC fleet vehicles. NHCC management is not enforcing its fueling procedures, which allows the system to be circumvented.

We performed a review of the fuel logs maintained by AHP's Public Safety Office for the period January 1, 2009 through August 24, 2010 to determine whether only authorized vehicles (as indicated on the list of vehicles provided to us by NHCC management) were being fueled at the depot. Our review revealed 121 entries where the vehicle license plate number recorded on the fuel log was not on the list of authorized vehicles, or was recorded incorrectly. Within the 121 entries, we identified 14 license plates that were not on the authorized vehicles list. A total of 1,293 gallons of fuel was pumped into these vehicles during the period. The drivers for eight of these vehicles were not listed on the Schedule of Authorized Drivers provided to us by NHCC management.

Fuel Inventory at A. Holly Patterson Was Not Monitored to Safeguard Against Theft or Ground Contamination Which May Result From Leaking Tanks

Based upon our review, there appeared to have been an over 300-gallon shortage of the fuel inventory maintained at the AHP fuel depot tank during the audit period.

We tested five periods of fuel inventory and found fuel inventory shortages. The calculated balances of ending inventory for four of the five periods tested did not agree with dipstick readings taken at the end of each period. The balances reflected a shortage of 324.4 gallons.

AHP management did not perform a reconciliation of the fuel inventory. In addition, according to AHP management, the fuel log and Gas Reports were not reviewed by supervisors for oversight purposes.

Table of Contents

<u>Audit Finding (1):</u>

<u>As of 12/31/2009, Accumulated Pre-Billing Errors and Missing Patient Registration Information Resulted in the NHCC having Unbilled Patient Services and Lost Gross Charges of $3.5 to $6.5 million.</u>

NHCC's primary billing and reporting system is the American Health Ware – Eagle System ("Eagle"). This system processes all inpatient and outpatient billing and related information. Three sub-systems interface billing information into Eagle. They are:

- Medaptus, which is used by the physicians to input outpatient billing information for physician charges;
- Eclipsys which is used to record charges for the diagnostic laboratories and pharmaceuticals; and
- Misys, which is used to input charges related to radiological services.

Eagle generates an invoice approximately 5-10 days after a patient visit or discharge date. The lag time is to ensure that all charges are included in the original invoice.

There are system controls in Eagle that prevent patient invoices from being generated from the system if pertinent information or data is missing. However, the Aged Receivable is updated to show the account as a receivable.

On a daily or weekly basis, reports are generated from Eagle that detail the patient accounts having missing or incorrect data. These reports are sent to the various billing departments responsible for the correction of errors that delay patient billing. These exception reports include the *Hospital General Verification File Report*, the *Inpatient Billing Delay Listing*, *Missing Data/Element Report* and the *Open Visit Report*. These reports identify, by code, the type of error or missing data that is preventing the system from generating a patient invoice.

The failure to correct the patient information in a timely manner results in failure to issue the invoices and the unrecoverable charges. On 12/31/2009 from the Aged Receivables, we found over $3.5 million, and possibly as high as $6.5 million in unrecoverable gross charges. This outcome highlights the serious failure to properly supervise and correct in a timely manner pre-billing errors.

NHCC's aging of the accounts receivable dated 12/31/2009 included total unbilled inpatient and outpatient gross charges of $6,568,145. These charges represent accounts receivable that have not been billed to insurance providers or patients due to pre-billing errors and missing patient registration information.

Untimely billing (more than 90 days) usually results in insurance reimbursement denials. We estimated that of the $6,568,145 of unbilled gross charges, $3,485,575 ($2,551,294 inpatient, $934,280 outpatient) to be unrecoverable due to untimely billing. Medicaid and Medicare gross charges are still recoverable after 90 days for up to two years. The $3,082,570 remaining unbilled gross charges that are still recoverable are for Medicaid and Medicare accounts under two years, self-pay accounts, and other financial classes that allow more than 90 days for billing. Lastly, we tested for management response to these reports to improve on pre-billing errors and reduce the potential for unrecoverable gross charges.. We actually found that the problem increased from 2009 to 2010. The patient registration errors increased from 1.45% to 2.05%.

The methods used during the audit to determine the potential revenue losses and the management and system practices that appear to have contributed to these losses are discussed below. They are divided into three sections, Inpatient Pre-Billing Errors, Outpatient Pre-Billing Errors and Management Effectiveness.

a) Inpatient Pre-Billing Errors Were Not Effectively Corrected on a Timely Basis Resulting in Accumulated Gross Charges Loss of At Least $2.5 million by 2009 Year End

We reviewed six months of the *Hospital General Verification File Report* and the *Inpatient Billing Delay Listing (*dated January 2009 through March 2009 and October 2009 through December 2009). The *Hospital General Verification File Report* also identifies the departments that need to investigate the errors and make the necessary corrections. These departments include Patient Accounts, Medical Records, Patient Access, Information Technology, Reimbursement and Utilization Review. The types of billing code errors identified in these reports include Financial Class Not Valid, CDC Charge Code, Required Medical Records Data Not Available, Managed Care Account Error and Principal Diagnosis Code Missing.

The objective of our review was to determine if the reports generated by management to address pre-billing errors were being used effectively and efficiently, and whether errors were being corrected in a timely manner, which we defined as within three months of the report date. From the six months of reports reviewed, 108 inpatient stays with gross charges[4] totaling $1,493,583 were not corrected in a timely manner. These stays were also included on the unbilled accounts receivable aging report as of 12/31/09. We estimated that $1,026,305.[5] of these gross charges to be unrecoverable.

The table below illustrates the types of pre-billing errors noted for the 108 inpatient stays for the six-month period selected for testing that were not corrected in a timely manner:

[4] Gross Charges relate to the cost of providing care to the patient. It is not the same as the payments Nassau University Medical Center ("NUMC") would receive from the insurance company, since reimbursement rates are based on contractual agreements and New York State.
[5] $1,493,583 reduced by Medicaid and Medicare gross charges less than two years old, and self-pays.

Type of Error	No. of Visits	Estimated Charges	No. of Months on Report
Financial Class Not Valid	1	$6,066	3 months
Principal Diagnosis Code Missing	23	$198,191	3 months
	1	$1,477	10 months
	6	$44,339	11 months
	61	$1,104,778	12 months
Required Medical Records Data Not Available	1	$33,539	12 months
CDC Charge Code	5	$64,881	12 months
Managed Care Account Error	1	$3,058	9 months
	9	$37,254	12 months
Total	108	$1,493,583	

We determined that management did not effectively and efficiently utilize the controls in place to reduce and correct errors on a timely basis. Patient invoices containing errors cannot be billed to the responsible parties because the system controls prohibit the creation of invoices when key fields are missing. Since insurance carriers have time limits for submitting claims based on contract provisions with NUMC, the untimely error corrections resulted in significant lost revenue to NUMC.

We then looked at the Aged Receivables to determine the total lost gross revenues from unrecoverable billings. We assumed that unbilled receivables of 90 or more days on the Aged Receivables would not be reimbursed by insurance because of untimely billing. The total estimated amount of unrecoverable billing on 12/31/2009 was found as $2,551,294. This amount excludes Medicaid and Medicare accounts under two years and "self pay" accounts which remained more than 90 days unbilled and which may or may not still be recovered.

b) Outpatient Pre-Billing Errors From Incorrect Systems Implementation and Usage Resulted in Accumulated Gross Charges of $934,280 Through Year End 2009

There was a significant increase in outpatient pre-billing errors due to the inadequate implementation and incorrect use of the electronic charge system designed to alleviate the number of outpatient pre-billing errors.

In May 2009, NHCC management implemented an electronic charge entry system called Medaptus. This system was implemented to remedy pre-billing errors and to decrease the clerical workload of the input process. The system allows physicians to input information, such as Evaluation and Management Codes ("E&M") that are necessary to generate outpatient invoices. The E&M codes identify the type of visit (i.e., initial or revisit) and the level of care the patient received. Once the codes are entered into Medaptus, the visit is closed out. The E&M codes are automatically transferred into Eagle for billing the patient visit. Eagle will not generate an invoice until the visit is properly closed and the billing lag period (5-10 days) has passed.

We reviewed the *Open Visit Report* for the period from January 2009 to April 2009, which was before the implementation of Medaptus, and for the period January 2010 to April 2010, which was after its implementation. The purpose of the review was to evaluate NHCC management's response to the potential for loss revenues due to delayed billing, and the effectiveness of their response. Our review and evaluation revealed the following.

- NHCC failed to ensure that the existing Eagle system was fully compatible with the newly implemented Medaptus system. NHCC did not completely update its charge master codes in the Eagle billing system, which are used to determine the amount to be billed for each patient service provided, to match the codes in the newly implemented Medaptus system. Resulting in an increase in the number of errors that caused patient accounts to be unbilled.
- Physicians did not enter the required data into Medaptus in a timely fashion. They were trained to enter the patient billing information and close the visits in Medaptus after each patient visit. However, some doctors waited until the end of the workday to input the patient visit information. This resulted in incomplete information for some patients, while other patients seen were omitted altogether. The Medaptus system currently does not have a control that tracks when the patient billing information codes are entered and when the visits are closed. Management was not able to identify which doctors were not updating their records in a timely manner. These errors contributed to the large number of unbilled patient visits.

The total dollar value of the unbilled open visits for outpatient services for the periods January 2010 – April 2010 and January 2009 – April 2009 were $7,215,157[6] (representing 8% of total visits) and $706,969 (representing 2% of total visits), respectively. This indicates that the unbilled charges and the percentage of visits that remained in open status (unbilled) actually increased after the May 2009 implementation of the Medaptus system. Of the $706,969 in unbilled charges for the 2009 period reviewed, we estimated $204,555[7] to be unrecoverable.

In addition, a number of outpatient visits did not have any charges associated with them because of missing information. In fact, before implementation of Medaptus, 29% of outpatient open visits were missing charges, however, after implementation, 46% of outpatient open visits contained no charges or dollar amounts. Lost revenue may increase

[6] Includes all categories of financial classes, such as Medicaid and self-pay.
[7] This represents the $706,969 cited above reduced by Medicaid, Medicare and self-pay.

once charges are added to these outpatient visits and insurance reimbursement is denied due to untimely billing.

We then looked at the Aged Receivables to determine the total lost gross charges from unrecoverable billings. We assumed that unbilled receivables of 90 or more days on the Aged receivables would not be reimbursed by insurance as untimely billing. The total estimated amount of unrecoverable billing was found as $934,280. This amount excludes Medicaid, Medicare and "self pay" accounts which remained more than 90 days unbilled and which may still be recovered.

c) Management Effectiveness to Control Pre-Billing Errors Worsened from 2009 to 2010

The *Missing Data/Element* report is generated on a weekly basis and identifies outpatient accounts that have missing data that was not entered during patient registration. The report is used to identify exceptions that need to be rectified and it is also used as a training tool for staff to reduce the number of registration errors. The types of errors and missing information the report identifies are:

- Incorrect information on the Electronic Medicaid Eligibility Verification on patient Medicaid accounts;
- Insurance Questionnaire not used;
- Incomplete address;
- Attending doctor is a student;
- Missing attending doctor code;
- Marital status missing; and
- Missing financial class-patient insurance.

For some errors, the Eagle billing system does not generate a patient invoice until all of the required information is entered, while for other errors, an invoice will generate but will result in a denial when it is submitted to an insurance carrier for payment.

We conducted a review of the *Missing Data/Element* report for the periods January 2009 to April 2009 and January 2010 to April 2010. Some of the accounts listed on the report did not contain charges because they were missing pertinent registration information needed to generate a bill. Our review revealed that NUMC management was not effectively using the report to reduce the number of registration errors. We determined that, even though the number of outpatient visits decreased by 9% (or 10,187 visits) from the January 2009 to April 2009 period to the January 2010 to April 2010 period selected for testing, there was an increase in the number of patient registration errors from 1.45% to 2.05%, respectively. Consequently, the problem, which was serious in 2009, appears to be worsening with potential for greater revenue losses during 2010 resulting from untimely billing due to errors and missing information during the registration process.

Audit Recommendations:

NHCC management should ensure that:

a) all NUMC departments responsible for correcting inpatient pre-billing errors use the *Hospital General Verification Code File Report* and the *Inpatient Billing Delay Listing* to identify and correct all pre-billing errors on a timely basis, in order to bill the correct patient services and record the corresponding gross charges;

b) the registration staff is properly trained in the registration process for outpatient care, and in using the *Missing /Data/Element Report*;

c) managerial oversight of pre-billing errors and outpatient registrations be improved for more timely resolution of open visits and unbilled accounts;

d) procedures are established to ensure that physicians enter all outpatient visits and required information into Medaptus at the end of each visit to ensure that all patient visits are captured and subsequently billed; and

e) all charge master codes in Eagle are updated regularly in a timely manner to ensure compatibility with the Medaptus codes.

Audit Finding (2):

Contracts Are Awarded without Competitive Bidding and Possible Conflict of Interest

a) Contract Awards Without Competitive Bidding

We noted that NHCC management negotiated contracts with its consultants outside of the competitive bidding process, awarded a contract that resulted in a conflict of interest, and paid contingency fees based upon consultant estimates without verifying those estimates. The contracts awarded were in the form of amendments to an original contract, unrelated and outside the scope of the original contract.

In May 2009, NHCC management entered into a $250,000 contract with Deloitte & Touche Consulting, Inc. ("D&T") for the term May 2009 through August 2009, to provide a comprehensive assessment and analysis of NHCC's financial and operational performance. This contract was procured through the competitive bid process and was amended with D&T four times. Each amendment's purpose, term, and agreed upon fees are detailed below:

- Amendment #1, dated August 2009 and for the term May 2009 through July 2010, was to assure due diligence in NHCC's efforts to acquire New Island Hospital. The contract's base fee was agreed as $180,000 plus out-of-pocket expenses not to exceed $18,000.
- Amendment #2, dated September 2009 and for the term May 2009 through July 2010, was to provide services for the review of NHCC's Medicaid

Reimbursement Detox Rate Appeals. The agreed upon fees could range from $300,000 to $400,000, depending on the value of the rate of appeals. Medicaid Reimbursement Detox Rate Appeals pertain to appeals of per diem rates issued by the New York State Department of Health for inpatient medically managed detoxification and medically supervised inpatient withdrawal.

- Amendment #3, dated October 2009 and for the term May 2009 to August 2012, was for the implementation of a Denial Management Tool ("DMT") for a fee of $250,000 plus out-of-pocket expenses. In addition to the implementation fee, the Amendment provided for contingency fee payments[8] to D&T, which were based on 20% of every $1 of project-related financial improvement achieved from the use of the DMT, up to a maximum of $3,240,000. NHCC also paid D&T a $75,000 annual subscription fee[9] for the DMT system, which was developed by D&T.
- Amendment #4, dated October 2009, and for the term May 2009 through August 2012, was for Information Technology planning and contract negotiation assistance with Allscripts, with a base fee not to exceed $250,000. NHCC selected Allscripts to implement its electronic health records for the Emergency Department and for its ambulatory information system.

As of May 2010, NHCC had paid D&T $1,653,851[10], which included $297,769 in out-of-pocket expenses.

In addition to the original May 2009 contract mentioned above, NHCC management also awarded four contracts for new services to D&T in the form of Amendments 1, 2, 3, and 4 to the original agreement. These additional services were not procured through the competitive bidding process in accordance with NHCC's policy for contracts above $50,000, and they represented services that were outside the scope of the original contract. NHCC may not have received the best price for the services as the competitive bidding process was circumvented.

b) Contract Awarded With Possible Conflict of Interest

In accordance with the terms of the original May 2009 contract, D&T issued a report with the following assessment of, and recommendations for, NHCC's denial resolution process.

Assessment and Analysis:

- D&T claimed that there were opportunities for improvement, valued at $1.6 million to $2.3 million in net annual revenue opportunity in inpatient denials.
- $6.3 million in outpatient denials and a denial rate of 16.7%, which exceeds the standard denial rate of 4 to 5%. It claimed that there was an opportunity to prevent

[8] The Amendment termed these "incentive fees".
[9] NHCC signed a three-year subscription agreement.
[10] This amount also includes $0.55 million in incentive fee periodic interim payments in addition to the contract and amendment amounts.

fatal denials[11], and estimated the revenue opportunity to prevent non-fatal denials[12] at $2.1 million annually.

Based upon its assessment and analysis, D&T made the following recommendations to NHCC management:

- There should be more timely resolution and prevention of non-fatal denials;
- Management should make more use of reports and work queues (which are electronic lists of denials) to identify systematic issues or trends in order to reduce future errors; and
- Workflow associated with denials should be distributed to revenue cycle departments in order to work (do what is necessary to have errors or missing information corrected) outstanding claims for payment.

We found no evidence to indicate that NHCC management performed any independent review of D&T's assessment to determine if its recommendations were feasible. In response to these recommendations made by D&T, NHCC management implemented a denial management system. However, instead of procuring the contract for a denial management system through the competitive bidding process, such as a Request for Proposal ("RFP") process, NHCC awarded the contract to D&T in the form of Amendment #3.

NHCC procurement policy requires that all professional service contracts above $50,000 be procured through the competitive bidding process. NHCC also entered into a three-year subscription contract with D&T for the DMT for $75,000 per annum. This may be construed to represent a conflict of interest, since the consultant was awarded the contract based upon the consultant's assessment and recommendations, without the benefit of a RFP process.

Audit Recommendations:

NHCC should:

a) comply with its procurement policy to ensure that all contracts greater than $50,000 are procured through a competitive bidding process, particularly where there may be an appearance of a conflict of interest; and

b) cease its practice of amending existing contracts when entering into agreements for new services. New services should be procured through a competitive bidding process, such as a RFP to ensure that services are contracted for at competitive pricing.

Audit Finding (3):

Contingency Fees Paid to Consultant Without Required Support

[11] Fatal denials are denials that have a 1% chance of being rectified and the corresponding revenue recovered.

[12] Non-fatal denials are denials that can be rectified and the corresponding revenue recovered.

NHCC pre-paid $550,000 in contingency fees to its consultant prior to any financial improvement achieved from NHCC's use of the consultant's software, DMT.

In December 2009, NHCC purchased the DMT software as part of Amendment #3 of the D&T Consulting contract (see Audit Finding (2b), Contract Awarded with Possible Conflict of Interest). The DMT is a software package designed to manage NHCC's billed patient charges that were denied payment by insurance carriers, by sorting the denials into work lists by each employee who is responsible for managing the denials and rectifying the reason for the denial. Information regarding denied charges is transmitted to the DMT through electronic remittance reports from the insurance carriers. These reports list details of patient accounts that were denied payment and the reasons for the denials.

We also noted that the provisions of Amendment #3 called for the pre-payment of $550,000 of the contingency fees. The pre-payment was to be made in four monthly installments of $137,500 during the first four months after signing the Amendment. As of the completion of our fieldwork in June 2010, no payments had been paid to D&T other than the initial pre-payment of $550,000.

In order to determine the basis for the contingency fees paid to D&T, we reviewed productivity reports produced by the DMT and interviewed employees assigned to use the DMT. We found the following:

- The DMT does not rectify the reason for the denials or assist in rectifying the denials; it only tracks and sorts the denials in a manner that can be disseminated to the employees responsible for reviewing the denials;
- The actions required to rectify the patient accounts must be completed in NHCC's Eagle patient accounts receivable system and then the DMT must be updated to reflect what was done;
- Some employees do not use the DMT and instead rectify the denial based on information provided by the insurance carriers' remittance reports, and then update the DMT to reflect their actions; as a result the DMT is credited with rectifying the denial even though it was not even used;
- The DMT productivity reports are misleading because they designate denials as "closed" accounts that were only closed by one employee and then transferred to another employee for further follow-up; the reports could not identify what accounts were actually corrected and re-billed to the insurance carriers;
- Once a denial has been rectified, it is removed from the DMT without quantifying the dollar value of the denial that was rectified.

The lack of data provided by the DMT makes it impossible to determine the financial improvement attributable to the DMT, which is the basis for the contingency fees paid to the consultant, D&T.

The contingency fees that are to be paid to D&T will be based upon complex estimated benefit formulas calculated by D&T itself. In interviews with the Medicaid Billing

Director and Patient Accounts Supervisors who are responsible for overseeing the usage of the DMT, they indicated that they were not aware of the method used by D&T to calculate the contingency fees.

Audit Recommendations:

NHCC management should:

a) not make any contingency fee payments to D&T until NHCC management has verified the accuracy of claimed financial improvement derived from the DMT, and, if deemed necessary, request a refund of unearned fees; and

b) reconsider agreeing to any future contingency fee arrangements without clear definitions of the feasibility of implementing the improvements and measuring the benefits.

Audit Finding (4):

NHCC Violated its Personal/Professional Procurement Policy

Our audit noted a lack of compliance with the Personal/Professional procurement policy established by NHCC. In addition, there was no process in place to monitor that the procurement policy was being followed.

In August 2002, NHCC instituted a pre-contract process to track procedural compliance for all professional service contracts, called the LD200. The LD200 is an electronic routing slip that documents authorization to proceed in the negotiation process and accompanies a contract through each phase of the approval process. It also establishes the limit on the negotiated maximum amount of the contract. The final dollar value of a contract agreement is usually less than its limit. Before a contract is negotiated, different departments, including NHCC's Budget Office, are required to sign-off on the LD200.

According to the NHCC Procurement Policy[13], contracts for personal or professional services in excess of $50,000 but less than $250,000 require the approval of the Contracts Committee of the Board of Directors. Contracts in excess of $250,000 require the approval of the full Board.

We selected a sample of 15 professional service contracts, including five contracts of $50,000 or less, five contracts of greater than $50,000 but less than $250,000, and 5 contracts of greater than $250,000. The sample was selected from a list of 2009 contracts totaling $291.7 million, which was prepared by NHCC management for submission to New York State Division of Budgets.

We reviewed the contract files for compliance with NHCC policy and pre-approval procedures to ensure that the there was competitive bidding prior to selecting the vendor, when required, and that the LD200 routing evidenced proper authorization and approvals. Our review noted six contracts with exceptions:

[13] NHCC Procurement Policy, Section D: Contracts for Personal/Professional Services.

- two contracts without the required approvals in the LD200, including one contract for $5.75 million that was missing approval by the NHCC Budget Office, and one contract for $148,363 that was missing all of the required approvals;
- one contract for $18,000 where the LD200 was completed on 6/3/2009 but the contract was signed on 5/21/2009. The procedures required that the LD200 be prepared and approved before the contract is signed;
- one contract in the amount of $5,988,252, with Eclipsys for system programming, did not have a RFP or public legal notices on file; and
- one contract in the amount of $531,800, with Medaptus for electronic medical billing did not have public legal notices on file.

There was no process at NHCC to review contract files for completeness. The lack of proper department approvals, adequate evidence to support that the contracts were competitively bid, and documentation that the public was notified of the bid process, increased the risk that contracts were not procured in a competitive manner and the services obtained by NHCC were at the best possible prices.

<u>Audit Recommendations:</u>

NHCC management should:

a) establish a process to review all contracts and contract files for completeness including assurance that no contracts are signed until all documentation files are reviewed, and evidence of that review is documented and retained, perhaps by using a checklist. Further, this process should be documented in NHCC's policy and procedures for the procurement of professional services contracts; and
b) comply with its policy and procedures for the procurement of professional service contracts.

The Board of Directors should conduct a full review and investigation to determine why the contract pre-approval process was not followed.

<u>Audit Finding (5):</u>

<u>Payment Vouchers are Approved and Paid Without Complete Information or Adequate Supporting Documentation</u>

During our audit, we identified payment vouchers that were missing adequate supporting documentation, that were not properly completed, and payments that did not comply with contract terms.

When departments receive a vendor invoice, a payment voucher is completed, signed by the department head and attached to the invoice. Also attached to the payment voucher is other supporting documentation such as blanket purchase orders, purchase orders and packing slips. The payment voucher includes data fields such as date, purchase order number, voucher number, vendor ID number, invoice number, blanket order/contract number, description and the total amount to be paid.

The payment voucher, which is routed to various departments for approval, creates an audit trail of the transaction, and is part of the procurement/accounts payable internal control system.

We selected a sample of 50 payment vouchers from a list of active 2009 contracts that were associated with invoices for the purchase of goods and services, and professional services. Two of these vouchers could not be located.

Nineteen of the 48 payment vouchers related to the purchase of goods and services. We identified 15 of the 19 that were missing information including purchase order numbers, "three way match types" (invoice to purchase order to receiving report), general ledger account numbers and department head signatures. Three of the 19 payment vouchers did not have adequate supporting documentation and two of the 19 payment vouchers were not properly approved.

Of the remaining 29 payment vouchers totaling $2,415,412 relating to professional service contracts, we noted the following exceptions:

- Four payment vouchers did not have adequate supporting documentation, such as support for consultant out-of-pocket expenses;
- Seven vouchers were not adequately completed. They were missing key information, such as purchase order numbers or general ledger account numbers; and
- Two vouchers for legal services were paid but the payment did not correspond with contract terms and services. (see Audit Finding (6) *The NHCC Board Approved Procurement Policy For Legal Services is Flawed and May Have Resulted in Conflict of Interest and Improperly Charged Legal Services*)

NHCC management did not have written instructions on how to complete the payment vouchers. Based upon our review, it appears that department heads were not adequately reviewing the payment vouchers before forwarding them to Accounts Payable for payment.

Improperly completed payment vouchers result in a weakening of the internal control system and may result in the loss or misappropriation of funds.

Audit Recommendations:

NHCC management should:

a) implement written procedures to ensure that payment vouchers are complete, accurate and approved by department heads on a timely basis prior to forwarding to Accounts Payable for processing in order to have a complete and accurate paper audit trail of the payment process. The written procedures should be disseminated to the employees affected by the procedures; and

b) ensure that these procedures are being followed.

Audit Finding (6):

The NHCC Board Approved Procurement Policy For Legal Services is Flawed and May Have Resulted in Conflict of Interest and Improperly Charged Legal Services

In September 2007, NHCC's Board of Directors adopted a policy allowing for the selection of contractors without a competitive bidding process when deemed in the best interests of NHCC. (Best practices dictate that procurement of professional services should be via a competitive bidding process, such as a Request for Proposal ("RFP").

The Board's policy allows procurement of legal services with a term exceeding one year, to be contracted without a competitive bidding process, provided the rates charged were pursuant to Tier I and Tier II fee schedules[14] or a contractual fee schedule. We observed that rates charged for legal services on two invoices from the law firm Abrams, Fensterman, Flowers, Greenberg & Eisman, LLP ("Abrams"), were inconsistent with the rates agreed upon as per the contract with NHCC.

We reviewed 29 payment vouchers totaling $2,415,412 that related to professional service contracts. Two of the 29 invoices reviewed pertained to legal services provided by Abrams for the A. Holly Paterson Extended Care Facility ("AHP"). This firm was paid $326,813 in 2009 and $202,308 for the period January 2010 through May 2010 for fees charged. These services were not obtained through a RFP process, but the fees were subject to the NHCC Tier II rates.

Our review of the two invoices, one for 2009 and the other for 2010 in the amounts of $10,587 and $5,383, respectively, determined that the hourly rates invoiced for legal services incurred did not comply with the Tier II rates. Tier II rates were based upon the title of the individual providing the legal services. However, these invoices did not identify the titles of those individuals, and the hourly rates charged for them did not agree with the Tier II rates.

We attempted to identify the titles of the individuals on the invoices based upon the Tier II hourly rate closest to the hourly rates that were charged per the invoices and the nature of the legal services provided. Based upon the individual's title that we presumed, we calculated the difference between the Tier II hourly rates and the hourly rates charged on the invoices. Based on this analysis, we estimated that NHCC was overcharged $448 on the invoice that totaled $5,383 ($1,678 of which represented hourly charges) and was overcharged $189 on the invoice that totaled $10,587 ($2,565 of which represented hourly charges).

For the two invoices examined, hourly charges represented 27% of the total invoice, and we determined that there was a 15% error rate[15] in the hourly charges submitted. Total payments to this vendor in 2009, and January 2010 through June 2010 were $529,121. Using this error rate and the rate of hourly charges on the two invoices examined, we

[14] Preapproved fee schedule for legal services approved by a Board resolution.
[15] ($448+189)/($1,678+$2,565)

estimated that the potential existed that NHCC was overcharged $21,088 for legal services.

We discussed with AHP management the lack of adequate information in the invoices that prevented management from performing a thorough review and the exceptions we noted with the differences in the rates charged. AHP management indicated that they did not know the titles of the individuals on the invoices and were not familiar with the Tier II rates.

Audit Recommendations:

NHCC should:

a) rescind its Board policy adopted in September 2007, which allowed for the selection of contractors without a competitive bidding process when deemed in the best interests of NHCC, and instead, practice competitive bidding for the procurement of all goods and services;

b) ensure that all legal invoices are submitted in accordance with the contract terms;

c) ensure that those individuals responsible for reviewing and approving invoices for legal services are provided with a copy of the rate schedule to ensure that a proper review is done and evidence that review by signing and dating the invoice; and

d) review all previously paid invoices to identify any overpayments and request a refund of any overpayments identified.

Audit Finding (7):

Formal Policies and Procedures for Capital Budgets are Lacking and Result in Unsupported Expenditures for Capital Projects and Legal Expenses

NHCC has written policies and procedures for the development of the Operating Budget there is a lack of written policies and procedures for the development of the NHCC Capital Budget.

Budgets are estimates that assist management in making financial decisions, as well as serve as a control to ensure that operations are carried out efficiently, economically and effectively. The Finance Department of NHCC controls and monitors the annual NHCC budget. The budget must be completed and submitted to the New York State Department of Health by September 30th of every year. NHCC computes its annual operating budget based upon the lesser of the prior year's actual operating expenses, a projection of the current year's operating expenses, or the current proposed budget.

NHCC's capital budget is estimated according to the availability of funds from operations and grant funds. During our audit, we noted that there was no written policy or procedures dictating under what assumptions the capital budget should be computed, or how it should be reviewed and approved.

We selected a sample of 15 Operating and Capital Budget line items to determine the purpose of the budgeted amounts, and how they were computed, reviewed and approved.

The Finance Department was not able to provide us with supporting documentation explaining how budgeted amounts were arrived at for two of the 15 items; these were the Information Technology Capital Budget of $8 million and the Legal Expense Operating Budget item for $6.5 million.

Audit Recommendation:

NHCC management should:

a) ensure that the NHCC Finance Department maintain adequate supporting documentation for all Operating and Capital Budget line items; and

b) develop and promulgate a written Capital Budget policy.

Audit Finding (8):

Poor Management of Non-Medical Employees Result In Excessive Overtime

Our audit identified employees at NHCC working excessive amounts of overtime of up to 117% of their base pay. In addition, we noted instances where employees approved their own overtime.

At the beginning and end of each workday, an employee must punch in/out via the Kronos timekeeping system. It requires the use of both the individual's employee code and handprint to record his or her in/out times. If an employee forgets to punch in/out or the punch does not register, he or she must fill out a missed punch form. The missed punch form must be approved by the Department Head and then entered into Kronos by the Department Timekeeper.

According to the Payroll Manager, NHCC verbally pre-approves its employees' overtime but, after the employees work the overtime, the employee's supervisor or department head must complete an overtime approval form. The form must have approvals from the Department Administrator, Chair/Departmental Head, a Vice President and the Finance Department. The Finance Department delivers the form to the Payroll Department where the overtime is entered into the payroll system for payment.

We reviewed and analyzed the NHCC 2009 W-2 report and noted that there were approximately 1,239 non-medical employees within its 310 departments. Of the 1,239 non-medical employees at NHCC, we found 34 that were paid overtime equivalent to more than 30% of their 2009 base pay. The 34 employees earned a total of $811,230 in overtime in 2009.

Our analysis of overtime paid to non-medical employees at NUMC revealed that six of the 157 departments were responsible for 60% or $1,297,868 of the $2,067,930 of total overtime paid by NUMC in 2009.

Further analysis of the overtime pay revealed that one employee, whose title is Custodial Worker, was allowed to work overtime of up to 117% of his regular annual salary. Regular pay reported on his 2009 W-2 was $51,195 while his overtime pay for the same year was $59,659.

The four employees with the highest overtime as a percentage of base pay among the 34 non-medical employees we identified with more than 70% of their base pay in overtime were as follows:

Title	2009 Regular Pay	2009 Overtime Pay	Overtime as a Percentage of Regular Pay
Custodial Worker I	$51,195	$59,659	117%
Resource Supervisor	$73,514	$67,374	92%
Custodial Worker I	$42,935	$31,945	74%
Admission Officer III	$60,787	$46,211	76%

We noted that the employees were able to amass these extraordinary amounts of overtime by working excessive hours and working on days they were not scheduled. For example:

- A Custodial Worker I was allowed to work for seven consecutive days during the period 1/25/09 thru 1/31/09, amassing 39 overtime hours. Two of the days were unscheduled workdays.
- The time clock for the Resource Supervisor showed that she punched in at 7:39 a.m. and punched out at 2:05 a.m. the following day amassing 10.5 hours of overtime. In addition, for the workweek of 7/5/09 to 7/11/09, this employee clocked in five days and amassed a total of 46.75 overtime hours. We noted that on two days (7/7/09 and 7/10/09) this employee clocked in at 7:49 a.m. and 7:11 a.m. and clocked out at 2:55 a.m. and 1:34 a.m. respectively. The overtime hours included lunch hours.

New York State Labor Law, § 162[16] requires that whenever a worker covered by the Law works six hours or more that extend through the noonday meal period (from eleven o'clock a.m. to two o'clock p.m.) they must be given 30 minutes off for lunch.

We sampled eight employees, and reviewed their time sheets, check payment details, the corresponding overtime approval sheets, and missed-clock forms for two consecutive pay periods, to determine if the overtime hours paid were valid and were approved by management. We noted the following excessive overtime examples for five out of the eight employees selected for testing:

1) Resource Supervisor worked a total of 12 days during the two pay periods tested. Of the 12 days, she was permitted to work double shifts (regular and overtime shift) for five days and was paid an additional 2 hours overtime each day for lunch. For four other days, the supervisor was paid an additional hour each day for lunch.

[16] New York State Labor Law Section 162(2)

There were two missed punches recorded for 7/9/10 because the employee did not punch in. The clock recorded a punch-out the following day at 2:03 a.m. The employee was paid 10 hours of overtime for 7/9/10. NHCC was unable to provide us with both missed punch forms requested to validate the start time entered and the amount of overtime the employee was paid. The employee time record showed that she punched-in at 7:11 a.m. the morning of 7/10/10 and punched-out at 1:34 a.m. She was paid 11.5 hours of overtime for this day.

2) Resource Supervisor worked a total of 14 days, was allowed to work through lunch for 13 days and was paid an additional hour of overtime each day for the lunch hours.

   Both Resource Supervisors signed off on some of their overtime approval sheets in the place of the Departmental Administrator and/or the Departmental Head approval signatures. We noted that these two employees had significantly more overtime compared to other employees with the same civil service title.

3) An Admission Officer III worked a total of 19 days during the period tested and was paid an additional hour each day in overtime for working through lunch.

4) There was one instance in which a Chief Stationary Engineer was paid for 7 hours of overtime, which was not approved by management.

5) Custodial Worker I had five occurrences of missed punches for 19 days in which overtime was paid. We were provided with missed punch forms for four of the five occurrences. We reviewed the four missed-punch forms and noticed that the date for the employee completing the form, the date of supervisor approval and the date of entry into Kronos by the timekeeper were all missing.

The excessive use of overtime is costly, an indication of inadequate staffing levels, and a poor management practice. Requiring or allowing workers to work through mealtimes is a violation of New York State Labor Law.

<u>Audit Recommendations:</u>

NHCC should ensure that:

a) all employee overtime be pre-approved in writing by management with the authority to approve overtime;
b) adequate staffing levels exist that will reduce the need for excessive overtime;
c) employees be required to take mealtimes in accordance with New York State Labor Law; and
d) adherence to its procedures regarding missed punch forms is enforced, and ensure that a form is completed each time an employee does not clock in/out.

Audit Finding (9):

Two Employees Promoted To and Functioning In Titles Outside of Their Civil Service Titles

All employees of NHCC that are members of the bargaining unit CSEA Nassau Local 830 are employed under titles covered by the Nassau County and New York State Civil Service Laws. Specific procedures for appointments and promotions to open job titles must be followed.

NHCC circumvented the New York State Civil Service Commission by promoting two employees outside of the competitive process. According to Article V § 6 of the State Constitution, "Appointments and promotions in the civil service of the State and all of the civil divisions thereof, including cities and villages, shall be made according to merit and fitness to be ascertained as practicable, by examination which, as far as practicable, shall be competitive;…".[17]

We selected the personnel files of 16 employees whose job titles and duties are classified by the Nassau County Civil Service Department and were included in the bargaining unit. We then interviewed 15 of the 16 employees (one had retired), in order to gain an understanding of their job duties. The duties were then compared to the Nassau County Civil Service job specifications. Based upon our interviews and our review of the personnel files of the employees, we concluded that two of the 15 employees were promoted and functioning in titles outside of their civil service titles. We also determined that NHCC is using overtime and other pay to compensate these employees (see Audit Finding (8), Poor Management of Non-Medical Employees Result in Excessive Overtime).

The civil service title for both of the two employees was Resources Supervisor. One was functioning as Director of Patient Financial Services and the other was functioning as Director of Ambulatory Operations. Their responsibilities were greater than other employees with the same civil service title were.

The employee functioning as Director of Patient Financial Services claimed to have responsibility for supervising 93 employees, including two other Resource Supervisors and a Patient Accounts Supervisor. The employee also claimed to be responsible for Admitting, Bed Control, Vital Statistics, and Emergency Room Registration.

The employee functioning as Director of Ambulatory Operations claimed to have responsibility for supervising 240 employees, including physicians and nurses. The employee claimed to be responsible for all ambulatory operations including those at the Health Centers and for the communication staff.

The two employees were functioning in these titles since 2009. Their personnel files had no record of any personnel action taken to promote them to the director positions.

The two employees' base salaries were in agreement with the bargaining unit salary scale. However, we noted that they were both allowed to work an extraordinary amount

[17] New York State Constitution, Article V § 6

of overtime. They also received other pay such as beeper, stand-by, and mealtime pay. Other employees with the same civil service titles did not receive similar pay.

The two employees' total 2009 compensation, including overtime and other pay amounted to $161,364 and $108,964 for the Director of Ambulatory Operations and the Director of Patient Financial Services, respectively. This compared to total compensation of slightly over $73,000 for other employees with the same civil service titles.

The practice of promoting civil service employees outside of the competitive examination process is a violation of the Civil Service Law, and may lead to employee grievances. In addition, the use of overtime as a method of compensation to circumvent bargaining unit salary scales is a poor management practice

Audit Recommendation:

NHCC management should:

a) institute procedures to ensure that employee duties and compensation comply with Civil Service Laws and local bargaining unit requirements; and

b) ensure that the two Resource Supervisors are performing duties in accordance with their civil service job specifications and are compensated accordingly.

Audit Finding (10):

NHCC Overcharged Nassau County $47,828 in Billing of Termination Pay

As part of the Acquisition Agreement between the County and NHCC the County is responsible for the portion of the retirement and termination pay for personnel who were employed by the County prior to the Acquisition Agreement. According to the Agreement, this expense is to be pro-rated between the County and NHCC based upon the number of days of service prior to the Acquisition Agreement date. Severed ordinance employees and union employees whose termination pay is less than $5,000 are paid their termination pay in a lump sum while union employees who have payouts more than $5,000 are paid in three installments. On an annual basis, NHCC invoices the County for its portion of the termination pay.

We reviewed two invoices from NHCC for the period from 2/15/2009 to 2/13/2010, invoice numbers 5310 and 5186 for $1,864,749 and $233,991, respectively, submitted to the County for reimbursement of payments made to severed employees. We also reviewed the process involved in the preparation of the termination pay billing to the County and noted that the process followed for the termination pay billing was inadequate to ensure that the County was billed in accordance with the Acquisition Agreement. The review of the invoices revealed that the County was overbilled for termination pay and FICA expense of $44,612 on invoice 5310, and $3,217 on invoice 5186. The total overbilling of $47,828 resulted from the following:

a.) Duplicate Billing: An ordinance employee was correctly paid $75,487 in one lump sum upon termination. The following year the employee was paid 1/3 of the same termination pay in the form of a $25,162 installment, resulting in a duplicate payment. The County was billed a portion of this duplicate payment amounting to $14,970 in vacation and sick leave and $1,145 in FICA.

b.) Termination Pay Not Related to County Employment: The County was billed $24,012 in vacation and sick leave and $1,837 in FICA expense for vacation and sick leave hours that were earned entirely under NHCC employment after the Acquisition Agreement date. Four employees were severed from NHCC prior to 2009 and their termination pay for vacation and sick leave was billed to the County for reimbursement. The County reimbursed NHCC for its portion of the termination pay owed for these employees. The employees were rehired at a later date by NHCC and subsequently earned accrued time as employees of NHCC. These employees were terminated a second time and NHCC billed the County for a portion of their termination pay.

The termination payments for these employees were not related to County employment and therefore did not qualify for prorated reimbursement as stipulated in the Acquisition Agreement.

c.) Incorrect Amount of Accrued Time Paid: NHCC paid four employees the incorrect amount of vacation and sick leave amounting to $12,475, which resulted in an overcharge to the County of $4,256 in termination pay and $326 in FICA expense. A review of the employees' termination leave bank revealed that:

- two employees were paid for more hours than they had in their leave bank balances;
- one employee's installment hours was calculated incorrectly; and
- one was paid 64.75 hours more than the maximum amount allowed under the collective bargaining agreement.

d.) Other Miscellaneous Errors: In addition to the above, we noted other errors amounting to $1,283 as a result of the following:

- The use of the original hire date instead of the adjusted hire date[18] in calculating the number of days worked.
- The use of the incorrect termination date in the calculation of the number of days worked.
- Calculated FICA expense on employee termination pay which exceeded the maximum taxable income amount.

[18] Original hire date is adjusted for any days that an employee is off the payroll (i.e., unpaid leave of absence).

- Inclusion of other compensation not related to vacation and sick leave termination pay.

Based on the number and type of errors identified in the invoices submitted, it is apparent that management does not have adequate procedures in place to ensure that the amounts billed to the County are in accordance with the Acquisition Agreement.

All of the invoices were audited and adjustments were made to the billings.

Audit Recommendation:

NHCC should develop and document adequate procedures to ensure that the County is billed correctly in accordance with the Acquisition Agreement.

Audit Finding (11):

Inadequate Payroll Procedures Resulted in Underpayment of Vacation and Sick Leave Severance to Employees

The Acquisition Agreement required that NHCC make full and timely payment of all salaries, compensation and benefits earned for time and services provided in accordance with any labor agreement. NHCC is responsible for the payment of vacation and sick leave at the rate of pay applicable to the value of such days as of the date of separation from NHCC service and increased thereafter to the date of payment by the cumulative applicable base wage increases contained in the collective bargaining agreements.

Our audit noted that NHCC did not have adequate procedures in place to ensure that severed employees were paid at the correct rate each year.

Our review of the two invoices billed to the County for termination payments made to NHCC employees from February 2009 thru February 2010 revealed that 14 employees were underpaid their severance pay. The underpayment amounted to $25,030. Twelve of the 14 employees had the incorrect rate of pay used in calculating their termination pay. The employees had been terminated or retired and later re-hired in different titles with different rates of pay. Some of them had changed from full-time to part-time employees with a change in the hourly rate received. NHCC paid their severance pay at their current employment rate of pay and not at the rate of pay in effect at their termination date. The remaining two employees' underpayment resulted from the use of the wrong amount of vacation and sick leave hours to calculate their termination pay.

Audit Recommendations:

NHCC management should:

a) develop and document adequate procedures to ensure that severed employees are paid correctly;

b) review the rates of payments for all severed employees who were rehired and ensure that the correct rates were used in prior payouts and are used in future payouts; and

c) recompute any underpayments to past (and re-hired) employees and pay amounts owed immediately.

Audit Finding (12):

Privately-Owned Vehicle Was Allowed to Fuel at A. Holly Patterson Depot Without Written Authorization or Supporting Documentation to Account for Business Use

A Vice President of NHCC fueled his personal vehicle at the AHP nursing home facility.

AHP has a fuel depot for the fueling of the NHCC fleet of 38 vehicles, six of which are located at AHP and 32 of which are located at NUMC. If a driver wants to obtain fuel from the fuel depot, the driver must go to the Public Safety Office. A Public Safety Officer accompanies the driver to the fuel depot and uses three keys to dispense the fuel. The Public Safety Officer verifies that the vehicle has official plates and checks the employee's identification. A manual fuel log is completed which captures the driver's name, identification, vehicle license plate number, amount of fuel dispensed, signature of the driver and signature of the Public Safety Officer.

We performed a review of the fuel logs maintained at AHP's Public Safety Office for the period January 2009 thru August 2010 to determine whether only authorized vehicles were being fueled at the fuel depot. Our review included comparing the license plates of the vehicles listed on the fuel log to the plate numbers of authorized vehicles as provided to us by NHCC management. Our review revealed 20 vehicle plate numbers (see Audit Finding (13), NHCC Management Allows Unauthorized Vehicles and Drivers to Fuel Vehicles) that were not on the list of authorized vehicles, including one private license plate number belonging to a Vice President ("VP") of NHCC. According to NHCC management, this employee received verbal approval from the previous NHCC President to have his personal vehicle fueled at AHP as reimbursement for using his vehicle to conduct business travel for NHCC. NHCC management indicated that:

- there is no written documentation to support this arrangement and approval;
- the current NHCC President is aware of the arrangement;
- the arrangement is not renewed annually;
- the employee is not required to document his business mileage; and the value of the fuel is not included on the employee's W-2 as compensation.

For the period reviewed, we noted that 992 gallons of fuel were pumped into the VP's vehicle.

According to the NHCC Budget Office, all other employees of NHCC are given cash reimbursements for business travel expenses, including business mileage incurred with their personal vehicles, after submission of travel expense forms.

Audit Recommendations:

NHCC management should:

a) Adopt written fueling and vehicle use policies (that do not circumvent IRS regulations);

b) stop the practice of fueling unauthorized private vehicles;

c) investigate and recover past unauthorized fueling;

d) require that the employee provide management with a proper accounting of the business mileage incurred in writing. Management should maintain these records for audit purposes;

e) ensure that the gasoline provided to the employee is limited to cover business mileage. If the employee is not required by NHCC to maintain business mileage records, then the value of the gasoline provided should be reported on the employee's annual W-2 as compensation; and

f) require the employee to follow NHCC's travel policy procedures as other employees whereby business mileage would be reimbursed after submission of a properly approved expense form.

Audit Finding (13):

NHCC Management Allows Unauthorized Vehicles and Drivers to Fuel Vehicles

Unauthorized vehicles are fueling at AHP's fuel depot. In addition, we noted that drivers who were not authorized by management used NHCC fleet vehicles.

We performed a review of the fuel logs maintained by AHP's Public Safety Office for the period January 1, 2009 through August 24, 2010 to determine whether only authorized vehicles (as indicated on the list of vehicles provided to us by NHCC management) were being fueled at the depot. Our review revealed 121 entries where the vehicle license plate number recorded on the fuel log was not on the list of authorized vehicles, or was recorded incorrectly[19] (i.e., transposition of numbers, or erroneous characters). Including one entry where the quantity of fuel pumped was also not recorded (see Audit Finding (14) Fuel Inventory Was Not Monitored to Safeguard against Theft or Ground Contamination Resulting from Leaking Tanks).

Within the 121 entries, we identified 14 license plates that were not on the authorized vehicles list. A total of 1,293 gallons of fuel was pumped into these vehicles during the period. Seventy-seven percent of this amount (992 gallons) was pumped into the VP's personal vehicle (Audit Finding (12) Privately-Owned Vehicle was Allowed to Fuel at A. Holly Patterson Depot Without Written Authorization or Supporting Documentation to Account for Business Use). The drivers for eight of these vehicles were not listed on the Schedule of Authorized Drivers provided to us by NHCC management. Nineteen license

[19] The erroneous or unauthorized license plate number may be included multiple times in the 121 entries.

plate numbers were incorrectly recorded. For example, a vehicle listed as plate number L75475 was listed on the fuel log as plate number K75475.

Thirty-one of the 121 entries in the fuel log were missing the signature of the Public Safety Officer.

NHCC management is not enforcing its fueling procedures, which allows the system to be circumvented. On numerous occasions, fuel was taken without the presence of a Public Safety Officer because there was no signature in the log evidencing his presence. In addition, management is allowing unauthorized drivers to operate NHCC vehicles. All of these factors increase the risk of unauthorized usage of gasoline from the fuel depot and increased the risk associated with unauthorized operators of NHCC vehicles.

Audit Recommendations:

NHCC management should enforce its procedures to ensure that:

a) unauthorized vehicles are not fueled at the depot, and that fuel log entries are correct, including the signature of the Public Safety Officer present during fueling;

b) no fuel is dispensed without the presence of a Public Safety Officer;

c) only authorized drivers operate NHCC vehicles; and

d) all past fuel usage by unauthorized vehicles is investigated and, if necessary, all costs for unauthorized fueling be recovered.

Audit Finding (14):

Fuel Inventory Was Not Monitored to Safeguard against Theft or Ground Contamination Resulting from Leaking Tanks

Based upon our review, there appeared to have been an over 300-gallon shortage of the fuel inventory maintained at the AHP fuel depot tank during the audit period.

For the period January 2009 to August 2010, NHCC spent $32,787 for gasoline purchases. We tested five periods of fuel inventory and found fuel inventory shortages. The capacity of the fuel tank at AHP is 1,000 gallons. A daily dipstick reading is taken and logged. The fuel used is 87-octane regular gasoline. Gasoline is ordered when the current inventory level reaches 500 gallons. On a monthly basis, an AHP employee summarizes fuel usage by department as recorded in the fuel log and manually enters it into a Gas Report. Delivery of fuel is also recorded in the Gas Report. AHP management did not perform a reconciliation of the fuel inventory. In addition, according to AHP management, the fuel log and Gas Reports were not reviewed by supervisors for oversight purposes.

The five periods selected for testing from the Gas Report were: January 6, 2009 to February 12, 2009; August 13, 2009 to September 22, 2009; February 24, 2010 to March 10, 2010; March 26, 2010 to April 23, 2010; and June 30, 2010 to July 26, 2010. The calculated balances of ending inventory for four of the five periods tested did not agree with dipstick readings taken at the end of each period. The balances reflected a shortage of 324.4 gallons. For example:

- For the period March 26, 2010 to April 22, 2010, the dipstick reading recorded 671 gallons of gasoline as the ending inventory balance; our calculation of the ending inventory indicated that the ending inventory balance should have been 844.7 gallons, a shortage of 173.7 gallons;
- For the period August 13, 2009 to September 22, 2009, we calculated a shortage of 66 gallons; a fuel log entry on 9/6/09 did not record the license plate number of the vehicle or the number of gallons pumped;
- For the period February 24, 2010 to March 10, 2010 we noted a shortage of 34.8 gallons; and
- For the period June 30, 2010 to July 26, 2010, we noted a shortage of 49.9 gallons.

As a result of the lack of fuel reconciliation and oversight, there was a greater risk of the unauthorized usage of the fuel at the depot.

Audit Recommendation:

NHCC management should:

a) ensure proper oversight of the fuel inventory which should include periodic reconciliations and review of the fuel logs to ensure that all data is correctly entered, evidence of this review should be maintained;

b) implement procedures to formalize the Gas Reports and ensure that they are regularly distributed to each department using fuel for its review and oversight. Evidence of this review should be maintained for audit purposes; any unusual variances should be identified and investigated, and

c) conduct a thorough inventory reconciliation for the last year to account for missing fuel inventory, and ensure that the underground tank did not leak and contaminate the ground or water supply.

Written Comments to Draft Report Issued by the Office of the Comptroller, Nassau County, dated January 21, 2011

Nassau Health Care Corporation (NHCC) is proud of the improvements that have been achieved since it was awarded Public Benefit Corporation status. The following table indicates how NHCC has successfully reduced bad debt and increased net patient service revenue since assuming responsibility for operating Nassau University Medical Center, A. Holly Patterson Extended Care Facility and the local Nassau County health centers. In 2000, bad debt expenses at these facilities were $69.5 million (23% of net patient service revenue). By 2009, NHCC had reduced bad debt expense to $41.6 million (13.5% of net patient service revenue). This remarkable achievement has resulted in an increase in net patient service revenue of more than $199 million over the past nine (9) years, and culminated in the first profitable year at NHCC.

Year	Bad debt Expense (in Millions)	Increased Net Revenue
2000	$ 69.5	
2001	$ 50.8	$ 18.7
2002	$ 50.0	$ 19.5
2003	$ 47.5	$ 22.0
2004	$ 47.6	$ 21.9
2005	$ 45.3	$ 24.2
2006	$ 50.9	$ 18.6
2007	$ 45.8	$ 23.7
2008	$ 46.7	$ 22.8
2009	$ 41.6	$ 27.9
		$ 199.3

Healthcare is a complicated and highly regulated industry which will become even more complex as health reform is implemented at a time when federal, state and local governments lack the resources to support the necessary transformation of those healthcare organizations required to meet the needs of millions of newly insured individuals. For this reason, reviews such as the one conducted by the Comptroller's Office are helpful as NHCC redesigns its organization to meet these challenges.

To demonstrate the complexity of healthcare reimbursement and operations we offer the following scenario:

Imagine three patients in the same room, suffering the same medical problem. The patients are admitted the same day and receive the exact same services from the same caregivers. All three are hospitalized for three days and all three incur hospital ***charges*** totaling $15,000.00 (comprised of the same combination of room and board charges, operating room charges, recovery room charges, anesthesia charges, and the same tests and medications). The three patients are discharged the same day.

In most businesses all three "customers" would receive a bill for the exact same amount - $15,000.00 (or $45,000 in the aggregate). However, that seldom occurs in healthcare. In fact, the more likely result is that the hospital will receive three different amounts.

Patient **A** has no insurance but is eligible for NHCC Financial Aid.[20] Based upon his income, this patient's bill is reduced to $150.00 for the entire three days of hospital care.

Patient **B** is covered by Medicare. Upon discharge, the hospital will analyze the patient's medical record and employing a coding system applicable to Medicare, Patient **B's** hospital stay is assigned a MS-DRG (Medicare Severity Diagnosis Related Group) and that DRG will determine the amount Medicare will reimburse the hospital for the care provided to Patient **B**. In this case, Medicare determines that the hospital will be paid $6,850.00. However, the patient has an unmet deductible of $850.00. Accordingly, Medicare will pay the hospital $6,000.00, and the hospital will be required to collect the remaining $850.00 from Patient **B.**

Patient **C** is insured through his workplace. The hospital has a contract with that insurer. The contract provides for the insurance plan to pay the hospital 75% of its **charges** (less any co-pay for which the patient is responsible). The hospital's **charges** were $15,000.00, so the insurer issues a check for $10,900.00 (75% of **charges** less the patient's co-pay) and the hospital must collect the patient's $350.00 co-pay.

In the above illustration, the hospital's **charges** for caring for the three patients totaled $45,000.00 ($15,000.00 x 3) but the hospital received a total of $18,250.00 (assuming each patient paid the amount which they were responsible to pay).

This example is offered to demonstrate the very complex rules governing hospital reimbursement and to draw attention to the point that **charges** are seldom a predictor of net patient service revenue. Knowledge of this key information is critical to evaluating financial performance at any hospital.

In the following pages we will comment and respond to each of the Comptroller's Audit Findings and Recommendations. We will identify areas where we disagree with the Comptroller's Audit Findings and Recommendations as well as areas where the Comptroller has properly identified opportunities for NHCC to improve its internal controls, financial performance, business processes and procedures.

[20] New York State mandates that all hospitals offer a Financial Assistance Program to uninsured patients. For those patients who are at or below 100% of the Federal Poverty Level, the hospital must reduce the patient's bill to a nominal amount established by the Department of Health. Currently that amount is $150.00 for an inpatient hospital stay.

Audit Finding (1) – As of 12/31/2009 Accumulated Pre-Billing Errors and Missing Patient Registration Information Resulted in the NHCC having Unbilled Patient Services and Lost Revenues of $3.5 to $6.5 million

NHCC Response:

*NHCC disagrees with this Audit Finding. The Finding violates the very basic rule that **charges** are not a predictor of net patient service revenue in a hospital setting. Although the Audit Finding mentions a $6.5 million number, the Comptroller's Report quickly concedes that their actual Finding is the possible loss of $3.5 million in **charges** due to pre-billing errors and missing patient registration information.*

NHCC believes the amount of net patient service revenue that **might** have been lost due to errors and inaccurate registrations is actually $391,000 (the equivalent of less than one-tenth of one percent of NHCC's net patient service revenue).

As indicated in the Comptroller's Report, NHCC's staff utilizes a number of different reports to identify and follow-up on patient accounts which are unable to be billed due to incomplete or inaccurate patient/insurance data. When a data deficiency occurs, the hospital's billing system (Eagle) will hold the account open until all required information is obtained. This is done to ensure that only accurate and compliant bills are sent to responsible payors.

Reports are distributed to those NHCC employees who have exhibited the greatest expertise in securing accurate patient/billing information. Once the correct information is obtained, Eagle is updated and a bill is sent to the responsible payor.

The Comptroller noted that as of 12/31/2009 the hospital had unbilled **charges** (for inpatient and outpatient care) totaling $6,568,145. However, as indicated above, **charges** are not an accurate predictor of the amount a hospital will receive when payment is made. Depending upon the responsible payor, net patient service revenue may be a small fraction of the hospital's **charges.**

The Comptroller's $6.5 million number was reduced to $3.5 million once they properly excluded accounts pending payment from Medicaid and/or self-pay patients.[21]. The Audit Findings go on to erroneously suggest that $3,536,207[22] may have been lost by NHCC due to the passage of time (noting that a bill received by a payor more than 90 days after service may not be paid due to the bill being "untimely)"[23]. However, while the Comptroller's Report properly backed out unbilled Medicaid and unbilled self-pay accounts from the calculation of potentially "lost" revenue, it erroneously included Medicare accounts, which like Medicaid and self-pay, do not have a 90 day billing limitation.

Given the payor mix at the hospital it is likely that Medicare accounts represented one-third of the $3.5 million and therefore that number must be reduced to $2.3 million.

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[21] The Comptroller's Report acknowledges that these accounts fall outside their findings since these "payors' have a much longer timeframe for billing and collection.
[22] The amount shown in the Comptroller's report is expressed in **charges** which, as previously indicated, is an inaccurate predictor of the net patient service revenue received by NHCC
[23] In 2010 New York State enacted managed care reform legislation that extended the "timeliness" period to a minimum of 120 days.

Finally, as described in our response to Audit Finding 1a) (see below) – more than $950,000 of unbilled inpatient accounts had dates of service from 1998 – 2007. NHCC maintains that it is inappropriate for the Comptroller's Report to cite accounts from 1998 – 2007 since these accounts have nothing to do with current operations. When we deduct the 2007 and earlier accounts, another $950,000 of **charges** are eliminated, reducing the Comptroller's finding to $1,350,000 in **charges.**

In the final analysis, once Medicaid, Medicare and self-pay accounts (as well as unbilled discharges that occurred in the years 2007 and earlier) are excluded from the $6.5 million mentioned in the Comptroller's Finding, all that remains is $1,350,00 in **charges** for those claims having a 90 day timely filing requirement.

At NHCC the payment to **charges** ratio for commercial insurance accounts is 29%. Applying that percentage against the $1,350,000 in **charges,** leaves $391,500 of possible lost revenue due to pre-billing errors and missing patient registration information.

NHCC understands the importance of timely billing and effective collection. We believe our financial management of patient billings, which has allowed NHCC to reduce bad debt expense by nearly $200 million since 2009, speaks volumes in that regard.

Audit Finding 1a) Inpatient Pre-Billing Errors Were Not Effectively Corrected on a Timely Basis Resulting in Accumulated Revenue Losses of at Least $2.3 million by 2009 Year End

NHCC Response:

The Comptroller's Audit improperly concluded that NHCC had lost revenue of $2.3 million due to its failure to effectively utilize management reports. It was improper for the Comptroller to include accounts that became uncollectible in 2007 and earlier when issuing a Report seeking to assess NHCC performance in 2009.

The Report indicates that the Comptroller's office monitored the Hospital General Verification File Report and the Inpatient Billing Delay Listing for the period January 2009 – March 2009 and October 2009 – December 2009. Utilizing these reports, the Comptroller's examination was intended to measure NHCC's effectiveness in working these reports to ensure that potential errors were corrected in time for the hospital to bill for its services within the ninety (90) day timeframe established by the Comptroller.

The chart on Page 3 of the Comptroller's Report suggests that 108 inpatient accounts, with **charges** totaling $1,493,583 were allowed to age beyond ninety (90) days without correction.

On closer examination, it is clear that the Comptroller is including more than $1.1 million in **charges** relating to patient services provided during the time period 1998 through 2008. Fifty-two of the (61) accounts listed on page 3, in the category "Principal Diagnosis Code Missing" all have dates of service ranging from 1998 – 2007 (see chart below).

DISCHARGE YEAR	**ESTIMATED CHARGES**	ESTIMATED REIMBURSEMENT	DISCHARGES
1998	$16,632	$17,736	3
1999	18,138	17,348	3
2002	40,855	15,508	4
2003	129,929	120,056	7
2004	515,790	227,428	19
2005	61,682	37,305	12
2006	12,610	3,254	1
2007	88,791	11,828	3
2008	220,351	64,455	9
Total	$1,104,778	$514,918	61

Additionally, the five (5) accounts listed in the category "CDC Charge Code" are all accounts with dates of service ranging from 1998 – 2005. The estimated **charges** on these five (5) accounts total $64,881.

It is unfair for the Comptroller, in 2009, to cite these 57 accounts, with **charges** totaling **$**951,000 as evidence that NHCC does not effectively use its reports to prevent accounts from aging over 90 days. The net patient service revenue on these 57 accounts was lost years earlier and do not reflect the efforts of NHCC's staff in 2009 and 2010 properly manage its accounts receivable in a way that will eliminate lost revenue.

For the reasons indicated above, NHCC disagrees with the Comptroller's conclusion that "management did not effectively and efficiently utilize the controls" that were created to monitor unbilled accounts. Rather, it is NHCC's position that management and our employees have actually improved at working these exception reports.

On a further note, many of the errors that cause accounts to hit these exception reports will be eliminated as NHCC implements electronic health records. The hospital is more than one-half of the way toward that event on inpatient accounts, and will have full electronic medical records in our Ambulatory Departments and our Emergency Department before the end of 2011.

Auditors' Follow-up Response:

The amounts of unbilled patient services and gross charges cited in Audit Findings (1) and (1a) were based upon the Aged Receivables dated 12/31/09. In addition to excluding Medicaid gross charges less than two years old and self-pays, we have also excluded Medicare gross charges less than two years old, and adjusted our numbers accordingly. We included all accounts listed on the Aged Receivables regardless of discharge dates.

Audit Finding 1b) Outpatient Pre-Billing Errors From Incorrect Systems Implementation and Usage Resulted in Accumulated Lost Revenues of Over $1.2 Million Through Year End 2009

NHCC Response:

NHCC disagrees with this Audit Finding. The Comptroller's staff utilized the hospital's Open Visit Report, a report known to have significant flaws, when arriving at its conclusion that pre-billing errors resulted in lost revenue at NHCC.

Upon implementation of MedAptus[24] in May 2009, most hospital outpatient visits close as soon as the physician enters charges and a diagnosis into the MedAptus electronic charge entry system. The MedAptus system has actually made NHCC more efficient. Since its implementation, physician billing and collections have increased by more than $1.2 (see chart below).

Year	Billable Procedures	Charges	Collections	% of charges
2009	704,273	$137,772,303	$ 19,366,038	14.06%
2010	746,840	$146,236,292	$ 20,620,621	14.10%
Change	42,567	$ 8,463,989	$ 1,254,583	14.82%

Prior to the implementation of MedAptus, all physicians billing was done on paper charge tickets. These charge tickets were completed by the treating physician and ultimately submitted to a billing entity to generate a bill. The paper charge tickets were also used by NHCC clerks to close all outpatient visits in order for the hospital to generate its bill.

With MedAptus, once patients arrive at their appointment, they are assigned to a physician and it is that physician's responsibility to utilize MedAptus to document the care provided (enter charges). MedAptus is regularly updated to note all newly created CPT-4 codes and issues cautions to physicians if they attempt to select a discontinued CPT-4 code. MedAptus has improved the number of procedures billed, the dollar value of procedures billed and cash collected (see chart above).

An HL7[25] interface ensures that all necessary information, including the charge information input by the physician is immediately sent to both the physician billing company and to Eagle. MedAptus removes the "front desk" clerk from the process of manually closing visits in Eagle and allows our clerks to spend more time securing proper patient information and improve patient throughput and patient satisfaction.

The Open Visit Report was developed prior to the implementation of MedAptus. It was intended to identify situations where the clerk failed to enter into Eagle the required information from the physician charge ticket. Without that information, Eagle could not release a bill.

The Comptroller's Audit concluded that NHCC failed to ensure that Eagle was fully compatible with the MedAptus system.

NHCC was aware of this problem well before the Comptroller's Audit occurred. In fact, as early as May 2009, the official "go-live" date for MedAptus, IT and Patient Accounts staff were already making changes to Eagle in order to more accurately report Open Visits. In April 2010 NHCC hired a Director of Professional Fee Billing. Since her hire, she has been working with IT and Patient

[24] MedAptus is an electronic charge entry system that allows physicians to immediately bill for their services
[25] An HL7 interface allows for the secure transfer of healthcare data between two disparate systems

Accounts to make the Open Visit Report a tool that is compatible with the new workflows created by MedAptus. While progress has been made, there are still "Open Visits" on the Report that have actually been closed and billed by Eagle.
Over the past year and one-half, NHCC has been monitoring this situation and updating Eagle to accept all of the codes that physicians now use. Whenever a problem is identified it is brought to the attention of our IT Department and they take the necessary steps to update Eagle.

The Comptroller's Audit also found that our physicians were not entering data in MedAptus in a timely manner.

That issue has been tracked from the moment MedAptus was implemented. When there is an instance of a physician not charging on a timely basis that information is reported to the Department Chair. We disagree with the Audit finding that the MedAptus system does not have controls to track when patient billing information is entered. The MedAptus software provides Department Chairs with a real-time dashboard to monitor their staff's billing compliance. In addition, NHCC has continuously provided MedAptus training to new providers who have joined our staff, as well as existing providers who still have difficulty utilizing the software. Training always includes a reminder as to the importance of charge entry on a daily basis.

The Comptroller's Audit concluded that the dollar value of unbilled visits for outpatient services for the period 1/1/10 – 4/30/10 increased over the same period in 2009. However, we believe that the Audit fails to take into account the Open Visit Report issues indicated above. There are still many accounts that are closed and billed in Eagle, but the account is still resident on the Open Visit Report. [26]

The Comptroller concluded that NHCC lost $1.2 million in outpatient collections (once again the amount is stated in **charges** and Medicare accounts were included). NHCC does not have the work papers to determine how that number was calculated. We do know that relying on the Open Visit Report will almost surely result in confusion unless the user is fully versed with the issues mentioned above.

<u>Auditors' Follow-up Response:</u>

In their response to our findings NHCC acknowledged that the Open Visit Report had "significant flaws". However during the audit we were informed by management that the Open Visit Report was being utilized to identify and correct pre-billing errors.

NHCC disagrees with the audit finding that the Medaptus system does not have controls to track when patient billing information is entered, however during the audit we were advised that Medaptus does not produce reports that would track the exact times of physician code entry.

The amount of unrecoverable gross charges has been adjusted to reflect the exclusion of Medicare gross charges less than two years old, and again is based upon unbilled gross charges on the Aged Receivables, not upon the Open Visit Report.

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[26] Once all of the modifications are made to the Open Visit Report situations such as no-shows and/or cancelled visits and/or other situations where a facility bill should not be generated will appropriately be eliminated from the Open Visit Report

Audit Finding 1c) Management Effectiveness to Control Pre-Billing Errors Worsened from 2009 to 2010

NHCC Response:

We disagree with this finding. The Auditor's use of the Open Visit Report likely explains this error.

Management and staff at NHCC continue to monitor registration processes in an effort to improve the intake of data. There are currently two workgroups writing desk side "playbooks" with step-by-step instructions on how to properly interview and register patients. We believe that this initiative will substantially reduce the number of registration errors that cause needless extra work to obtain missing or incorrect data. Furthermore, the denial management software that has been implemented (see more about this in our response to Audit Finding 2 and 3) will also help us identify the most common registration errors that result in delayed or improper billing.

With regard to the specific recommendations made by the Comptroller's office, we respond as follows:

a) The reports that NHCC utilizes to identify errors that might result in untimely billing are important tools. NHCC will continue to ensure that a) these reports are modified and updated as needed; and b) that the reports are utilized by our staff on a timely basis. Management must continue to use these reports to identify areas where mistakes occur most frequently. Once these areas are identified, focused training will help to eliminate these common, yet potentially costly errors.
b) Ongoing training in "the art of the interview" is essential. As previously mentioned, the initiative that is already underway to create desk side playbooks offering a step-by-step explanation on how to conduct a proper registration should be particularly helpful to all registration personnel.
c) For the past several months, management has been working with IT to modify reports so that they provide more accurate information about accounts that require work in order to move from unbilled to billed status.
d) Since inception of the MedAptus system, management has stressed the importance of daily charge entry. We have added an assessment of timely billing to the agenda of every monthly review meeting with Department Chairs so they can better manage the timeliness of billing by the providers that report to them. Our training (new providers) and retraining (existing providers) efforts on the MedAptus system stress the importance of daily charge entry as the most effective way to manage billing and ensure maximum collections. As shown above, the number of procedures billed by our physicians and the dollars collected from those billings all grew from 2009 – 2010.
e) We have made numerous corrections to Eagle in order to ensure that Eagle will receive all of the billing data sent to it by MedAptus. This process will continue as we identify new codes that must be updated in Eagle.

Auditors' Follow-up Response:

The Comptroller's Office stands by its findings.

Audit Finding (2) - Contracts Are Awarded without Competitive Bidding and Possible Conflict of Interest

NHCC Response:

NHCC disagrees with the Comptroller's findings concerning the contract between NHCC and Deloitte and Touche, Inc. ("D&T") dated May 11, 2009 (the "Agreement") and the four subsequent amendments. No conflict of interest exists and NHCC abided by all New York State guidelines.

Based on the scope of this project (a comprehensive review of NHCC's financial and operational performance), it was impossible to specify all of the details and address future revenue opportunities at the time the Request for Proposal was originally issued or when the D&T Agreement was ultimately negotiated following a competitive bidding process.

From the outset, it was the intention of the parties to proceed with a series of amendments that addressed NHCC's needs identified by the D&T while its review and assessment was underway.

NHCC published a Request for Proposal ("RFP") in February 2009 seeking Corporate Organization/Restructuring Professional & Management Support Services. In order to successfully implement this complex long-term project with a single business partner, the RFP outlined several different services and skills that were required (e.g. project management, research, data collection and analysis, professional consulting, reporting and implementation, all of which are described in great detail in the RFP).

NHCC's selection committee found D&T to be the vendor providing the best combination of skills, expertise and value. Subsequently, the NHCC Board of Directors authorized execution of an Agreement between NHCC and D&T.

The Agreement was heavily negotiated and designed to (i) enable D&T to provide a comprehensive analysis and report and (ii) delineate the underlying terms and conditions that would govern future amendments necessary to fully implement the program envisioned by NHCC.

As outlined in the Agreement, the original scope of services was essentially an assessment and analysis of NHCC's financial and operational performance which would result in a comprehensive report outlining recommendations to improve operations and efficiency. The Agreement clearly states that all decisions with respect to implementation and D&T guidance solely rested with NHCC.

The Audit Report incorrectly characterizes the four amendments as new contracts. Based on the nature of the project, it was necessary to proceed through multiple amendments because additional recommendations and implementation phases would logically follow and be influenced by prior amendments. The subsequent four amendments were part of a larger plan to (i) explore a potential corporate acquisition opportunity, (ii) increase Medicaid reimbursements, (iii) redesign revenue cycle programs with respect to better denial management and charge capture through improvements in processing claims and (iv) assist NHCC in the selection of a complex Emergency Department Information System.

The Audit Report suggested that there may have been a conflict of interest with respect to NHCC's agreement to implement D&T's Denial Management Tool software ("DMT"). However, prior to acquiring DMT, NHCC had considered three other denial management systems (Emdeon's Denial Manager; CSC Group's Papers Solution; and Ernst & Young's Denial Management System). It was determined that all of the systems were comparable insofar as the specific needs of NHCC, and that the purchase of DMT made sense both operationally and financially.

The purpose of DMT is to identify claim denials at the time of receipt at the hospital and systematically build work lists for NHCC employees to provide timely follow-up with the payor resulting in denial reversal and payment of the claim. Without DMT, NHCC could run the risk of failing to timely work costly denials. D&T's familiarity with NHCC's systems and goals, coupled with the simplicity of implementing DMT into NHCC's operating environment made it the best choice for NHCC. NHCC believes the procurement process was carried out in compliance with NHCC's policies and procedures and without any conflict of interest.

The suggestion contained in the Audit Report that NHCC should have issued new RFPs for each amendment/stage is unreasonable and would have been counterproductive. Furthermore, the Audit Report suggests that there is no evidence to indicate that NHCC management performed an independent review of D&T's assessments, however, all implementation decisions were ultimately made by a team of NHCC finance and business professionals based on NHCC's own critical and independent analysis of D&T's recommendations and NHCC's Board of Directors approval.

Auditors' Follow-up Response:

The Request for Proposal ("RFP") that was awarded to Deloitte & Touché ("D&T") Consulting was for a contract in the amount of $250,000. Amendments #1 through #4 for amounts ranging from $180,000 to $3,240,000 for additional services significantly changed the services of the original contract, and we stand by our recommendation that the amendments should have been subjected to the RFP process.

In addition, the projected financial improvement was based upon D&T's estimates and was not independently verified by NHCC.

Audit Finding (3) – Contingency Fees Paid to Consultant Without Required Support

NHCC Response:

NHCC negotiated a lower contingency fee on recoveries realized through the use of DMT in exchange for a $550,000 payment (in four equal monthly installments) made to D&T following the signing of Amendment #3 which involved the purchase and implementation of D&T's DMT. In so doing, NHCC did not violate any law and made an appropriate business decision.

Amendment #3 called for the pre-payment of four equal monthly installments of $137,500 beginning with the month in which Amendment # 3 was signed. That pre-payment was to cover the purchase and implementation of DMT. The advance was requested by D&T knowing that they would be working a considerable number of hours implementing DMT and training NHCC staff on its usage before realizing any financial benefit from DMT. It was agreed that this advance would cover those hours and that any excess funds would be applied, as a credit, against contingent fees owing D&T as a result of NHCC's use of the tool. Once the advances were fully expended, NHCC would pay monthly contingent fees based upon success realized as a result of the use of DMT. The basis for determining contingent fees owed to D&T as a result of NHCC's use of DMT is straightforward. It is a specific formula that calculates the revenue generated from cases that had been denied but were then reconsidered and paid. To the extent dollars collected are greater than the baseline amount[27] which was calculated by NHCC and D&T prior to implementation of DMT, then D&T receives a contingent fee against those incremental dollars.

If NHCC staff appeared to lack the proper training in DMT or did not fully understand the software's benefits to NHCC, it was likely due to the fact that the Comptroller's Audit was being performed at precisely the same time that DMT was being implemented. Accordingly, the staff was first becoming familiar with the software and its capabilities and was not yet educated as to how contingent fees were to be calculated.

The Auditor Finding indicating that DMT does specify the reason for denial is totally wrong. The DMT defines the cause for the denial and forwards the denial to the work list of the employee(s) best-suited to cure the denial. However, it is the job of the staff assigned to work denied accounts to investigate and rectify the denial.

DMT obtains all of its information from Eagle. It is imperative that staff document their work efforts in Eagle when working denied accounts so that both Eagle and DMT are similarly documented. Once a denial has been rectified, Eagle is updated with the payment amount and DMT will no longer report the account on any work list.

With respect to the Auditor's Recommendations, we wish to point out that all were implemented and are in place well before the Comptroller's Report was released.

<u>Auditors' Follow-up Response:</u>

The $550,000 payment by NHCC to D&T was not for the purchase and implementation of the Denial Management Tool ("DMT"), but was for an "incentive fee" (contingency fee) which was an advance payment for projected financial improvement from the DMT. The projected financial improvement, as stated above, was based upon D&T's assumptions. The implementation of the DMT was paid for by a separate payment by NHCC for $250,000 and an annual subscription fee of $75,000.

The Comptroller's Office stands by its finding that the contingency fee was paid without the required support.

[27] The baseline amount is expressed as a percent of the amount of money collected from accounts that were denied six months prior to the implementation of the DMT and which subsequently received a payment within the six month period following the original denial. For purposes of this example, we will assume that NHCC had a 25% reversal rate (in dollars) prior to implementation of DMT. That became the baseline. Once DMT was implemented it began to track each denial for a six month period. So, in June 2010, if NUMC received $1,000 in denials and collected $500 against those denials by December 31, 2010, then the recoveries exceeded the baseline by 25% or $250.00. D&T would be entitled to bill the contingent fee against the $250 that exceeded the baseline. Once a denial ages greater than six months, any collections on that denial received after 6 months is without benefit of a fee to D&T.

Audit Finding 4 – NHCC Violated its Personal/Professional Procurement Policy

NHCC Response:

NHCC works diligently to enforce compliance with its procurement policies and procedures for all professional service contracts. Through NHCC's LD-200 process[28], contract requests are subject to the review and approval of (i) the initiating Department, (ii) the Purchasing Department, (iii) the Budget Office, (iv) the Exec V.P./COO, (v) the V.P. for Finance and (vi) NHCC's General Counsel/V.P. for Legal Affairs. Subsequently, all contract requests are presented to the V.P. for Operations for additional discussion and approval prior to presentment to the President and Board of Directors and/or Finance Committee of the Board of Directors. Once the basic contract terms have been approved by all of the parties listed above, the NHCC legal department works with the vendor to ensure that the terms of the final agreement are consistent with the approvals granted. Typically, each agreement will be sent to the vendor for execution prior to it being presented for signature by NHCC's CEO. At any stage in this process, any of the reviewing parties or bodies may reject the contract and question compliance with the procurement policy.

It should be noted that in January 2009, NHCC revised its LD-200 policy and associated routing slip to, among other things, require the individual requesting the contract to check a box that specifically identifies the method of procurement (e.g. RFP, sole source, group purchasing organization etc.) and then provide details explaining and supporting the procurement and vendor selection in a text box. These changes are designed to continue our efforts to achieve full compliance with appropriate procurement practices throughout NHCC.

The Comptroller's Audit notes that some contract files did not contain all necessary documentation. However, the documentation that could not be found in the contract file was readily available at other locations and the absence of the documentation from the contract files are not a violation of the procurement policy of NHCC or any of the rules and regulations governing procurement. Furthermore, NHCC is confident that its procurement process contains sufficient checks and balances to ensure that each contract is properly procured and authorized.

Auditors' Follow-up Response:

The Comptroller's Office requested all supporting documentation for the contract files reviewed. NHCC management had no process to review contract files for completeness. Our findings are based upon the contract files reviewed and documentation provided, and we stand by our findings.

Audit Finding (5) – Payment Vouchers are Approved and Paid Without Complete Information or Adequate Supporting Documentation

[28] The LD 200 is a document that is prepared by a Department Head seeking to engage a vendor to provide goods or services. The document requires the requestor to indicate the goods/services that are needed, why and how the vendor was chosen, how that vendor can help fulfill the hospital's need, and the vendor's fee. The LD 200 must be approved by senior leadership. The LD 200 is one of the tools used to inform the hospital's Board of Directors about an NHCC need and the selection of a vendor who is capable of fulfilling that need.

NHCC Response:

We are not aware of the vouchers that were reviewed by the Comptroller's auditors which were found lacking necessary documentation. As such, we are unable to agree or disagree with this finding.

Auditors' Follow-up Response:

NHCC indicated in their response that they are not aware of the vouchers, which were reviewed and were lacking documentation. At the commencement of our audit, NHCC's management was provided with a list of vouchers that were to be reviewed. In addition, at the exit conference, management was given the opportunity to request any documents we used to support the audit findings. The Comptroller's Office stands by its findings.

Audit Finding (6) – The NHCC Board Approved Procurement Policy for Legal Services is Flawed and May Have Resulted in Conflict of Interest and Improperly Charged Legal Services

NHCC Response:

There are no statutory or regulatory requirements mandating that legal services be procured through competitive bidding. Moreover, the procurement laws empower the NHCC Board of Directors to determine, in their sole discretion, the manner of selection that will serve the best interests of NHCC when obtaining professional services. Given the specialized skills and experience necessary to capably represent NHCC in diverse practice areas such as tax/bond matters, mental hygiene law, medical malpractice litigation and other specialties associated with hospital business, and the relationship of trust and confidence that is shared by attorney and client, the NHCC Board of Directors resolution approving firm selection and tier rates for legal services was entirely appropriate. Nonetheless, while we do not agree with the suggestions made in the Comptroller's Audit, we will share those suggestions with the NHCC Board of Directors.

NHCC recognizes that certain invoices do not identify the title(s) of the individual(s) performing services. However, in most instances the NHCC Legal Department has direct knowledge of the attorneys and support staff that represent NHCC. Notwithstanding, we have been able to independently confirm the titles of the employees who provided service to NHCC and have requested that the titles of law firm staff providing services to NHCC appear on future invoices. With respect to perceived discrepancies in billing rates, NHCC is reviewing the invoices and if any errors exist, a refund/credit will be obtained by NHCC. A copy of the rate schedule agreed upon by the law firm has been sent to each of the law firm's billing departments.

Auditors' Follow-up Response:

The legal services invoices that the Comptroller's Office questioned, which did not identify the titles of the individuals performing services, was not reviewed by the Legal Department of NHCC. They were approved by managers at A. Holly Patterson, who were not familiar with the Tier I & Tier II *rates, or with the titles of the individuals who provided the legal services. The Comptroller's Office stands by its findings.*

Audit Finding (7) – Formal Policies and Procedures for Capital Budgets are Lacking and Result in Unsupported Expenditures for Capital Projects and Legal Expenses

NHCC Response:

NHCC management disagrees with the finding that policies and procedures are lacking and there are unsupported expenditures.

NHCC will provide the Comptroller's office with the support and written policies under separate cover.

Auditors' Follow-up Response:

The support for the IT Capital Project budget and the Legal Expenses budget recently provided by NHCC was requested multiple times during the audit fieldwork, but was not provided. We cannot at this time test the validity of the budget items listed supporting the IT Capital budget. In addition, the explanation provided for the Legal Expenses budget indicated that the budget was established for revenue cycle consulting engagements and other consulting engagements, as well as other unidentified expenses that were unrelated to legal expenses.

Audit Finding (8) Poor Management of Non-Medical Employees Result in Excessive Overtime.

NHCC Response:

*NHCC management disagrees with the finding that poor management of non-medical employees resulted in excessive overtime. As quoted in **Better Hospitals Clinical Operations Leadership Journal of Excellence,** dated September 3, 2009, "Productive hospitals run 1% – 3% of overtime hours to total paid hours". The class of employees reviewed by the Comptroller had overtime hours to total paid hours of 3% which is within the industry norm for "Productive Hospitals".*

The average employee, in the non-clinical areas reviewed, earns fringe benefits in excess of 50% of their base pay. Overtime, on the other hand, is paid at straight time for the first 5 hours (weekly) and 1.5 times base pay rate for hours in excess of 5 (weekly) hours. Thus, overtime is far more cost effective to NHCC than hiring excess staff to ensure par staffing under all circumstances.

According to NHCC's Collective Bargaining Agreement, an employee must notify a "supervisor on duty at least one (1) hour before the start of the employee's shift on which such employee will be absent". With this dynamic in place, attempting to schedule additional employees to reduce overtime usage is impractical and will oftentimes lead to overstaffing.

The Management of NHCC has begun to re-educate timekeepers and staff to the rules that must be followed by issuing a Human Resources bulletin outlining the issues addressed in the

Comptroller's Report (e.g., missed punches and working through lunch) See "Attachment A" page 2.

Management is also currently in the process of transitioning from a decentralized timekeeping organization to one that is fully centralized. The centralization of timekeeping functions will further ensure that payroll policies and controls are uniformly applied and enforced throughout the institution.

Auditors' Follow-up Response:

The Comptroller's Office stands by its findings that six of 157 departments were responsible for 60% of the total overtime paid by NUMC in 2009, and that four employees cited were paid overtime in 2009 equivalent to 76% to 117% of their regular pay, which we consider excessive.

Audit Finding (9) - Two Employees Promoted To and Functioning In Titles Outside of Their Civil Service Titles

NHCC Response:

Management strongly disagrees with the finding that NHCC has circumvented the NYS Civil Service Commission by promoting employees outside the competitive process. NHCC strictly enforces and abides by all Civil Service rules and regulations pertaining to classification, recruitment, hiring and promotions.

A review of the job specifications for the employees in the job title of Resource Supervisor confirms that each of these employee are performing duties within the scope of responsibility identified in the Civil Service job description for this title.

The employees in question are Supervisors. The magnitude of supervision necessary for their areas of responsibility was significant due to implementation of new systems and a shortfall in overall supervisory staff in their Department. This created a situation that required a significant amount of overtime and the need for these specific supervisors to be readily available to oversee their 24/7 operation. The employees were compensated correctly in accordance with the collective bargaining agreement.

Prior to the issuance of the Audit Report, NHCC restructured its Patient Access/Patient Financial Services Departments and filled several vacant supervisory positions. These moves have eliminated the majority of the overtime for these two employees and also eliminated the need for on-call pay for one of the employees.

Management has implemented an "on-call log" that is required to be submitted with the on-call authorization form so that management can monitor and evaluate the continuing need for on-call pay.

Auditors' Follow-up Response:

The Comptroller's Office reviewed the job functions of four Resource Supervisors. Only the two cited in our finding had functional titles other than Resource Supervisors. These two had greater *responsibilities, received beeper, stand-by, mealtime pay, and excessive overtime, which the other two supervisors did not receive.*

Even though NHCC "strongly disagrees" with this finding, NHCC has admitted that it has "restructured its Patient Access/Patient Financial Services Departments and filled several vacant supervisory positions. These moves have eliminated the majority of overtime for these two employees.

Audit Finding (10) – NHCC Overcharged Nassau County $47,828 in Billing of Termination Pay

NHCC Response:

NHCC management concurs with this finding. We are currently reviewing and rewriting our procedures to ensure termination pay will be billed in accordance with the Acquisition Agreement.

With regard to the specific findings, Nassau County billing has been adjusted to correct for these discrepancies and NHCC has recouped, or will recoup against future payments, any overpayments made to employees.

Auditors' Follow-up Response:

We concur with the corrective actions taken by NHCC.

Audit Finding (11) – Inadequate Payroll Procedures Resulted in Underpayment of Vacation and Sick Leave Severance to Employees

NHCC Response:

NHCC management concurs with this finding. In the rare instance of an employee breaking from service and being rehired within three years of termination at a different rate, our automated payroll system processes the termination pay at the latest system pay rate which may be different from the rate NHCC is contractually obligated to pay.

NHCC management is in the process of reviewing and rectifying all instances of past payments with improper rates and will make sure that affected employees are properly compensated. Future severance payments will be carefully scrutinized prior to issuance until such time as an automated solution can be tested and implemented.

Auditors' Follow-up Response:

We concur with the corrective actions taken by NHCC.

Audit Finding (12) – Privately-Owned Vehicle was Allowed to Fuel at A. Holly Patterson Depot Without Written Authorization or Supporting Documentation to Account for Business Use

NHCC Response:

NHCC disagrees with this finding. The employee had verbal authorization from NHCC's CEO permitting the employee to fuel his vehicle at the A. Holly Patterson fuel depot.

The employee, formerly the Administrator at A. Holly Patterson (AHP) was verbally authorized by prior and current NHCC CEOs to fuel his vehicle at the AHP fuel depot during the period in issue (January 1, 2009 – August 30, 2010). While there is no written authorization on file permitting the employee to fuel his personal car at the AHP fuel depot, the available information indicates that the employee received verbal authorization from two prior NHCC CEO's (Mr. Turan and Mr. Kane). NHCC's CEO, Mr. Gianelli, also provided verbal authorization when the employee informed him about this ongoing privilege.

The arrangement was approved in lieu of the employee having to submit travel expenses for reimbursement pursuant to IRS regulations.

Due to the nature of his duties and responsibilities, the employee made multiple daily trips to and from Nassau University Medical Center (NUMC) and AHP[29]. Each round trip is 8 miles and it was not out-of-the ordinary for the employee to make two or more such trips each workday. If the employee made 2 trips a day each day of the workweek, that would be 16 miles a day or 80 miles a week. With IRS reimbursement rates at 50 cents a mile during the period in question, the employee would have received $40.00 a week in travel expenses just for his trips to and from NUMC and AHP. It proved more cost effective to permit the employee to fuel at AHP's fuel depot than to reimburse mileage costs to the employee.

The employee followed protocol. Whenever he obtained fuel it was entered in the fuel logs maintained at AHP. The license plate on his personal vehicle was noted in the log along with the number of gallons he received. The Audit Report notes that during this 20 month period a total of 992 gallons of gas was received by the employee. Strictly from a financial perspective, neither the employee nor NHCC gained or lost money on this privilege accorded this employee.

Relative to the Audit recommendations, NHCC wishes to report that it already has a written fuel and vehicle use policy that complies with IRS regulations. NHCC does not now, nor has it ever permitted unauthorized vehicles to obtain fuel at AHP. If there is an unauthorized use of fuel pumps at AHP the violating party is subject to discipline as well as payment for the value of the unauthorized fuel consumed.

Auditors' Follow-up Response:

Since the employee that was fueling his private vehicle at the A. Holly Patterson fuel depot was not required to document in writing his business mileage, the benefit or cost of this privilege could not be determined. Therefore it cannot be determined whether NHCC or the employee benefited from the privilege, or whether any of the fuel was used for personal mileage.

[29] In addition to the frequent travel to and from NUMC and AHP, the executive also did other business-related travel such as educational sessions; business meetings; etc.

Any agreement between an employer and an employee regarding employer-provided benefits should be in writing. In the case of transportation benefits, the business usage should be documented in writing.

Audit Finding (13) – NHCC Management Allows Unauthorized Vehicles and Drivers to Fuel Vehicles

NHCC Response:

NHCC is unaware of any unauthorized vehicles being permitted to obtain fuel at AHP.
As noted in the Comptroller's Report, fuel is pumped only by an AHP Public Safety Officer. Only NHCC owned vehicles, or any other vehicle appearing on an authorized list, may receive gas from the fuel depot at AHP. The Public Safety Officer is required to maintain a log into which s/he must enter the license plate of the vehicle, the number of gallons pumped, the driver of the vehicle and the identification displayed as proof of identity. In addition the driver of the vehicle receiving the fuel must also sign the log.

We agree with the Comptroller that these procedures must be enforced, and we shall stress that point with the AHP Public Safety Officers. Care must be taken to enter the correct license plate in order to remove any doubt as to the vehicle's authorization to obtain gas at the AHP fuel depot.

NHCC shall require periodic review of the logs and shall immediately investigate any suspicious entries. Violators of the NHCC fuel policy will be responsible to pay NHCC for any fuel received improperly as well as other possible discipline.

Auditors' Follow-up Response:

Our review of the fuel logs identified 14 license plates on vehicles that were not on the authorized vehicles list provided by management during our fieldwork. However, we concur with NHCC's plan of action to "require periodic review of the fuel logs and shall immediately investigate any suspicious entries."

Audit Finding (14) – Fuel Inventory Was Not Monitored to Safeguard against Theft or Ground Contamination Resulting from Leaking Tanks

NHCC Response:

Once again, we are not aware of any infractions of our fuel policy.

However, we do agree to implement additional oversight of the fuel inventory process at AHP. We expect inventory levels to be consistent with the amount of fuel delivered and amount of fuel dispensed.

We will require periodic supervisory oversight and approval of all entries in the gas logs at AHP. Dipstick readings are to be taken daily and the dipstick reading must be entered into the fuel log. If the fuel log reading is not consistent with the amount of fuel received and the amount dispensed, the Public Safety Officer must report the discrepancy to his superior.

To the extent that they differ from what NHCC currently requires in its fuel policy, NHCC intends to adopt the recommendations contained in the Comptroller's Audit. We will require periodic reconciliations and will require gas reports to be distributed to each department that uses fuel so that usage can be validated.

NHCC shall conduct a thorough reconciliation of gas usage in 2010 to identify and investigate discrepancies and to confirm that the underground tank does not have a leakage problem.

<u>Auditors' Follow-up Response:</u>

We concur with NHCC's plan of action to "conduct a thorough reconciliation of gas usage in 2010 to identify and investigate discrepancies and to confirm that the underground tank does not have a leakage problem".

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HR CONNECTIONS JANUARY, 2011

NEW HUMAN RESOURCES POLICY AGAINST NEPOTISM IN HIRING AND SUPERVISION

The policy of NuHealth is tō avoid nepotism in the workplace. Employees shall not be hired, assigned, or transferred to work under the supervision of a family member. The term "family member" shall mean any person living in the same household as the employee, and any person related to the employee within the third degree of consanguinity of affinity.
See charts

MANAGER/SUPERVISOR

- **No employee may take part in any hiring, supervision or employment decision relating to a family member.**
- **If a hiring, supervision or employment matter arises relating to a family member, then the employee must advise Human Resources of the relationship, and must refrain from participating in any and all discussions or decisions relating to the matter.**
- **Failure to report the relationship or refrain from participating in any decision or issue involving the hiring, supervision or employment of a family member may result in disciplinary action, up to and including, discharge.**

EMPLOYEE OBLIGATION

- **No employee is permitted to work in a position where his or her supervisor or the supervisor's supervisor is a family member.**
- **If, at any time after employment begins, an employee learns that a supervisor or supervisor's supervisor is a family member, and then the employee must advise Human Resources of the family relationship. Failure to report the relationship may result in disciplinary action, and up to and including, discharge.**

APPOINTMENTS, PROMOTIONS, OR TRANSFERS

- **Whenever a situation involving supervision of a family member or a supervisor's supervisor is a family member occurs, through appointment, promotion, transfer or marriage, action will be taken to transfer one of the employees within a two (2) month period after the relationship is determined or established.**

Officer or Employee		
Consanguinity (Includes individuals related by blood to the Officer or Employee)		
First Degree	Second Degree	Third Degree
Father or Mother	Grandparents	Great Grandparents
Son or Daughter (& Spouse)	Grandchildren (& Spouse)	Great Grandchildren (& Spouse)
	Uncle or Aunt (& Spouse)	Great Uncle or Aunt (& Spouse)
	First Cousin (& Spouse)	Children of Great Great Uncle or Aunt (& Spouse)
	Nephew or Niece (& Spouse)	Second Cousin (& Spouse)
	Brother or Sister (& Spouse)	Children of First Cousin (& Spouse)
		Grand Nephew or Niece (& Spouse)

Officer or Employee		
Affinity (Includes the Officer's or Employee's Spouse and individuals related to the Spouse)		
First Degree	Second Degree	Third Degree
Spouse or Domestic Partner	Grandparents	Great Grandparents
Father or Mother	Grandchildren	Great Grandchildren
Son or Daughter	Uncle or Aunt	Great Uncle or Aunt
	First Cousin	Children of Great Uncle or Aunt
	Nephew or Niece	Second Cousin
	Brother or Sister	Children of First Cousin
	Children of Spouse or Domestic Partner	Grand Nephew or Niece

Officer or Employee is the starting point from which all degrees of relationship are calculated.

Under the Degrees of Consanguinity, where Spouse is indicated, the relationship of the spouse is in the same degree as that of the person related by consanguinity, but the spouse is related only by affinity.

Please contact Maureen Roarty or Margaree Mack-Glen in the Human Resources Division by calling extension 2-6301 if you have any questions or comments.

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HR CONNECTIONS
JANUARY, 2011

TIMEKEEPING PROCESS & PROCEDURE

It is the goal of NuHealth to accurately record all hours worked for all staff so that employees can be paid accurately. Toward achieving this goal, all staff are required to swipe in and out when reporting to and leaving work.

TIMEKEEPING PROCEDURE

- Within the first week of employment, the department timekeeper shall register the employee's finger at the designated clock.
- Employees must finger swipe in and out when reporting to and leaving work. Failure to do so may result in not being paid properly and may result in disciplinary action.
- Employees are expected to adhere to their scheduled hours so that the automated system will recognize and record all regularly scheduled hours.
- Employees authorized to work overtime, must swipe in and out for the shift so that they can be paid properly for the additional time worked.

MISSED SWIPES

If a staff member is unable to clock in or out at their designated clock on a given day, it is his/her responsibility to complete a "Missed Punch Form" signed by his/her supervisor verifying the hours worked. This documentation must be submitted to the department timekeeper.

- Timekeepers are not authorized to enter hours worked for any employee without verification from the supervisor.

SCHEDULE /SHIFT CHANGES

- All changes in employees' scheduled work days and/or shift must be approved by the employee's supervisor in advance.
- The approval must be communicated in writing on the "Change of Work Shift and/or Work Schedule" form to the department timekeeper so the change can be manually entered in the Kronos system.
- Failure to do so may result in the employee not being paid for all hours worked and/or not being paid properly for shift differential.
- For permanent shift changes, in accordance with the collective bargaining agreement, employees are to be given two weeks notice prior to the change.

CANCELLING MEAL DEDUCTIONS

- Employees are not to work through their lunch and then take their meal hour at the end of their daily work shift.
- The only circumstance in which a supervisor should consider approving an employee working through their meal time should be for emergency situations. When this exception occurs, the urgency must be well documented and approved by the supervisor utilizing the "Change of Work Shift and/or Work Schedule" form.

MEDICAL ABSENCES

All employee absences of three or more days, due to illness, and all requests for Family Medical Leave must be reported to Donna Schultheis in Human Resources for monitoring and for adherence to the Leave of Absence policy.

CHILD CARE LEAVE

Child care leave shall be provided without pay or benefits to employees for parenthood leave, including any accrued leave entitlements utilized, must commence within 120 calendar days of the birth of a child parented by the employee, or 120 calendar days of the adoption by an employee of a child less than 5 years of age. Such leave shall extend up to one calendar year inclusive of the use of accrued leave entitlements, except that a department or agency head may elect to extend up to one additional calendar year leave of absences (for a total maximum of two calendar years).

No employee shall be eligible for Child Care Leave until after the completion of one full year of actual completed service. Employees <u>must</u> contact Human Resources prior to leave.

Please contact Maureen Roady or Margaree Mack-Glen in the Human Resources Division by calling extension 2-6301 if you have any questions or comments.

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HR CONNECTIONS
JANUARY, 2011

WORK PLACE VIOLENCE

Workplace violence is any physical assault, threatening behavior, or verbal abuse occurring in the work setting.

NuHealth is committed to the safety and security of our employees. Threats, threatening behavior, or acts of violence against employees, visitors, guests, or other individuals by anyone on NuHealth System's property will be thoroughly investigated and appropriate action will be taken, including summoning criminal justice authorities when warranted. All employees are responsible for helping to create an environment of mutual respect for each other as well as clients, following all policies, procedures and program requirements, and for assisting in maintaining safe and secure work environment. NuHealth has a *ZERO TOLERANCE* level for violence in the workplace and will make every effort to prevent violent incidents.

TYPES OF WORKPLACE VIOLENCE

Beatings	Harassment of Any Nature
Shootings	Suicides
Rapes Near	Near-Suicides
Psychological	Psychological Trauma
Threats or Obscene Phone Calls	Possession of a Dangerous Weapon
Intimidation	Violation of Restraining Order
Stalking	Gang Related Activities
Stabbings	Sabotaging the Workplace

OUR RISK ASSESSMENT PROCESS

The workplace violence assessment committee conducts routine workplace violence risk evaluation rounds. The team includes the Vice President of Support Services, Director of Safety, CSEA Representative, Safety Officer, and Director of Risk Management. In the fourth quarter of 2010 the team evaluated these areas:

Emergency Department Psychiatry Area 4	To be revisited at completion of ED renovation.
Cashier/Vault	No action needed.
Bulk stores and loading dock - DCB	Repair door.
Housekeeping Office	Replace door and add camera in elevator lobby.
Payroll - First floor DCB	Install panic button.
Information Technology - Ground floor DCB	Install panic button.
Finance - First floor DCB	Install panic button.
Pharmacy - Basement DCB	Install combination lock on break room door and a panic button.
Medical Records - First floor DCB	No action needed.
Accounts Payable/ Billing/ Patients Accounts/ IT - "G" Building	No action needed.

Additional safety improvements include:

- Addition of panic button in several areas
- Installation of cameras with videotaping capability
- Limiting access in and out of buildings
- Door repairs
- Additional security guards stationed
- Outside lights added
- Implementation of card access
- Security escort available for staff
- Trees trimmed to prevent blind spots

The most frequent complaint from staff concerns the parking garage. Employees feel unsafe when walking to their cars in the ramp garage. Employees are reminded that security escorts are provided by calling 572-3131.

INCIDENT REPORTING/INVESTIGATION

- All incidents must be reported within 72 hours.
- Incident Report Form must be completed for all incidents.
- Each incident will be evaluated and reviewed by the Incident Threat Team.
- A copy of incident report will be filed with HR.
- Employees engaged in this type of behavior are subject to appropriate action. We'll provide adequate authority and budgetary resources to responsible parties so that our goals and responsibilities can be met.
- All managers and supervisors are responsible for implementing and maintaining our WPV Program. We encourage employee participation in designing and implementing our program.
- We require prompt and accurate reporting of all violent incidents whether or not physical injury occurred. We will not discriminate against victims of workplace violence.

TRAINING AND EDUCATION

Workplace Violence Prevention training is given to all new employees including managers and supervisors, as part of their orientation. All current employees receive training through the annual in-service program.

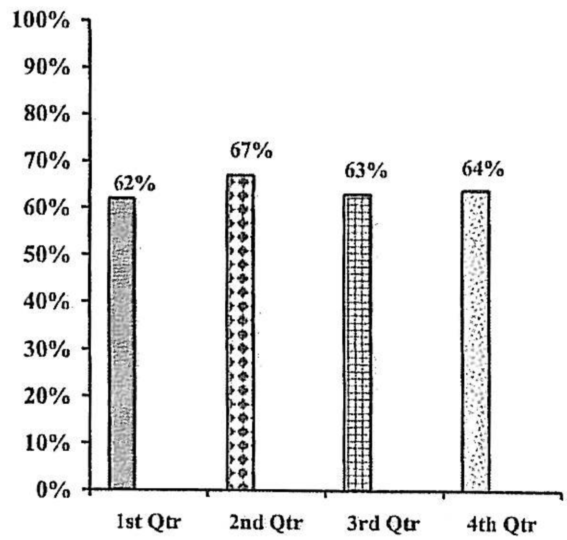
Please contact Maureen Roarty or Margaree Mack-Glen in the Human Resources Division, by calling extension 2-6301 if you have any questions or comments.

HR CONNECTIONS
JANUARY, 2011

PERFORMANCE EVALUATIONS

Performance Evaluations should be done timely to ensure the organization is in compliance. Department Heads are responsible for assuring evaluations are completed in a timely manner and forwarded to Human Resources. Our current rating of 63.5% is significantly below the targeted compliance rating of 90%.

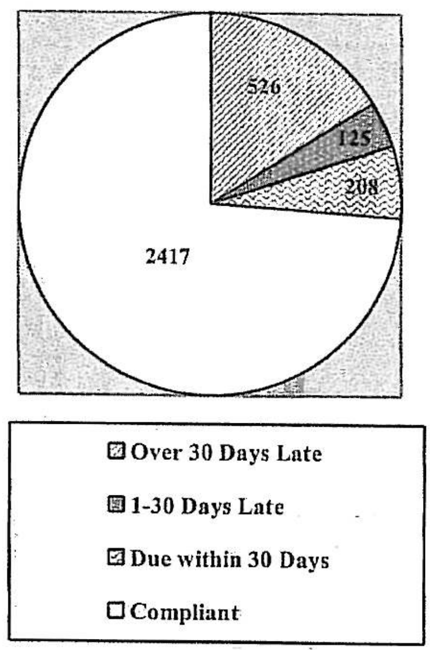
QUARTERLY PERFORMANCE EVALUATION COMPLIANCE



ANNUAL HEALTH ASSESSMENTS

E-mail notifications are sent to Department Heads from Dr. Gardyn. Department Heads must notify their employees to complete their physical in a timely manner. There are 526 employees who are more than 30 days overdue for their annual health assessment.

ANNUAL HEALTH ASSESSMENT COMPLIANCE



Please contact Maureen Roarty or Margaree Mack-Glen in the Human Resources Division, by calling extension 2-6301 if you have any questions or comments.