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**Thomas P. DiNapoli  
COMPTROLLER**



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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE  
GOVERNMENT ACCOUNTABILITY**

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**NEW YORK CITY HEALTH  
AND HOSPITALS  
CORPORATION**

**AFFILIATION AGREEMENT  
WITH THE STATE  
UNIVERSITY OF NEW  
YORK DOWNSTATE  
MEDICAL CENTER**

**Report 2006-N-19**

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## AUDIT OBJECTIVE

The objective of this audit was to determine whether the New York City Health and Hospitals Corporation reimbursed the State University of New York Downstate Medical Center for only the actual cost of physician services provided to Kings County Hospital Center under an affiliation agreement between Health and Hospitals Corporation and Downstate Medical Center.

## AUDIT RESULTS - SUMMARY

Health and Hospitals Corporation (HHC) has an affiliation agreement (agreement) between its Kings County Hospital Center (Kings County) and the State University of New York (SUNY) Downstate Medical Center (Downstate). The agreement requires Downstate to provide Kings County up to 64.62 Full Time Equivalent (FTE) physicians for six major departments. The agreement provides up to \$15.7 million annually for reimbursement to Downstate for the services of these physicians. The agreement covers the period July 1, 2004 through June 30, 2008.

Under the agreement, HHC advances payments to Downstate on a semi-monthly basis. Downstate is required to annually provide HHC with documentation supporting its actual costs for the FTE physicians provided under the agreement. Starting with fiscal year 2002, HHC was required to compare the amount of the advance payments with the amount of the actual Downstate costs for the FTE physicians provided and document any differences in a Recalculation of Affiliate Payment report (report). Accordingly, the report is designed to determine whether HHC has correctly reimbursed Downstate through the advances, whether HHC needs to recover overpayments from Downstate or whether HHC needs to further reimburse Downstate. For the period,

July 1, 2005 to June 30, 2006, HHC advanced \$15.5 million to Downstate for FTE physicians covered under the agreement.

Our audit tests showed that Downstate was providing the FTE physicians required by the agreement and that the time worked by those FTE physicians was supported by time records. For example, we reviewed the time records for the Downstate physicians who worked in the Psychiatry and Radiology departments of Kings County from July 2006 to December 2006. These departments accounted for 80 percent of the FTEs permitted under the agreement. We found that the time records supported that Downstate was providing FTE physicians in accordance with the agreement. [Page 3]

However, HHC did not prepare the required annual Recalculation of Affiliate Payment report for any of the years it was required. Instead of completing the annual recalculations after each fiscal year to determine the actual costs incurred by SUNY Downstate, HHC officials negotiated an agreement with Downstate to pay it an additional \$2.2 million for the cost of FTE physician services for the period July 1, 1995 through June 30, 2005. This amount was based on information contained in the annual audit reports prepared by Downstate's Certified Public Accounting (CPA) firm for each of these years. In addition, the Recalculation of Affiliate Payment report had not been finalized for 2006 or 2007. [Pages 3-4]

We found that during November 2006, six physicians in six different departments were paid both a State salary which was funded by HHC through the agreement and their regular salary from HHC for the same hours of work. HHC officials indicated that this was necessary in order to pay these individuals at a level commensurate with the market rate of

pay for physicians in this specialty. We believe that in these instances a notation should be made on the employee's time records explaining the justification for the apparent overlap of work hours. [Pages 4-5]

Our audit report contains four recommendations. HHC officials agreed with our recommendations and indicated steps taken or planned to implement them.

This report, dated October 9, 2008, is available on our website at: <http://www.osc.state.ny.us>.

Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

The New York City Health and Hospitals Corporation (HHC) operates New York City's municipal hospital system. It has historically entered into affiliation agreements on behalf of its facilities with other hospitals to provide for patient care services, faculty teaching, research, professional advice and consultation at their acute care hospitals. One of HHC's facilities, Kings County Hospital Center (Kings County), has a long-standing affiliation agreement with the State University of New York (SUNY) Downstate Medical Center (Downstate) to provide Kings County with physicians to perform certain clinical services.

The current agreement, dated July 1, 2004, was for two years and called for Downstate to provide up to 64.62 FTE physicians for a total of \$31.2 million (\$15.6 million per year) for six major departments. In April 2005, the agreement was extended to cover the period

July 1, 2006 through June 30, 2008. The extension increased the amount to be paid to Downstate by \$100,000 per year.

The agreement also stipulates that compensation due to Downstate is based on the actual cost of services provided.

## AUDIT FINDINGS AND RECOMMENDATIONS

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### *Physician Services*

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We reviewed the time records for the Downstate physicians who worked in Kings County Psychiatry and Radiology departments from July 2006 to December 2006 (the first six months of the agreement extension). We judgmentally selected the Psychiatry and Radiology departments for review since they were the two largest departments and accounted for 80 percent of the maximum FTEs. We compared the time records to Downstate FTE billing records and found the two records showed agreement about the number of FTE physicians actually provided.

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### *Monitoring of Payments*

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The agreement requires HHC to make semi-monthly advance payments to Downstate for physician services subject to the amount specified in the agreement (\$15.7 million annually). It also requires Downstate to annually submit documentation to show actual costs incurred in providing services. Each year, HHC is required to reconcile the advance payments it made to Downstate to the costs incurred by Downstate. HHC is to document any differences in a Recalculation of Affiliate Payment report (report). Based on this report, HHC should determine whether Downstate was correctly paid; whether Downstate was overpaid and a recovery is

necessary; or whether further reimbursement is due to Downstate.

We found the recalculation report has not been finalized for any of the years the agreement has been in effect. HHC officials stated that, instead of the report, they negotiated a settlement with Downstate for the period July 1, 1995 through June 30, 2005. Under the negotiated settlement, Downstate was owed and paid \$2.2 million for this period, with the annual amounts based on information contained in the annual reports prepared by Downstate's independent auditor. While the reports prepared by the independent auditor are a fair presentation of the costs to be considered, the recalculation report, as designed, would provide for greater accuracy since all data relevant to the agreement, such as employee time sheets and FTE's, would be used in its preparation. .

In response to our preliminary findings, HHC officials stated that their certified public accounting firm uses payroll samples, fee statements and time records to verify bills submitted by Downstate. HHC officials also stated that Downstate prepared a draft Recalculation of Affiliate Payment report for the fiscal year ended June 30, 2006. However, officials indicated that HHC did not receive the report until May 2007. The report had not been finalized as of September 15, 2008.

Following issuance of our draft report, HHC officials further explained that the recalculations were not required until fiscal year 2002, and they provided details on their reliance on the work of the CPA firm in reaching the negotiated settlement. In our view, this process did not provide HHC with the greater level of assurance that the required recalculations would have for fiscal years 2002 and beyond.

### **Recommendations**

1. Prepare the recalculation reports on an annual basis, and use them as required in the agreement.
2. Finalize the overdue recalculation report for 2006.

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### *Payments to Physicians*

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We found that certain Downstate physicians were paid by both HHC and Downstate for the same time worked. We judgmentally selected the month of November 2006 because it was just before the start of our audit and compared the payrolls of Downstate and HHC. There were 18 physicians in six different departments that were paid both a State salary which was reimbursed by HHC through the agreement and their regular salary from HHC. According to their time sheets prepared at and retained by both facilities, six of the 18 were paid by both HHC and Downstate for working the same hours on the same days. Five of the six physicians were either a Chief or Director for a Kings County department. For instance, time sheets and associated payroll records for a Chief of Service showed he worked 12-hour days (7:00 a.m. to 7:00 p.m.) for both Kings County and Downstate for each work day during November 2006.

HHC officials explained that Kings County made a conscious decision to allow these physicians to be paid by both HHC and Downstate to supplement salaries of selected doctors and reportedly bring the salaries in line with the market. They also indicated that these decisions were reached as part of the annual staffing negotiations with Downstate on the sharing of FTE's. However, we were not provided with documentations for these decisions.

In response to our preliminary findings, HHC officials stated that, "Various Chairpersons, Chiefs of Service and other physicians play a significant role in the management of clinical and academic services of Kings County departments. Kings County funds a portion of these positions through their payroll and/or affiliation agreement. Salary payments from both Downstate and Kings County are merited because, in addition, many of the Chiefs of Service at Kings County perform services at or for SUNY, separate and distinct from their obligations to Kings County.

"In order to calculate the fair share of combined Kings County and Downstate compensation to be borne by Kings County, the parties reviewed the average hours of work per week required of the above-referenced positions for their respective Kings County and Downstate activities. For each, the portion of such aggregate time that was ascribed to Kings County was applied to such combined compensation to determine the Kings County fair share and the remainder was the amount picked up through the FY 2005-2007 Affiliation Agreement via Attachment A."

We note that SUNY's policies allow certain of its physicians to be paid as full-time employees while they are also employed and paid by an affiliate. These policies enable them to earn what SUNY considers to be "market salary."

HHC officials added that its timekeeping process and/or documentation can be improved. In this regard, we recommend that HHC should document the selection of physicians that will be paid on both payrolls for concurrent work schedules and should notate this arrangement on the time records that these physicians prepare at HHC.

### **Recommendations**

3. Document the selection of affiliate physicians that will also be paid by HHC .
4. When physicians work overlapping hours at Downstate and HHC, make sure the appropriateness of this condition is stated on HHC time records.

### **AUDIT SCOPE AND METHODOLOGY**

We conducted our audit in accordance with generally accepted government auditing standards. The audit determined whether Kings County received the physician services required under the agreement between HHC and Downstate, and if HHC properly reimbursed Downstate for these services. The audit period was from July 2006 through December 2006.

To accomplish our audit objectives, we tested the internal controls in place at Kings County over the monitoring of Downstate's compliance with the agreement. We interviewed Kings County, HHC and Downstate officials, and reviewed staffing schedules for Psychiatry and Radiology, the two largest departments served under the agreement. We reviewed time sheets for the period July 1, 2006 through December 31, 2006, since these were the most recent records available at the time of our audit, and obtained payroll information for both Kings County and Downstate for the same period. We compared the payroll information for November 2006 because it was just before the start of our audit. In calculating the FTEs provided we included, as per the agreement, the hours that full-time affiliate physicians were on leave or in training. We did not include such hours for hourly employees and vacant positions.

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In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

#### **AUTHORITY**

This audit was performed according to the State Comptroller's authority as set forth in Article V, section 1 of the State Constitution and Article III of the General Municipal Law.

#### **REPORTING REQUIREMENTS**

A draft copy of this report was provided to HHC and Downstate officials for their review and comment. HHC provided comments and their comments were considered in preparing this report, and are included as Appendix A. Appendix B includes the Comptroller's Comments to the agencies' responses.

Within 90 days after final release of this report, we request the President of HHC to report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

#### **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include William Challice, Frank Patone, Michael Solomon, Stu Dolgon, Robert Tabi, Raymond Louie, Jonathan Bernstein, John Ames, Abe Fish, Michael D'Amico and Sue Gold.

## APPENDIX A - AUDITEE RESPONSE



125 Worth Street, Room 514, New York, NY 10013 Tel: 212-788-3321 alan.aviles@nychhc.org

Alan D. Aviles  
President

August 29, 2008

Mr Michael Solomon, Audit Manager  
Office of the State Comptroller  
Division of State Government Accountability  
123 Williams Street – 21<sup>st</sup> Floor  
New York, New York 10038

Re: Audit of NYC Health and Hospitals Corporation (HHC) Affiliation Agreement  
with the State University of New York Downstate Medical Center (Downstate) at  
Kings County Hospital Center (KCHC)

Dear Mr. Solomon:

Thank you for an opportunity to respond to the above-referenced audit of the Kings County Affiliation Contract. I was pleased to read that your audit confirms Downstate has met its contractual obligations in providing the number of physicians necessary to serve our patients, and that appropriate records existed to support annual costs. Routine audits performed through independent CPA firms engaged by HHC and Downstate also support these conclusions.

However, based upon our analysis of the most recent draft report, we have identified instances where the affiliation contract has been misinterpreted and/or incorrect assumptions applied to the findings and conclusions. KCHC, the Office of Professional Services and Affiliations (OPSA), Downstate and the Office of Internal Audits (OIA) have collaborated to provide information that mitigate and/or eliminate these issues. Our detailed comments are included in Exhibit A.

Included with this response is an Audit Implementation Plan (Attachment I) which addresses all the recommendations cited in the report.

Should you have any questions concerning the content of our response, please contact Alex Scoufaras, Assistant Vice President, Internal Audits at (646) 458-5601.

Sincerely,

Alan D. Aviles

- c: J. Leon, Sr Vice President, Central Brooklyn Network  
F. Cirillo, Sr. Vice President, Operations/Chief Operating Officer  
R. Raju, MD, FACS, MBA, Executive Vice President and  
Corporate Chief Medical Officer, Medical and Professional Affairs  
A. Scoufaras, Assistant Vice President, Office of Internal Audits

Exhibit A  
NYS Comptroller's Audit of NYC HHC Affiliation Agreement with  
State University of New York Downstate Medical Center  
at Kings County Hospital Center - Detailed Response

The auditor's statement that "... Starting for fiscal year 2002, Downstate has been required to annually provide HHC with documentation supporting its actual costs for the FTE physicians provided under the agreement..." (Pg. 2 @ paragraph 3) is slightly misleading. HHC and Downstate have a long-standing relationship in which the affiliate has always been required to provide and maintain documentation to support revenues and expenditures. Section 14 of the Agreement requires Downstate to maintain separate and accurate books and records that must be accessible to HHC for no less than seven years after conclusion of the agreement, longer if required by law.

\*  
Comment  
1

The audit report also stated that "... we could not conclude whether HHC reimbursed Downstate for the actual cost of the FTE physicians. HHC neither provided supporting documentation of Downstate's actual costs for the FTE physicians nor prepared the required annual Recalculation of Affiliation Payment Report for the years it was required..." (Pg 2. @ paragraph 5).

Further, the audit report stated "Under the negotiated settlement, Downstate was owed and paid \$2.2 million for this period, with the annual amounts based on information contained in the annual reports prepared by Downstate's CPA. However, this settlement does not satisfy contract requirements to document annual costs of physician services and to reconcile those costs for advance payments. Because these requirements have not been met we are unable to conclude whether HHC correctly paid Downstate for physician services" (Pg. 4 @ paragraph 1)

The auditor's conclusion that HHC could not determine whether HHC reimbursed Downstate for the actual cost of the FTE physicians is incorrect. HHC is assured that it correctly paid Downstate an appropriate amount for physician services at KCHC. Further, HHC is assured that the settlement provided a legally justified method for modifying the terms of the contract to resolve any residual disagreements between the parties regarding properly reimbursable costs.

First, physician costs noted in the contract have been verified through payroll registers, timesheets, and the Annex A (which lists personnel by department, associated salaries, FTE levels, and titles). After review of these documents, narrow disputes remained regarding whether or not certain marginal components of the costs were properly reimbursable under the contract. Neither HHC's nor Downstate's position was without colorable basis and as such, this marginal dispute made settlement an appropriate way to achieve a legal compromise of the parties' claims, and made the settlement documents a proper method for modifying the terms of the contract to implement such a compromise.

In addition, the costs were also confirmed by two independent CPA firms separately engaged by the Corporation and the Affiliate. These certified audits clearly demonstrate and support the accuracy and veracity of the expenses incurred in this contract. The auditor's were provided with detailed documentation including excerpts from the CPA

\*See State Comptroller's comments, page 14

Exhibit A  
NYS Comptroller's Audit of NYC HHC Affiliation Agreement with  
State University of New York Downstate Medical Center  
at Kings County Hospital Center - Detailed Response

reports that supported and verified the adjustments negotiated for the \$2.2 million settlement.

Second, while the Recalculation documents were not prepared for this contract period, this did not preclude either party from calculating or determining actual costs. Section 11(a) of the Agreement provides that disputes between the parties "may be resolved in any way mutually agreeable to the parties." The parties chose to resolve a dispute about costs through a negotiated settlement, as provided in the Agreement. Further, the methodology used in the settlement process was in accordance with Section I.E of Attachment B to the Agreement, which (i) allows the Corporation, in the absence of Recalculation Documents, to estimate the final amount due between the parties; and (ii) requires the Corporation to subject the parties' final reconciliation "to any audits pursuant to this Agreement that remain outstanding upon termination."

The settlement was based in part on certified audits submitted by Downstate which attested to the documented costs for physician services. To be assured that the settlement amount was correct, HHC confirmed those costs through a separate, parallel analysis which reconciled Downstate's documented costs to the payments. Further, the settlement was made after HHC reconciled these costs through its own audit process, conducted in addition to Downstate's audit process.

The auditor's stated, "Following issuance of our draft report, HHC officials explained that the recalculations were not required until fiscal year 2002, and they provided details on their reliance on the work of the CPA firm in reaching the negotiated settlement. In our view, this process did not provide HHC with the greater level of assurance that the required recalculations would have for the fiscal years 2002 and beyond." (Pg 4 @ paragraph 3).

The Recalculation of Affiliation Payment document was first instituted as the method to reconcile costs in 2002. Prior to this time, "Annex D" was the mechanism required to adjust Affiliate payment, subject to verification by audit. The details of this settlement were provided on October 15, 2007 during fieldwork, before the draft report was issued, and again during a meeting with OIA. The extensive documentation provided to the auditors included the Settlement Letter of Agreement between the Corporation and the Affiliate, Annex D, Statement of Revenue and Expenses for 2002 through 2005, relevant notes to the Financial Statements for 1997 through 2001 and other relevant details.

The auditor's assumption that HHC could have been provided with greater assurance is unfounded. The contract costs were validated by an analysis of Affiliation documents and two certified independent audits.

The report stated, "HHC officials explained that Kings County made a conscious decision to allow these physicians to be paid by both HHC and Downstate to supplement salaries of selected doctors and reportedly bring the salaries in line with the market. They also

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Comment  
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2 of 3

\*See State Comptroller's comments, page 14

Exhibit A

NYS Comptroller's Audit of NYC HHC Affiliation Agreement with  
State University of New York Downstate Medical Center  
at Kings County Hospital Center - Detailed Response

indicated that these decisions were reached as part of the annual negotiations with Downstate on the sharing of FIE's. However we were not provided with documentations for these decisions " (Pg 4 @ paragraph 5)

The payments made to these physicians through the affiliate contract were not duplicate payments for the same hours worked. They were a transitional payment arrangement implemented to realign each institution's payments to the actual work effort of those doctors providing shared services.

Several physicians providing shared service were hired jointly by KCHC and Downstate with a total compensation package where each institution's portion was negotiated and set at a fixed amount.

During negotiations for the 2004 affiliate agreement, KCHC and Downstate agreed to a realignment of physician compensation to reflect the actual apportionment of work effort. As a result, KCHC's share of total compensation for certain employees on its payroll increased. To expedite implementation of the compensation realignment, the increased salaries were paid through the Affiliation agreement as a transitional measure until the salaries could be increased through the KCHC payroll.

This transitional arrangement also allowed HHC to determine any potential impact to the employees' pensions and other benefits. The portion of these physicians' salary paid through the Affiliation contract will be transferred to the KCHC payroll by December 2008.

While the payments made through the Affiliation contract were not payments for overlapping hours, the timekeeping process did not provide clarity. As a corrective measure, the physicians have been instructed to appropriately allocate the time worked between KCHC and the Affiliate on their respective timesheets.

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Comment  
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3 of 3

\*See State Comptroller's comments, page 14



**Kings County  
Hospital Center**

**GEORGE M. PROCTOR**  
CENTRAL BROOKLYN FAMILY  
HEALTH NETWORK  
CHIEF OPERATING OFFICER  
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August 22, 2008

**TO:** Alex Scoufaras  
Assistant Vice President  
Office of Internal Audits

**FROM:** George M. Proctor *GMP*

**SUBJECT:** KCHC/SUNY DOWNSTATE RECOMMENDATION  
IMPLEMENTATION PLAN

08 AUG 25 AM 12:05  
PROCTOR, G M  
111 E. 12th Street, Room 1105  
Brooklyn, NY 11203

Attached please find the above referenced Affiliation Recommendation Implementation Plan. The plan is provided pursuant to Report # 07-17/Management Letter of the Affiliation Agreement, Fiscal Year 2007.

If you have any questions, please contact me.

GMP:dc  
Attachment

cc: Jean G. Leon, RN, MPA  
Kathie Rones, MD  
Julian John  
Carl Jager  
Linda Dehart  
Walter Headley

451 Clarkson Avenue, Brooklyn, NY 11203

Kings County Hospital Center is a member of the NYC Health and Hospitals Corporation, which is a member of the NYC Health and Hospitals Authority, and the Central Brooklyn Family Health Network.

MAYOR'S OFFICE OF OPERATIONS  
 AUDIT COORDINATION AND REVIEW  
 AUDIT IMPLEMENTATION PLAN

ATTACHMENT I  
 PART A

Audit Title: Audit Report on the Affiliation Agreement with the State University of New York Downstate Medical Center Date: August 29, 2008 Audit Agency: State of New York Office of the Comptroller

Agency: NYSHCC (OIA # 07-17) Audit Date: August 11, 2008 Audit No: 2006-N-19 OMB Control No: \_\_\_\_\_

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE
<p>Recommendation # 1</p> <p><b>Monitoring of Payments</b></p> <ol style="list-style-type: none"> <li>1. Prepare the recalculation reports on an annual basis, and use them as required in the agreement.</li> <li>2. Finalize the overdue recalculation report for 2006. (page 4)</li> </ol>	<p>The KCHC Finance Department will ensure that overdue recalculation documents are completed as soon as possible, and that future reconciliations are done on a timely basis.</p> <p>Same as above.</p>	<p>We expect to complete the FY 2006 recalculation by September 30, 2008.</p> <p>Same as above.</p>
<p>Recommendation # 2</p> <p><b>Payments to Physicians</b></p> <ol style="list-style-type: none"> <li>2. When physicians work overlapping hours at Downstate and HHC, make sure the appropriateness of this condition is stated on HHC time records. (Page 5)</li> </ol>	<p>The payments made to KCHC physicians through the affiliate contract were not payments for overlapping hours. However, the timekeeping process did not provide clarity. The physicians have been instructed to appropriately allocate time worked at KCHC between the KCHC payroll timesheet and the affiliate timesheet. Additionally, the salary being paid through the affiliate contract will be transferred to the KCHC payroll.</p>	<p>The timekeeping procedures have already been corrected.</p> <p>Most of the physicians are expected to be taken off of the affiliate payroll by September 30, 2008; any remaining physicians would be fully transferred to the KCHC payroll by December 31, 2008.</p>

ATTACHMENT I  
PART C

MAYOR'S OFFICE OF OPERATIONS  
AUDIT COORDINATION AND REVIEW  
AUDIT IMPLEMENTATION PLAN

Audit Title: Report on the Affiliation Agreement with the State University of New York Downstate Medical Center Date: August 29, 2008 Audit Agency: State of New York Office of the Comptroller

Agency: NYCHHC (OIA # 07-17) Audit Date: August 11, 2008 Audit No: 2006-N-19 OMB Control No: \_\_\_\_\_

RECOMMENDATIONS WITH WHICH THE AGENCY DISAGREES AND DOES NOT INTEND TO IMPLEMENT	REASONS FOR DISAGREEMENT AND REFUSAL TO IMPLEMENT
<p>4. Document the selection of affiliate physicians that will also be paid by Health and Hospitals.</p>	<p>By virtue of the work effort analysis conducted in conjunction with the negotiation of the 2004 contract which provided documentation for the additional payments made to KCHC physicians through the affiliate contract, this recommendation has been satisfied.</p>

0555\_AJP

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## APPENDIX B - STATE COMPTROLLER COMMENTS ON AUDITEE RESPONSE

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1. We have modified our report accordingly.
2. HHC indicates that it could determine, based on the work performed by the CPAs, if it had reimbursed Downstate for the actual cost of the FTE physicians provided. While we recognize that the agreement allows the parties to utilize this methodology, we note that in its response HHC states that the “Recalculation of Affiliation Payment document was first instituted as **the** (emphasis added) method to reconcile costs in 2002”. We therefore recommend that HHC and Downstate  
  
comply with this requirement and annually finalize such recalculations in a timely manner. Our report has been modified to reflect the benefits of annually preparing the recalculation report.
3. Our report recognizes that these arrangements were the result of negotiations between HHC and Downstate.