DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date NOV 13 1992

From Bryan B. Mitchell
Principal Deputy Inspector General

Subject Review of General and Administrative, Fringe Benefits, and Other Costs Reported by North Kansas City Hospital (A-07-92-00554)

To

William Toby, Jr.
Acting Administrator
Health Care Financing Administration

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

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

Our review showed that reported costs totaling $273,585, subject to Medicare participation, were unallowable under the Medicare cost reimbursement principles since these costs were unrelated to patient care. These unallowable costs consisted of (1) G&A costs of $11,640 incurred for marketing, entertainment, and donations; (2) fringe benefits costs of $223,028 incurred for entertainment and accrued for unused sick leave; and (3) dietary costs of $38,917 incurred for meals provided to nonhospital personnel or guests.

We are recommending that $273,585 of unallowable costs be eliminated by NKCH before claiming Medicare participation. The effect to the Medicare program would be approximately 7.2 percent or $19,698.

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

the hospital as a business entity. We have classified $793,843 of NKCH's costs as "Costs for Concern." Medicare participated in $52,367 of the "Costs for Concern." These costs, which included Christmas supplies, parties, flowers, decorations, spouse travel, and employee gifts and awards, historically have been treated by the fiscal intermediary as allowable under the Medicare cost reimbursement principles.

Medicare did not participate, however, in the remaining $741,476 of "Costs for Concern" since these costs had already been "self-disallowed" by NKCH. These costs, consisting of public relations costs for salaries, advertising, printing, postage, and other, were expended on promoting the community hospital. Historically, the Medicare cost reimbursement principles consider most public relations costs as being unnecessary to patient care.

The NKCH partially concurred in our recommendation adjusting G&A costs, unused employee sick leave, and dietary costs. The NKCH did not specifically respond to our recommendation to establish procedures to prevent these costs from being reimbursed in the future.

The NKCH also did not concur with our position regarding the "Costs for Concern" and stated that these costs are necessary for a competitive health care system.

For further information contact:

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

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF GENERAL AND ADMINISTRATIVE, FRINGE BENEFITS, AND OTHER COSTS REPORTED BY NORTH KANSAS CITY HOSPITAL

NOVEMBER 1992 A-07-92-00554

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

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

CIN: A-07-92-00554

Mr. James T. Leigh
Vice-President of Finance
North Kansas City Hospital
2800 Clay Edwards Drive
North Kansas City, Missouri 64116

Dear Mr. Leigh:

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

Our review showed that reported costs totaling $273,585, subject to Medicare participation, were unallowable under the Medicare cost reimbursement principles since these costs were unrelated to patient care. These unallowable costs consisted of (1) general and administrative (G&A) costs of $11,640 incurred for marketing, entertainment, and donations; (2) fringe benefits costs of $223,028 incurred for entertainment and accrued for unused sick leave; and (3) dietary costs of $38,917 incurred for meals provided to nonhospital personnel or guests.

We are recommending that $273,585 of unallowable costs be eliminated by North Kansas City Hospital (NKCH) before claiming Medicare participation. The effect to the Medicare program would be approximately 7.2 percent or $19,698.

In the OTHER MATTERS section of this report, we have presented a "Costs for Concern" category in response to the Subcommittee's interest in rising health care costs. The Subcommittee was concerned as to whether there were any unnecessary (inappropriate or extravagant) costs incurred by the hospital as a business entity. We have classified $793,843 of NKCH's costs as "Costs for Concern."

Medicare participated in $52,367 of the "Costs for Concern." These costs were expended on Christmas supplies, parties, flowers, decorations, spouse travel, and employee gifts and awards. Historically, costs of this nature incurred for employee morale purposes have been treated by NKCH's fiscal intermediary (FI), Blue Cross and Blue Shield of Missouri (BC/BS), and the Health Care Financing Administration (HCFA) as allowable under the Medicare cost reimbursement principles.

Medicare did not participate, however, in the remaining $741,476 of "Costs for Concern" since these costs had already been "self-disallowed" by NKCH. These costs, consisting of public relations costs for salaries, advertising, printing, postage, and other, were expended on promoting the community hospital. Historically, the Medicare cost reimbursement principles consider most public relations costs as being unnecessary to patient care.

The NKCH partially concurred in our recommendation adjusting G&A costs, unused employee sick leave, and dietary costs. The NKCH did not specifically respond to our recommendation to establish procedures to prevent these costs from being reimbursed in the future.

The NKCH did not concur with our position regarding the "Costs for Concern" and stated that these costs are necessary in a competitive health care system. The NKCH's comments have been summarized and incorporated in this report along with our response. The comments are included in their entirety as an appendix to this report.

BACKGROUND

The NKCH is a licensed 360-bed medical complex, including a 26-bed mental health center, owned by the City of North Kansas City, Missouri. The hospital is governed by a Board of Trustees appointed by the Mayor and approved by the City Council. The hospital is exempt from Federal income taxes as an organization described under section 501(c)(3) of the Internal Revenue Code. The hospital officially opened as a city hospital in 1958.

The most common method of reimbursement under Medicare is the prospective payment system (PPS) which was established by the Social Security Amendments of 1983. Today, there are about 6,520 hospitals participating in the Medicare program. About 5,480 of these hospitals, or 84 percent, are reimbursed for inpatient care under PPS. The NKCH is a PPS hospital.

Under PPS, Medicare's payment for most Part A hospital inpatient operating costs is made prospectively on a per discharge basis, under which Medicare discharges are classified into diagnosis related groups (DRG). Hospitals under the PPS reimbursement

methodology are reimbursed for most Medicare inpatient services through fixed DRG payments which are based on the volume and type of services performed, regardless of actual costs. In short, these payments are analogous to "at risk, fixed price contracts" that permit hospitals to make more or less money in treating Medicare patients, depending on how they manage in the aggregate.

Since a PPS hospital receives the same DRG payment for a particular discharge regardless of its costs, inappropriate G&A costs have no immediate direct effect on Medicare reimbursement to the hospital for inpatient services provided to Medicare beneficiaries. Such inappropriate overhead expenditures, however, directly affect Medicare reimbursement for outpatient services and for services provided by excluded units. Excluded units are psychiatric, rehabilitation, and alcohol/drug units of general hospitals. At NKCH, Medicare's participation in noninpatient services is approximately 7.2 percent.

For the fiscal year (FY) ended June 30, 1991, NKCH showed total hospital costs of $75.1 million before reclassifications and adjustments. Reclassifications and adjustments of $6.4 million were made to properly account for revenues generated from support cost centers, for self-insurance and malpractice insurance liability adjustments, for public relations costs incurred while promoting the hospital in the community, and other. Thus, for Medicare participation purposes, the net amount subject to sharing was $68.7 million.

SCOPE OF REVIEW

Our review was made in accordance with generally accepted government auditing standards to the extent that they were applicable to the scope of our review as defined in an audit guide provided by the lead region. The audit guide was developed to ensure adequate audit coverage of the concerns expressed by the Subcommittee. The audit guide was limited to these concerns and, as such, a review of internal controls was not performed.

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

To accomplish these objectives, we reviewed transactions selected from the G&A, fringe benefits, and certain other accounts

identified in NKCH's Hospital and Health Care Cost Report (HCFA-2552) for FY 1991. We reviewed pertinent supporting documentation provided by NKCH officials for charges reported in these cost centers. We also discussed the selected charges with NKCH officials. In selecting costs for analysis, we included only those items which we believed had the greatest risk of noncompliance with Federal requirements. Therefore, the results of our analysis cannot be considered to be representative of the operations of NKCH.

We also reviewed the BC/BS cost report settlement process for the FYs ended June 30, 1988, 1989, and 1990 respectively, including the desk review working papers for 1988 and 1989 and audit working papers for 1990. Our field work was conducted at NKCH during February 1992.

RESULTS OF REVIEW

We considered certain G&A costs, fringe benefits costs, and dietary costs to be unallowable under Medicare cost reimbursement principles since these costs were unrelated to patient care.

THE G&A COSTS ALLOCABLE TO MEDICARE

The NKCH included $7,514,941 of G&A costs in the pool of costs allocable to Medicare. Of this amount, we reviewed $785,486 and found $11,640 was unallowable under title 42 of the Code of Federal Regulations (42 CFR), part 413 and the Medicare Provider Reimbursement Manual (PRM), section 2100 criteria which states, "All payments to providers of services must be based on the 'reasonable cost' of services covered under [Medicare] and related to the care of beneficiaries...." The unallowable costs were incurred for contract fees, alcoholic beverages and entertainment, symphony tickets, and charitable contributions.

Contract Fees

After signing a letter of agreement with a consulting firm, NKCH paid a $7,000 up-front fee to the firm. The agreement stated that the consulting firm was responsible for repositioning NKCH as the primary health care facility for two local businesses. The consulting firm was to solicit area businesses to use the hospital as their employees' primary health care facility.

According to PRM, section 2136.2, "Costs of advertising to the general public which seeks to increase patient utilization of the provider's facilities are not allowable." While the consulting services did not involve direct advertising to the general public, we believe that the intent was the same--to increase patient utilization of the hospital's facilities. Therefore, we considered these costs to be unallowable under Medicare cost reimbursement criteria.

Entertainment and Alcoholic Beverages

We identified $1,842 of G&A costs for entertainment and alcoholic beverages which were unallowable for Medicare participation. The Medicare Provider Reimbursement Review Board (PRRB), in their Decision No. 85-D62 dated June 12, 1985, held that the costs of a provider's Christmas party are allowable Medicare costs. However, the HCFA Administrator reversed a later PRRB decision (No. 91-D60 dated August 16, 1991), concluding that costs related to entertainment and alcoholic beverages are neither necessary and proper, nor related to patient care, and thus are not allowable.

The NKCH held Christmas parties in 1990 for hospital management and for the hospital Board of Trustees. According to NKCH officials, the purpose of the parties was to show the hospital's appreciation and to promote employee relationships. Hospital records showed that these two Christmas parties were held at an exclusive club in Kansas City. We also noted entertainment costs for another staff's Christmas party. Various expense vouchers disclosed unallowable costs for the parties totaling $1,407, including $1,107 for alcoholic beverages, and $300 for entertainment. We also noted costs totaling $235 for alcoholic beverages related to other meetings. Furthermore, in November 1990, NKCH paid $200 for a musician to provide background music at the community appreciation dinner.

Symphony Tickets

The NKCH incurred costs of $1,748 in March 1991 for tickets and parking passes for managers to attend the Kansas City Symphony. Hospital records and interviews with NKCH officials disclosed that these costs were incurred to promote morale. These costs are unallowable under PRM, section 2102.3 because they were unrelated to patient care. The PRM, section 2102.3 states, "Costs not related to patient care are costs which are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Such costs are not allowable in computing reimbursable costs."

Charitable Contributions

Our examination of various charges to the marketing account disclosed $1,050 in expenditures for charitable contributions which, in our opinion, were unrelated to patient care. The NKCH contributed $900 to a cancer society by purchasing tickets totaling $700 to attend an awards gala and contributing $200 towards a dinner ceremony. The NKCH also purchased tickets costing $150 for the sponsorship of a table for a diabetes association breakfast. According to NKCH officials, contributions for these fund raisers were in support of causes related to health care.

In addition to the PRM, section 2102.3 requirement that costs be related to patient care, the PRRB released Decision No. 80-D88, dated October 10, 1980, which stated that payments made to specific civic and charitable organizations did not constitute Medicare reimbursable costs since they were unrelated to patient care. The PRRB also stated that such contributions did not meet the 42 CFR, part 405.451 (PRM, section 2100) qualification that, "Reasonable cost includes all necessary and proper costs incurred in rendering the services...."

FRINGE BENEFITS COSTS ALLOCABLE TO MEDICARE

The NKCH included $4,101,090 of fringe benefits costs in the pool of costs allocable to Medicare. Of that amount, we reviewed $359,704 and found $223,028 was unallowable under 42 CFR, part 413 and PRM, section 2100 criteria. These unallowable costs, which consisted of entertainment costs of $700 and unused employee sick leave costs of $222,328 are discussed in detail below.

Entertainment

We identified $700 of employee benefits costs incurred for entertainment at Christmas parties. Entertainment costs are unallowable for Medicare participation. These costs are similar to those discussed above under G&A costs.

Unused Employee Sick Leave

The NKCH reported the FY 1991 increase in unused accrued employee sick leave, totaling $222,328, as a fringe benefits cost. Beginning in 1990, NKCH revised its employee compensation policies to provide that employees who retired from NKCH would fully vest in unused accrued sick pay; all other employees would forfeit that pay upon termination. The NKCH considered the annual increase in unused accrued employee sick leave for <u>all</u> employees to be a fringe benefits cost. However, as of the date of our review, there was no reasonable estimate, either of the number of employees who would actually retire, or of the liability for accrued sick pay associated with their retirement.

The PRM, section 2144.8 provides that the reasonable cost of sick leave taken (or payment in lieu of sick leave taken) is recognized as a fringe benefit and is an allowable cost in the cost reporting period when paid. If the sick leave is vested and funded, contributions to the fund are allowed. However, according to 42 CFR, part 413.24, the amount of the liability must be readily determinable. The NKCH has not met this standard at this time. Therefore, the reasonable liability cost of the $222,328 of unused accrued sick pay has not been determined.

The NKCH officials indicated that they need a more logical method of determining the costs associated with vested sick leave in order to reflect the reasonable value of the fringe benefits. The NKCH officials stated that, after data is accumulated over a 3 to 5-year period, there would be an actuarial projection of each year's liability. Thus, an acceptable estimate will not be available until 1993.

DIETARY COSTS ALLOCATED TO MEDICARE

The NKCH included $2,258,752 of dietary costs in the pool of costs allocable to Medicare. We reviewed $38,917 and found that the reviewed amount was unallowable under 42 CFR, part 413 and PRM, section 2100 criteria.

Costs Related to Unallowable Meals

The NKCH reported dietary costs of $38,917 for meals provided to other than mental health center patients and to hospital guests. The NKCH's cost report included costs relating to 7,337 unallowable meals for 4,531 "Mental Health Nonpatient" meals and 2,806 "Miscellaneous Cafeteria Meals." Our review of the BC/BS audit report for the prior year (June 30, 1990) indicated that BC/BS excluded similarly classified meals from Medicare participation.

We computed the $38,917 unallowable meals cost as follows:

Average cost per meal:	
Dietary cost center, total costs	$2,258,752
Add: Revenues relating to the unallowable meals incorrectly adjusted the cost of meals allocated	16,353
Adjusted dietary cost center costs	$2,275,105
Divided by total meals served	428,927
Average cost per meal	$ 5.304178
Computation of unallowable costs:	
Number of unallowable meals	7,337
Multiplied by average cost per meal	$ 5.304178
Unallowable cost of meals	$ 38,917

According to PRM, section 2105.2, the cost of meals for other than provider (hospital) personnel is unallowable under the Medicare program because those costs are unrelated to patient care. This was reaffirmed by a HCFA Deputy Administrator decision on March 3, 1983, which stated that meal costs relating to visitors and nonprovider personnel are not reimbursable because such costs are unnecessary in the efficient delivery of health care services.

RECOMMENDATIONS

We recommend that NKCH:

1. As part of the FI audit and final settlement process, adjust the unallowable costs of $273,585 from costs allocable to the Medicare program (effect is approximately 7.2 percent or $19,698).

2. Establish procedures to ensure that only appropriate costs related to patient care are included in Medicare cost reports submitted to the FI.

AUDITEE RESPONSE AND OIG COMMENTS

The NKCH partially concurred in our recommendation adjusting G&A costs, unused employee sick leave, and dietary costs. The NKCH did not specifically respond to our recommendation to establish procedures to prevent these costs from being reimbursed in the future.

Auditee Response

The NKCH concurred with G&A findings totaling $9,892 that were related to contract fees, entertainment, alcoholic beverages, and charitable contributions. However, NKCH did not concur with $1,748 of G&A findings related to symphony tickets and $700 of fringe benefits findings related to entertainment, on the basis that these costs were for employee morale, which in their opinion, does affect patient care.

OIG Comments

Since these types of costs were specifically contrary to Medicare reimbursement principles, we continue to recommend that adjustments be made.

Auditee Response

The NKCH also concurred that $222,328 was not the correct amount of unused sick leave expenses incurred. However, they did not concur that the entire amount should be disallowed. The NKCH stated that a liability is incurred for those employees that accrued sick leave and will remain at NKCH until retirement. However, NKCH officials do not know the appropriate amount and will not know until they have enough experience with the sick leave policy to have sound actuarial data.

OIG Comments

Since Medicare reimbursement principles require that the amount of the unused sick leave accrual be readily determinable, we continue to recommend that the entire $222,328 be adjusted from Medicare participation until NKCH is able to reasonably estimate the amount of the actual liability.

Auditee Response

The NKCH did not concur that the entire $38,917 cost of unallowable meals was unrelated to patient care. The NKCH stated that "a portion" (not specified) of the 7,337 unallowable meals was provided to the volunteers that donate their time and assistance to NKCH.

OIG Comments

The NKCH is responsible for maintaining a cost allocation system that identifies the Medicare participating costs from the unallowable costs. Accordingly, we still recommend that the questioned cost of meals for other than provider (hospital) personnel be adjusted.

OTHER MATTERS

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

COSTS FOR CONCERN

We classified $793,843 of hospital costs as "Costs for Concern."

Christmas Supplies, Parties, Flowers, Decorations, Spouse Travel, Gifts, and Awards

Our review showed that Medicare participated in $52,367 of the "Costs for Concern" by sharing in the costs of employees' Christmas supplies, parties, flowers, decorations, spouse travel, gifts, and awards. Historically, costs of this nature that have been incurred for employee morale purposes have been treated by BC/BS and HCFA as allowable under the Medicare cost reimbursement principles.

The following describes what the $52,367 was expended on:

The G&A Cost Center	
500 Imprinted Christmas Cards	$ 631
Christmas Party - Food, Room Rental, and Parking	2,240
Flowers for Meetings	114
Spouse Travel	390
Subtotal	$ 3,375
The Fringe Benefits Cost Center	
Gift Certificates	$20,478
Service and Retirement Awards	16,727
Apothecary Jars and Coffee Mugs	9,049
Employee of the Year Program	503
Athletic Team Sponsorships and Badges	342
1,500 Sheets of Christmas Stationery	238
Holiday Decorations for the Cafeteria	560
Flowers for Employees	1,095
Subtotal	48,992
Total	$52,367

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

"Self-Disallowed" Public Relations Costs

Medicare did not, however, participate in $741,476 (the amount reviewed) of NKCH's "self-disallowed" costs. These costs, consisting of public relations costs for salaries, advertising, printing, postage, and other, were expended on promoting the community hospital. Historically, the Medicare cost reimbursement principles consider most public relations costs as being unnecessary to patient care.

AUDITEE RESPONSE AND OIG COMMENTS

Auditee Response

The NKCH stated that they believed the "Costs for Concern" are an operational necessity in a competitive health care system.

OIG Comments

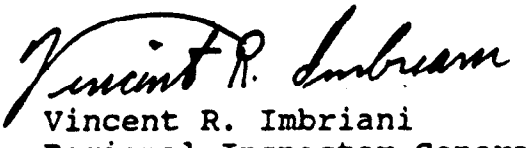
Due to the interest in rising health care costs, there is still concern that these costs are not necessary for patient care.

Final determination as to actions to be taken on all matters reported will be made by the Department of Health and Human Services (HHS) official named below. We request that you respond to the recommendations in this report within 30 days from the date of this letter to the HHS official named below, presenting any comments or additional information that you believe may have a bearing on his final decision.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public, to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

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

Sincerely,



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

Action Official:

Mr. Gene Hyde
Regional Administrator, Region VII
Health Care Financing Administration
Federal Office Building, Room 220
601 East 12th Street
Kansas City, Missouri 64106

North
Kansas City
Hospital

2800 Clay Edwards Drive
North Kansas City, MO
64116-3281

(816)691-2000

CIN: A-07-92-00554
May 26, 1992

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

Dear Mr. Imbriani:

This letter is in response to your draft report dated May 15, 1992 concerning your review of North Kansas City Hospital's cost report for the fiscal year ending June 30, 1992. The responses are presented in the same sequence and under the same heading found in your report.

Results of Review

Contract Fees

The contract fee of $7,000 paid in April 1991 was incorrectly charged to a Medicare reimbursable cost center. We fully concur with your findings that this is not a Medicare reimbursable cost. Additional efforts will be made by the Hospital's Accounting Department to help assure that future "bookkeeping errors" of this type are not included as reimbursable costs in the Medicare cost report.

Entertainment and Alcoholic Beverages

We concur with your findings that expenditures of $1,842 of G&A costs for entertainment and alcoholic beverages are not reimbursable costs in accordance with the regulations cited in your review. We would like to make note that the insignificant effect that this has on the Hospital reimbursement may not cost justify the accounting efforts to segregate these costs into a nonreimbursable cost center. However, the accounting department will increase its efforts to assure that such future expenditures are not charged to a reimbursable cost center.

Symphony Tickets

We do not concur with your finding that incurred costs of $1,748 in March 1991 for symphony tickets for employee morale are not related to patient care. It is our opinion that employee morale does affect patient care. However, the insignificant effect that this amount has on Medicare reimbursement causes us to not take serious issue with this finding; but, we do want to record our opinion that this is an employee benefit that is related to patient care.

Charitable Contributions

We concur with your finding that $1,050 of charitable contributions are not related to the provision of patient care. We would like to note that these contributions were made to health related organizations that do contribute to healthcare in this country. The accounting department will make every effort to see that future expenditures of this nature are charged to a non medicare reimbursable cost center and not included in future Medicare cost reports.

Entertainment

As stated above under the heading of "symphony tickets" we do not concur with your findings that the expenditures of $700 for entertainment for employees is not related to patient care. This again goes to the issue of employee morale and its affect on patient care.

Unusual Employee Sick Leave

We concur with your findings that $222,328 is not the correct amount of sick leave expenses incurred. We do not concur that the entire amount should be disallowed. Our reasoning is that a liability is incurred related to those employees that accrued sick leave during FY 1990/91 and that will remain at the Hospital until retirement, at which time they will be paid. One problem as with FY 1989/90, we do not know the appropriate amount and won't know until we have enough experience to have sound actuarial data. We propose that a negotiated amount be determined for each fiscal year subject to final adjustment at such time as an amount can be determined from an actuarial study. We feel that this would be fairer to the Hospital and would result in a smaller adjustment to the government at a future date. We will be most happy to discuss this with you, members of your staff or the fiscal intermediary.

Costs Related to Unallowable Meals

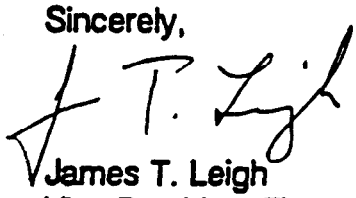
We do not concur that the $38,917 for meals provided to non-employees and Hospital guests is in its entirety not related to patient care. A portion of the 7337 unallowable meals were provided to the volunteers that donate their time and assistance to the Hospital. These volunteers are part of the healthcare team and are given a free meal for their service.

Costs for Concerns

It is our opinion that these costs are necessary in the operation of a hospital in a competitive healthcare system.

We will be happy to work with you and your staff or the fiscal intermediary in the final resolution of this review. We found your auditors to be friendly and cooperative to work with and are certain we can reach a conclusion that will be both fair to North Kansas City Hospital and the Federal Government. If you have any questions please do not hesitate to contact me at (816) 691-2006 or Mr. Haymons, Hospital President, at (816) 691-2020.

Sincerely,



James T. Leigh
Vice President-Finance