

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**HEALTH PERSONNEL INCORPORATED**

**MCKEES ROCKS, PENNSYLVANIA**



FEBRUARY2001  
A-03-00-00020

# ***OFFICE OF INSPECTOR GENERAL***

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## ***Office of Audit Services***

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

## ***Office of Evaluation and Inspections***

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

## ***Office of Investigations***

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units which investigate and prosecute fraud and patient abuse in the Medicaid program.

## ***Office of Counsel to the Inspector General***

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.



**DEPARTMENT OF HEALTH & HUMAN SERVICES**  
 OFFICE OF INSPECTOR GENERAL  
 OFFICE OF AUDIT SERVICES  
 150 S. INDEPENDENCE MALL WEST  
 SUITE 3 16  
 PHILADELPHIA, PENNSYLVANIA 19 106-3499

**FEB 14 2001**

Our Reference: Common Identification Number A-03-00-00020

Ms. Phyllis Fredland  
 Executive Director  
 Health Personnel Incorporated  
 1 110 Chartiers Avenue  
 McKees Rocks, Pennsylvania 15 136

Dear Ms. Fredland:

We have audited the Health Personnel Incorporated's (HPI's) Fiscal Year (FY) 1998 Medicare cost report. The purpose of our audit was to determine whether costs claimed, by HPI on the FY 1998 Medicare cost report, were in accordance with Medicare reimbursement requirements. The results of our audit are summarized below.

**AUDIT SUMMARY**

HPI AUDIT RESULTS OF THE FY 98 MEDICARE COST REPORT						
COST CATEGORY	G&A / OVERHEAD		DIRECT		TOTAL EXPENSES	
	Claimed	Disallowed	Claimed	Disallowed	Claimed	Disallowed
Salaries	\$167,504	\$5,520	\$143,583	\$119	\$311,087	\$5,639
Employee Benefits	33,581	476	28,785	102	62,366	578
Rent & Utilities	13,046				13,046	
Transportation	7,542	190	12,865	98	20,407	288
Contracted Services	10,551		30,244		40,795	
Other Costs	85,776	1,304	7,784		93,560	1,304
<b>Totals</b>	\$318,000	\$7,490	\$223,261	\$319	\$541,261	\$7,809
Provider Adjustments to Cost Report Expenses					(71)	
Adjusted Cost Report Expenses					<b>\$541,190</b>	<b>\$7,809</b>

Our audit showed that \$7,809 or about 1 percent of the total \$541,190 claimed by HPI on its FY 1998 Medicare cost report were claimed in violation of Medicare requirements. The following expenditures were unallowable:

- on call pay for Chief Financial Officer (CFO) - \$5,520;
- flowers - \$218;
- dry cleaning - \$360;
- personal vehicle repairs - \$288;
- meals - \$826;
- duplicate expense account reimbursement - \$43;
- personal homeowners insurance - \$202;
- second telephone line at personal residence - \$233;
- excess salary payment - \$119;

We recommend that HPI strengthen its procedures to ensure that costs in violation of Medicare reimbursement requirements are excluded from the Medicare cost report prior to submission. We will provide the fiscal intermediary (FI) with detail of the identified \$7,809 in unallowable costs for appropriate adjustment to the HPI FY 1998 Medicare cost report and collection of the resulting overpayment.

## **BACKGROUND**

### *HPI*

The HPI, a Home Health Agency (HHA), which is entirely family owned, was incorporated in 1984 in the Commonwealth of Pennsylvania. The HPI employs a small staff of registered nurses, licensed practical nurses, and administrative personnel. During FY 1998 HPI was reimbursed throughout the year through periodic interim payments. During FY 1998 HPI's periodic interim payments totaled \$515,812.

The HPI submitted the FY 1998 Medicare cost report to the FI, Cahaba Government Benefit Administrators (Cahaba) claiming reimbursable costs of \$510,693. The FY 1998 Medicare cost report was not reviewed or audited by Cahaba and therefore was not settled prior to our audit.

### *Regulations*

During our audit period HHA's were reimbursed for reasonable costs subject to limitations. Cost principles governing reasonable, allowable and allocable costs are detailed in the Provider Reimbursement Manual (PRM). The PRM states:

“Reasonable cost includes all necessary and proper costs incurred in rendering the services.”

Further the PRM states:

“Implicit in the intention that actual costs be paid to the extent that they are reasonable is the expectation that the provider seeks to minimize its costs and that its actual costs do not exceed what a prudent and cost conscious buyer pays for a given item or service.”

Also included in the PRM is the requirement that cost be related to patient care. The PRM 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 and facilities. Costs which are not necessary include costs which usually are not common or accepted occurrences in the field of the provider’s activity.”

### *FI Responsibility*

The FI is a public or private agency or organization that has entered into an agreement with the Health Care Financing Administration (HCFA) to process Medicare claims, under both Part-A and Part-B, for providers of Medicare services. The FI assists in the application of safeguards against unnecessary use of covered services, furnishes consulting services to assist in the establishment and maintenance of requisite fiscal data, serves as a center for communicating with providers, conduct audits of provider records, assists in the beneficiary appeals process, and provides information and advice to institutions and organizations that wish to qualify as providers of services.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The purpose of our audit was to determine if HPI claimed costs on the Medicare cost report for FY 1998 that were in compliance with Medicare reimbursement requirements.

We conducted our audit in accordance with generally accepted government auditing standards. Our understanding of internal controls was accomplished entirely through substantive testing. Based on a risk analysis we increased our substantive testing to include 100 percent of the costs claimed. To accomplish our audit objective we:

- ✓ reviewed Medicare cost reimbursement criteria;
- ✓ reviewed FI permanent and current audit files;
- ✓ analyzed the HPI FY 1998 Medicare cost report;
- ✓ reviewed supporting documentation related to costs claimed on HPI’s FY 1998 Medicare cost report to determine if costs claimed were in compliance with Medicare reimbursement criteria;

✓ interviewed HPI executives.

Our audit did not include a medical review of Medicare claims submitted during FY 1998. Accordingly we are not providing an opinion on the necessity or quality of HHA services rendered.

We performed the field work at HPI's office located in McKees Rocks, Pennsylvania. Our field work was conducted during the period August 21, 2000 through September 1, 2000.

By letter dated December 22, 2000, the HPI responded to a draft of this report. In its response the HPI generally disagreed with the unallowed Medicare costs. We have reviewed HPI's response and have included it as an Appendix to this report. As a result of HPI's response we have made appropriate revisions to the initial findings proposed in the draft report. We have also summarized HPI's response and presented our comments following each applicable finding of this final report.

## AUDIT RESULTS

Our audit showed that \$7,809 or about 1 percent of the total \$541,190 claimed by HPI on its FY 1998 Medicare cost report were claimed in violation of Medicare requirements. We are recommending adjustments to the following cost centers:

### General Services Cost Centers

General & Administrative (G&A) Salaries - \$5,520  
G&A Employee Benefits - \$476  
G&A Transportation - \$190  
G&A Other Costs - \$1,304

### HHA Reimbursable Services Cost Centers

Skilled Nursing Care Salaries - \$119  
Skilled Nursing Care Employee Benefits - \$78  
Home Health Aide Employee Benefits - \$24  
Skilled Nursing Care Transportation - \$98

**G&A Salaries - \$5,520**

On the FY 1998 Medicare cost report HPI claimed \$167,504 for G&A salaries. Costs included in this category were salaries for the Executive Director, Chief Financial Officer and other administrative staff. In addition to a base salary, HPI paid \$40 per day, including weekends, for on call duty. The majority of the on call shifts were worked by either the Executive Director (a registered nurse) or the Chief Financial Officer. It is not reasonable to pay a Chief Financial Officer, having a background in accounting, for on call duty at an HHA. Therefore, the total

claimed on the FY 1998 Medicare cost report for on call pay to the Chief Financial Officer of \$5,520 is unallowable.

**HPI Response**

The HPI agreed that the Chief Financial Officer is not medically registered or certified, but asserts the Chief Financial Officer has the experience to handle the on-call duties and make a decision. Therefore, the HPI does not believe the on-call pay to the Chief Financial Officer of \$5,520 should be disallowed.

The HPI states that because it did not have a full-time nursing supervisor available at the time, it would not have been reasonable to require the Executive Director to be on-call every Monday through Thursday during every week of the year.

The HPI states that prior to becoming the Treasurer at HPI, the Chief Financial Officer worked as the Administrator of the Agency for 12 years, and has been employed in the health care field for over 33 years. The HPI also maintained that the salary of the Chief Financial Officer was well below the FI's guidelines and that if the on-call costs had been paid to the Executive Director, there would have been no decrease in the total costs because the costs would have been the same \$5,520.

**OIG Comment**

Because the HPI did not have a full-time nursing supervisor available at the time does not justify paying the Chief Financial Officer, who is not medically registered or certified, to assume responsibility for making medical decisions. The Chief Financial Officer would not be of any benefit to the Medicare patient.

**G&A Employee Benefits - \$476**

The HPI claimed \$33,581 for G&A employee benefits on the FY 1998 Medicare cost report. Based on Medicare reimbursement requirements, we determined that \$476 out of the \$33,581 claimed were unallowable. The unallowable amount included \$360 claimed for dry cleaning/maintenance allowances which were part of the Executive Director's and Chief Financial Officer's compensation packages. The allowance was a personal expenditure not related to patient care. In addition the HPI inappropriately claimed \$116 for flower arrangements. Flower arrangements are not related to patient care.

**HPI Response**

The HPI proposes to consider these expenses as part of the Treasurer's annual salary compensation package, because the Treasurer made the original decision to establish the clothing allowance and to send the flower arrangements. The HPI does not believe the dry cleaning/maintenance allowances and the flower arrangements totaling \$476 should be disallowed.

OIG Comment

The implementation of an alternative reporting method that considers these expenses as part of the Treasurer's annual salary compensation package will not change the initial purpose of the costs into a function that was necessary and proper in rendering Medicare patient services; the clothing allowance and the flower arrangements were not related to patient care services.

G&A Transportation - \$190

The HPI claimed \$7,542 for G&A transportation; we determined that \$190 claimed for G&A transportation was unallowable. Included in this category were costs associated with a leased Ford Explorer which was primarily used by the executive staff at HPI. Costs related to repairs of personal vehicles were also included in this category. The HPI allocated \$190 to G&A transportation; \$110 for a tire replacement on the Treasurer's personal vehicle and \$80 for an electrical repair made on the same personal vehicle. The two repairs were personal expenditures that were not related to patient care and therefore are unallowable.

HPI Response

The HPI proposes to consider the expense to G&A transportation in the amount of \$110 for a tire replacement on the Treasurer's personal vehicle as part of the Treasurer's annual salary compensation package.

Also, the HPI maintained the \$80 for an electrical repair made on the Treasurer's personal vehicle was caused by a mobile phone cord that previously had shorted-out in the HPI business vehicle. The HPI stated it elected to test the malfunctioning mobile telephone cord in the Treasurer's personal vehicle, which resulted in the need for an electrical repair. For this reason, the HPI does not believe the \$80 for the electrical repair made on the Treasurer's personal vehicle should be disallowed.

OIG Comment

The implementation of an alternative reporting method that considers the tire replacement for the Treasurer's personal vehicle as part of the Treasurer's annual salary compensation package will not change the initial purpose of the cost into a function that was necessary and proper in rendering Medicare patient services; the tire replacement for the Treasurer's personal vehicle was not related to patient care services.

The expense of repairing the resulting electrical damage to the Treasurer's personal vehicle was also not an appropriate Medicare expense.



G&A Other Costs - \$1,304

The HPI claimed \$55,776 for G&A other costs. Costs included in this category were nursing supplies, other supplies, postage, communications, insurance, dues, travel, taxes, equipment rental and interest expense. Costs totaling \$1,304 were claimed in violation of Medicare reimbursement requirements. Unallowable costs included:

- ▶ \$526 *for* local meals. The HPI claimed the cost of several meals which were purchased locally near the HPI offices. The HPI executives explained that the meal expenses were incurred many times after Board of Directors meetings as an incentive reward for volunteer Board members' time. However, three of the five Board members were compensated employees and owners or immediate family members. The majority of the meal expenses were for these owners/family members who were already compensated and lived in the area. Therefore the cost of local meals is unallowable.
- ▶ \$233 *for a second telephone line at the residence of the Executive Director.* The cost of a second telephone line at the residence of the Executive Director was a personal expenditure that should not be charged on the Medicare cost report. It did not relate to the care of the patients at HPI. The Executive Director stated that she needed the second line to be more accessible at home for business matters related to HPI. We noted that the HPI also charged a cellular phone and beeper on the Medicare cost report. The Executive Director should have been able to be reached through the cellular phone, beeper or the main telephone number at home.
- ▶ \$202 *for homeowner's insurance for an employee/director.* The HPI executives stated that the personal residence of one of the directors was used as collateral for one of the lines of credit (LOC) and the bank issuing the LOC required homeowner's insurance. The homeowner's insurance was a personal expenditure not related to patient care and therefore should not have been claimed on the FY 1998 Medicare cost report.
- ▶ \$43 *for a duplicate reimbursement to the Executive Director.* The HPI Executive Director charged an item on the company credit card. The credit card bill was paid by HPI, and the Executive Director was also reimbursed for the expense through submission of an expense account voucher. The duplicate \$43 expense is unallowable.

**HPI Response - \$826 for disallowed local meals.**

The HPI contends that based on the Treasurer's prior experience in hospitals, nursing homes, etc., meals or snacks were furnished at all board meetings, department meetings, budget committee meetings, and advisory committee.

In addition the HPI advocates that due to the present structure of this organization, family involvement is required. When attending board meetings, the Executive Director, Treasurer, and Data Technician are not employees but board members.

The HPI believes the cost of local meals incurred after Board of Directors' meetings, totaling \$593, should be considered as normal corporate business expenses and should not be disallowed.

The HPI also believes that local meals charged to Medicare when the Executive Director was awaiting departure flights leaving the local airport and when the Treasurer was attending legal hearings concerning an HPI personnel issue, totaling \$77, should not be disallowed.

In addition, the HPI believes that local meals resulting from working late in the HPI office to clean furniture, waiting in the HPI office for people to arrive, orientating and training new HPI employees, and attending durable medical equipment shows and meetings, totaling \$156, should not be disallowed.

#### OIG Comment

A majority of the meals expense was incurred in conjunction with Board of Directors meetings; however, the attendance at the meetings and subsequent local meals consisted mostly of family members, who were already compensated and lived in the area, along with the attendance of one non-family member also serving on the Board of Directors.

The meals were purchased either locally near the HPI office, in the local airport, or at a local conference destination; however, none of the meals were eaten while the HPI employee was out of town.

*HPI Response - \$233 for a disallowed second telephone line at the residence of the Executive Director.*

The HPI proposed to consider this expense as part of the Treasurer's annual salary compensation package. The HPI does not believe the cost of a second telephone line at the residence of the Executive Director totaling \$233 should be disallowed.

#### OIG Comment

The implementation of an alternative reporting method that considers this expense as part of the Treasurer's annual salary compensation package will not change the initial purpose of the costs into a function that was necessary and proper in rendering Medicare patient services. The cost of a second telephone line at the residence of the Executive Director was not necessary for patient care when the Executive Director was able to be reached through the cellular phone, beeper or the main telephone number at home.

**HPI Response - \$202 for disallowed homeowner's insurance for an employee/director.**

The HPI proposed to consider this expense as part of the Treasurer's annual salary compensation package. The HPI does not believe the cost of homeowner's insurance for the personal residence of one of the directors, the Data Technician, totaling \$202 should be disallowed.

**OIG Comment**

The implementation of an alternative reporting method that considers this expense as part of the Treasurer's annual salary compensation package will not change the initial purpose of the costs into a function that was necessary and proper in rendering Medicare patient services.

Although the bank issuing the line of credit secured the personal residence of one of the directors as collateral and required homeowner's insurance on the pledged asset, the personal residence and related homeowner's insurance cost was a personal expenditure not related to patient care and should not have been claimed on the FY 1998 Medicare cost report.

**HPI Response - \$43 for a disallowed duplicate reimbursement to the Executive Director.**

The HPI concurs with the finding and views the total overpayment of \$43 to be an insignificant oversight considering the total expense of the Agency for FY 1998 was \$541,000.

**Skilled Nursing Care Salaries - \$119**

The HPI claimed \$109,240 on the Medicare cost report for skilled nursing salaries. This cost center consisted of the salaries paid to registered nurses during FY 1998. The HPI provided adequate support for the cost center with two minor exceptions. In two instances, an employee's time card did not match the salary payment. The HPI Chief Financial Officer confirmed that the employees were overpaid by a total of \$119. The total overpayment of \$119 is unallowable.

**HPI Response**

The HPI concurs with the finding and views the total overpayment of \$119 to be an insignificant oversight considering the total payroll expense was \$3 11,000.

**Skilled Nursing Care Employee Benefits - \$78**

In the G&A Employee Benefits section of this report the costs of flower arrangements charged on the FY 1998 Medicare cost report was determined to be unallowable because flowers are not related to patient care. The total cost of the flower arrangements was \$218. This total was allocated to three cost centers on the FY 1998 Medicare cost report. The Skilled Nursing Care Employee Benefits cost center was allocated \$78 of the \$218 claimed. The \$78 is unallowable.

**HPI Response**

The HPI proposed to consider the expense to Skilled Nursing Care Employee Benefits in the amount of \$78 for flower arrangements as part of the Treasurer's annual salary compensation package.

**OIG Comment**

The implementation of an alternative reporting method that considers the flower arrangements as part of the Treasurer's annual salary compensation package will not change the initial purpose of the cost into a function that was necessary and proper in rendering Medicare patient services; the flower arrangements were not related to patient care services.

**Home Health Aide Employee Benefits - \$24**

In the G&A Employee Benefits section of this report, we determined the costs of flower arrangements charged on the FY 1998 Medicare cost report to be unallowable because they were not related to patient care. The total of the flower arrangements was \$218. This total was allocated to three cost centers on the FY 1998 Medicare cost report. The Home Health Aide Employee Benefits cost center was allocated \$24 of the \$218 claimed. The \$24 is unallowable.

**HPI Response**

The HPI proposed to consider the expense to Home Health Aide Employee Benefits in the amount of \$24 for flower arrangements as part of the Treasurer's annual salary compensation package.

**OIG Comment**

The implementation of an alternative reporting method that considers the flower arrangements as part of the Treasurer's annual salary compensation package will not change the initial purpose of the cost into a function that was necessary and proper in rendering Medicare patient services; the flower arrangements were not related to patient care services.

**Skilled Nursing Care Transportation - \$98**

In the G&A Transportation section of this report we determined the costs of a tire replacement for the Chief Financial Officer's personal vehicle to be unallowable. The total cost of the replacement was \$208. This total was allocated to two cost centers on the FY 1998 Medicare cost report. The Skilled Nursing Care Transportation cost center was allocated \$98 of the \$208 claimed. The \$98 is unallowable.

**HPI Response**

The HPI proposed to consider the expense to Skilled Nursing Care Transportation in the amount of \$98 for a tire replacement on the Chief Financial Officer's personal vehicle as part of the Treasurer's annual salary compensation package.

**OIG Comment**

The implementation of an alternative reporting method that considers a tire replacement on the Chief Financial Officer's personal vehicle as part of the Treasurer's annual salary compensation package will not change the initial purpose of the cost into a function that was necessary and proper in rendering Medicare patient services; a tire replacement on the Chief Financial Officer's personal vehicle was not related to patient care services.

**CONCLUSIONS AND RECOMMENDATIONS**

Our audit showed that \$7,809 or about 1 percent of the total \$541,190 claimed by the HPI on its FY 1998 Medicare cost report were claimed in violation of Medicare requirements.

We recommend that the HPI strengthen its procedures to ensure that costs in violation of Medicare reimbursement requirements are excluded from the Medicare cost report prior to submission. We will provide the FI with detail of the identified \$7,809 in unallowable costs for appropriate adjustment to the HPI's FY 1998 Medicare cost report and collection of the resulting overpayment.

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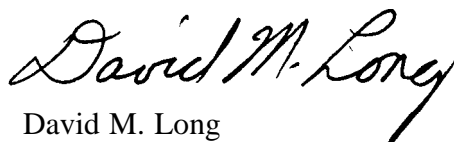
Final determinations as to actions taken on all matters will be made by the HHS official named below. The HHS action official will contact you to resolve the issues in the audit report. Any additional comments or information that you believe may have a bearing on the resolution of this audit may be presented at that time. Should you have any questions, please direct them to the HHS official named below.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See CFR Part 5). As such, within ten business days after the final report is issued, it will be posted on the world wide web at <http://www.hhs.gov/proorg/oig>.

Page 12 - Ms. Phyllis Fredland

To facilitate identification, please refer to the referenced common identification number in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink that reads "David M. Long". The signature is written in a cursive style with a large, prominent "D" and "L".

David M. Long  
Regional Inspector General  
for Audit Services

#### APPENDIX

##### HHS Official

Robert Taylor  
Assistant Regional Administrator  
Division of Financial Management  
Health Care Financing Administration  
Public Ledger Building, Room 2 16  
150 South Independence Mall West  
Philadelphia, Pennsylvania 19 106

DECEMBER 22, 2000

MR. DAVID M. LONG  
REGIONAL I.G. FOR AUDIT SERVICES  
DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT SERVICES  
150 S, IN-DEPENDENCE MALL WEST  
SUITE 316  
PHILADELPHIA, PA 19106-3499

27 300

COMMON I.D. #A-03-00-00020

DEAR MR. LONG:

REGARDING YOUR AUDIT DRAFT FOR THE PERIOD ENDED 6/30/98, THE FOLLOWING SUBSTANTLATION AND/OR COMMENTS ARE SUBMITTED FOR YOUR REVIE W AND CONSIDERATION:

GENERAL SERVICES COST CENTERS

1. G & A SALARIES - \$5520.00

PRIOR TO BECOMING THE TREASURER, MR. FREDLAND WAS THE ADMINISTRATOR OF THE AGENCY FOR THE PAST 12 YEARS. HE HAS BEEN EMPLOYED IN THE HEALTH CARE FIELD FOR OVER 33 YEARS AND, ALTHOUGH, NOT MEDICALLY REGISTERED OR CERTIFIED, HE HAS THE EXPERIENCE TO HANDLE THE "ON CALL" DUTIES AND MAKE A DECISION, IF A PATIENT SHOULD BE TREATED AT AN EMERGENCY ROOM, AN RN. NEEDS TO VISIT OR THE PROBLEM CAN WAIT UNTIL MORNING. SHOULD AN R.N. BE REQUIRED, HE/SHE IS PAID AS AT THE REGULAR VISIT RATE OF X20.00. SINCE WE DID NOT HAVE A FULL-TIME NURSING SUPERVISOR AVAILABLE, THE EXECUTIVE DIRECTOR WOULD HAVE BEEN REQUIRED TO BE "ON CALL" EVERY MONDAY THRU THURSDAY EVERY WEEK OF THE YEAR. THIS WOULD NOT BE A REASONABLE REQUIREMENT FOR HER OR ANYONE ELSE. ALL OF OUR R.N.'s, AT THE PRESENT TIME, ARE PART-TIME (PAID BY THE VISIT) AND TAKING "CALL" IS NOT A REQUIREMENT. IT IS OPTIONAL AND SOME TAKE "WEEKEND CALL." THE DOLLARS PAID TO HER WOULD HAVE BEEN THE SAME AS THE \$5520.00, IN QUESTION. THUS, THERE WOULD BE NO DECREASE IN OUR TOTAL COST. ALSO, THE SALARY OF THE TREASURER WAS WELL UNDER THE GUIDELINES ESTABLISHED BY THE FISCAL INTERMEDIARY. (SEE EXHIBIT I)

REGULATORY GUIDELINES - 11/16/00/98				INTERMEDIARY CALCULATION	
ITEM	NOTE	STANDARD FACTOR	HPI STATISTIC	FOR AL	FOR PHYLLIS
1 TOTAL AGENCY COST	(1)	0.00296364	544,261	1,604	1,604
2 EDUCATION	s	18,547			18,547
	s	12,949		12,949	
3 YEARS SUPERVISORY EXPERIENCE	s	619.48	14 23	14,248	8,673
4 6/03 WAGE INDEX		\$ 23,781.2418	1.1276	26,816	26,816
5 CONSTANT				3,885	3,885
6 STANDARD ERROR				7,891	7,891
SUB-TOTAL BEFORE INFLATION				\$ 67,393	\$ 67,416
FY 1992		3.90%		2,628	2,629
FY 1993		3.40%		2,381	2,382
FY 1994		2.80%		2,027	2,028
FY 1995		2.60%		1,935	1,936
FY 1996		3.10%		2,367	2,368
FY 1997		3.60%		2,834	2,835
FY 1998	(2)	3.20%		2,528	2,527
TOTAL AFTER INFLATION	(3)			\$ 84,091	\$ 84,121
7 AVAILABLE COMPENSATION/(EXPOSURE)					
ACTUAL SALARY				\$ 52,297	\$ 54,266
ACTUAL BENEFITS PER CLIENT				\$ 13,886	\$ 13,568
TOTAL COMPENSATION AS-FILED				\$ 66,183	\$ 67,834
AVAILABLE/(EXPOSURE)				\$ 17,908	\$ 16,287

(1) BASED ON FY 1998 COSTS.

(2) ASSUMED INFLATION FACTOR ESTIMATE.

(3) ESTIMATED MAXIMUM ALLOWABLE INCLUDING SALARY, BENEFITS AND PAYROLL TAXES.



MR. DAVID M. LONG  
DECEMBER 22, 2000

2. G. & A. EMPLOYEE BENEFITS -- \$476.00

SINCE THE TREASURER MADE THE ORIGINAL DECISION FOR THE CLOTHING ALLOWANCE AND SENDING FLOWER ARRANGEMENTS, HE WOULD LIKE TO CONSIDER THESE EXPENSES AS PART OF HIS SALARY COMPENSATION AND A FORM 1099 MISC WILL BE ISSUED TO HIM FOR 1998 AND AN AMENDED TAX FORM FILED WITH THE PROPER TAXING AGENCIES.

3. G. & A. -- \$190.00

THE REPAIR FOR \$110.00 SHOULD, ALSO, BE CONSIDERED PART OF THE TREASURER'S COMPENSATION. WE BELIEVE THE 380.00 SHOULD BE AN ALLOWABLE COST AS A MOBILE PHONE CORD WAS TESTED ON THE TREASURER'S PERSONAL VEHICLE AND CAUSED A PROBLEM WITH THE ELECTRICAL SYSTEM. THE CORD WAS SHORTING OUT ON THE COMPANY VEHICLE AND THAT IS THE REASON IT WAS TESTED, CAUSING THE PROBLEM. (SEE EXHIBITS II- A AND II-B)

A portion of HPI's response on this page has intentionally been excluded from presentation in this Appendix; the issue to which it pertains has been resolved with the HPI and is not included in this final report.

STATE INSPECTION

TOWING

**GINO'S AUTO SERVICE**

AUTOMATIC TRANSMISSION *Specialists*

1613 Noblestown Road  
Pittsburgh, Pa 15205

Bus 921-5404  
Res 531-7225

NAME *Heath's Personal Inc*

ADDRESS \_\_\_\_\_

CITY \_\_\_\_\_

DATE <i>6-28-98</i>	CUST. ORDER NO.	WHEN PROMISED	PHONE
YEAR & MAKE OF CAR <i>1997 NISSAN Altima</i>	TYPE OR MODEL	SERIAL NO.	MOTOR NO.
LICENSE NO.	MILEAGE	WRITTEN BY	

AMT.	PART NO.	NAME OF PART	SALE AMT.

DESCRIPTION OF WORK	AMOUNT
<i>Repairs to Electrical system for above</i>	

*PAID  
#270  
6/27/98*

TOTAL PARTS ▶

ACCESSORIES - TIRES AND TUBES

TOTAL ACCESSORIES ▶

OIL & GREASE		CHECK BELOW	LABOR ONLY
QTS OIL		LUBRICATE	PARTS
LBS GREASE		CHANGE ENGINE OIL	ACCESSORIES
		TRANSMISSION	OIL & GREASE
		DIFFERENTIAL	MISC MERCHANDISE
		WASH	SUBLET REPAIRS
		POLISH	TAX
TOTAL OIL & GREASE ▶		TOTAL SERVICE ▶	TOTAL ▶ <i>80.00</i>

AUTHORIZED BY \_\_\_\_\_

ESTIMATES ARE FOR LABOR ONLY, MATERIAL ADDITIONAL

I HEREBY AUTHORIZE THE ABOVE REPAIR WORK TO BE DONE ALONG WITH NECESSARY MATERIALS. YOU AND YOUR EMPLOYEES MAY OPERATE ABOVE VEHICLE FOR PURPOSES OF TESTING, INSPECTION OR DELIVERY AT MY RISK. AN EXPRESS MECHANIC'S LICENSE IS ACKNOWLEDGED ON ABOVE VEHICLE TO SECURE THE AMOUNT OF REPAIR THEREON. IT IS UNDERSTOOD THAT MY EMPLOYER'S POLICY ON EMPLOYING TO TAKE A CHANGE IN WORKING CONDITIONS PLACED HIM IN A POSITION TO BE EMPLOYED BY ME.

PAY THIS AMOUNT ↑ *80.00*

*PHONE  
LAND  
F--  
BIBL*

*EXHIBIT II - A*

EXHIBIT II - B

Handwritten notes:  
pinned  
and  
written  
in  
pencil

Bell Atlantic Mobile  
1970 Park Manor Blvd  
Rt 60 A Elizabeth NJ  
412-787-4229

Ord Loc: 03030 01 4 56231 (Del)  
Ord Loc: 15  
Rev Loc: 03030 01 999 3  
06/18/90 10:47 BELL  
MOBILE

03446 CLO:CHRG8 000 3 \$12.09  
Tax: 41.40

Total: \$53.49

This Payment:  
Balance Due: \$11.33

AMEX 3752016982805 12728

Signature: *[Handwritten Signature]*

Thank you

This page of HPI's response has intentionally been excluded from presentation in this Appendix;  
the issue to which it pertains has been resolved with the HPI  
and is not included in this final report.

LOANS FROM SHAREHOLDERS RECONCILIATION

6/97 TO 6/98

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HEALTH PERSONNEL INC.

Letter From Management

4/97 to 6/98

General Ledger Activity

Appendix  
Page 9 of 17

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MR. DAVID M. LONG  
DECEMBER 22, 2000

LOCAL MEALS - \$836.00 - BASED ON THE TREASURER'S PRIOR EXPERIENCE IN HOSPITALS, NURSING HOMES, ETC., MEALS OR SNACKS WERE FURNISHED AT ALL BOARD MEETINGS, DEPARTMENTAL MEETINGS I.E.; BUDGET COMMITTEE, PERSONNEL COMMITTEE, ADVISORY COMMITTEE, ETC. (EXHIBIT IV-A1 & 2)  
THAT WAS THE RATIONALE USED FOR THESE DISBURSEMENTS (SEE MEALS ANALYSIS WITH LETTER (A) \$593.00  
LETTER (B) MEALS WHILE IN TRAVEL STATUS - \$121.00  
LETTER (C) ALL OTHER MEALS \$146.00  
IT SHOULD BE NOTED THAT DUE TO THE PRESENT STRUCTURE OF THIS ORGANIZATION, FAMILY INVOLVEMENT IS REQUIRED. WHEN ATTENDING BOARD MEETINGS, THE EXECUTIVE DIRECTOR AND TREASURER, RESPECTIVELY, ARE NOT EMPLOYEES BUT BOARD MEMBERS. THE SAME APPLIES TO JOE FREDLAND. WE BELIEVE THE ABOVE SHOULD BE CONSIDERED AS NORMAL CORPORATE BUSINESS EXPENSES. REGARDLESS OF THE 2 SHAREHOLDERS BEING EMPLOYEES OF THE CORPORATION.

SECOND TELEPHONE - \$233.00 - THE TREASURER WILL CONSIDER THIS AS PART OF HIS COMPENSATION AND INCLUDE ON FORM 1099MISC FOR 1998.  
HOMEOWNER'S INSURANCE - \$220.00 - CONSIDER TO BE PART OF TREASURER'S COMPENSATION FOR YEAR.  
DUPLICATE REIMBURSEMENT - EXECUTIVE DIRECTOR - \$42.00  
CONSIDERING TOTAL EXPENSE OF AGENCY FOR YEAR, WE BELIEVE THIS OVERSIGHT IS INSIGNIFICANT (\$541,000).

SKILLED NURSING CARE

SALARIES - \$119.00 - AGAIN, CONSIDERING THE TOTAL PAYROLL EXPENSE FOR THE PERIOD, WE BELIEVE THIS OVERSIGHT IS INSIGNIFICANT.  
(\$311,000.00)

EMPLOYEE BENEFITS - \$78.00 - TREASURER WILL CONSIDER THIS TO BE PART OF MS COMPENSATION AND INCLUDE ON FORM 1099MISC.

HOME HEALTH AIDES

EMPLOYEE BENEFITS - \$24.00 (SAME AS ABOVE)

SKILLED NURSING CARE

TRANSPORTATION - \$98.00 (SAME AS ABOVE)

HEALTH PERSONNEL, INC  
MEALS ANALYSIS  
7/1/97 TO 6/30/98

MONTH	SOURCE	DETAIL	AMT
July 97 7/14	A/E	Supper WHILE AWAITING FLIGHT TO BALTIMORE (Payroll)	(B) 24.
Aug 97 8/2	A.F.	DINNER - Special Board Mtg	(A) 26.
8/15	Expn	LUNCH IN OFFICE - Employee DINNER AND HAD TO WAIT IN OFFICE FOR REPAIR OF EQUIP	(C) 20.
8/16	A/E	DINNER - AFTER HOURS CLEANING OF ROOMS EMPLOYEE DINNER & EQUIPMENT CARE	(C) 42.
8/17	A/E	DINNER - AFTER BOARD MTG ALL MEMBERS OF BOARD	(A) 77.
Sep 97 9/5	A.F. Exp	REFRESHMENTS - Advisory Committee Mtg	(A) 28.
9/13	A/E	DINNER AFTER COMPUTER SHOW (SATURDAY) GREENSBURY P. - 35 MILLS AND OFFICE	(B) 54.
OCT 97			
10/7	A.F. Exp	PERSONNEL COMMITTEE Mtg	(A) 22.
10/9	A/E	REFRESHMENTS w/ AFTERNOON AFTER V.C. HEARING - <del>NEW</del> FENTLAND	13.
10/16	A.F. Exp	LUNCH AFTER <del>BOARD</del> HEARING FOR GIZZI NEW KENSINGTON - 70 MILLS OFFICE	(B) 15.
Nov 97	A.F. Exp	LUNCH AFTER AND HEARING FOR GIZZI NEW KENSINGTON	(B) 8.
10/31	A.F. Exp	LUNCH AFTER SEMINAR	9.
11/1	A/E	PERSONNEL COMMITTEE Mtg	(A) 96.
11/21	A/E	IN. LOCATION DISCUSSION	(A) 27.
Dec 97	A/E	PERSONNEL COMMITTEE Mtg - REVIEW RESUME	(A) 27.
Jan 98			
1/3	A.E.	PERSONNEL COMMITTEE Mtg	(A) 42.
1/5		New Employee ORIENTATION (Luncheon)	(C) 20.
1/23		Nurses Mtg FOR RECHROLOGY PATIENTS	(A) 42.

EXHIBIT TV-A-15 (cont)

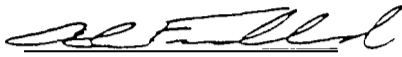


MR. DAVID M. LONG  
DECEMBER 22, 2000

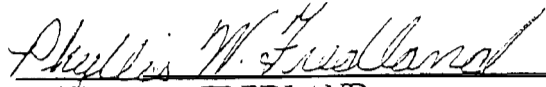
IN OUR OPINIONS, WE HAVE JUSTIFIED AND/OR SUBSTANTIATED THE MAJORITY  
OF THE EXPENSES THAT WERE TO BE CONSIDERED UNALLOWABLE  
FOR THIS AUDIT PERIOD.

PLEASE CONTACT AL FREDLAND FOR ANY ADDITIONAL DATA THAT YOU MAY  
REQUIRE.

SINCERELY,



AL FREDLAND  
TREASURER



PHYLLIS W. FREDLAND  
EXECUTIVE DIRECTOR

ATTACHMENTS