# State Fails in Its Effort to Close Down The Operation of Medical Arts Center

By DAVID BIRD

After nearly two years of investigation, the state Department of Health began last January one of its rare actions to withdraw the operating certificate of a hospital that had been charged with violating the state hospital code.

But the owners of the institution—the Medical Arts Center Hospital, which occupies part of an office building at 57 West 57th Street—immediately obtained a court injunction that halted the state's proceeding, and the state has shown little interest in pressing the matter further.

The Health Department has found thousands of violations in the hospitals it is charged with inspecting, but it rarely has attempted to withhold an operating certificate even when the violations persist. Health Department officials say they are reluctant because they feel they would be tied up in years of litigation brought by any hospital they tried to close.

Even in the isolated cases where they have tried to deny an operating certificate, they have been unsuccessful, as is pointed up by the case of the Medical Arts Center Hospital.

### Saddled With Debts

The state inspectors found that a real estate conglomerate had saddled the hospital with debts to raise money for other enterprises, and that the patients would ultimately be charged to pay for these financial dealings. Furthermore, the inspectors found that there was no real need for the hospital in the community.

The hospital, a 125-bed proprietary (profit-making) institution, had no long-term debt at the end of 1967, according to the state inspectors. But after the conglomerate, Realty Equities Corporation, took over in 1968, the debt began to climb, reaching $4,473,939 in 1973.

The hospital's indebtedness increased sharply in December, 1971. In that month Realty Equities transferred one million shares of a New Jersey cosmetics and toiletries concern called Bishop Industries, Inc., to Medical Arts Center Hospital. The one million shares were valued at $750,000.

Later that month Medical Arts borrowed $4.1 million from the Republic National Life Insurance Company of Dallas, pledging the Bishop shares as collateral.

### 'Non-Health-Related'

The $4.1 million went to Realty Equities for "non-health-related purposes," the state inspectors said, requiring the imposition of patient charges "not related to the provision of health services."

On paper the hospital should have made $90,000 a year on the loan transaction because it was borrowing money from Republic ta 6 per cent interest hospital from Realty Equities. ties at 10 per cent.

### Filed Six Months Late

But in less than a year the hospital's administrator, Norman J. Sokolow, who had been hired by Realty Equities, set up a corporation called Norjo Enterprises, Inc., to buy the hospital from Realty Equitties.

Approval by the state Health Department is required for the transfer of more than 10 per cent of any hospital's stock, but the sale to Norjo went through without any notification to the state.

The sale of the hospital consisted essentially of Norjo taking on the obligation to pay off the debt to Republic and cancelling the obligation of Realty Equities tp pay back its loan.

State inspectors said they found entries in the hospital's records indicating there never had been any intent to get back the money lent to Realty Equities.

On March 29, 1972—more than six months after the sale was completed—Mr. Sokolow filed with the Health Department for a change in ownership.

The decision whether to approve or disapprove a change in ownership rests with the state's 15-member Public Health Council. The council voted to disapprove the establishment of the hospital under new ownership, on the basis of negative recommendations from two agencies charged with weighing the need of Medical Arts and the soundness of its financial structure.

The two agencies are the Health and Hospital Planning Council of Southern New York and the State Hospital Review and Planning Council.

The Medical Arts Hospital was found to be unneeded because there is an oversupply of hospital beds in Manhattan and its financial structure was deemed to be shaky.

### Inflated Assets

In March, 1974, both Realty Equities and Republic Life Insurance were charged by the Securities and Exchange Commission with fraudulently inflating assets.

The case resulted in the Texas Insurance Commission taking control of Republic. The S.E.C. also won an agreement that new directors would be added to Realty Equities. A thorough investigation is being made of the company, the Federal commission said.

Meanwhile, despite the charges against Medical Arts, funds from government agencies and from hospital insurance carriers such as Blue Cross continue to support the institution.

Last year Blue Cross paid Medical Arts $1,399,845. Medicaid paid the hospital $697,165 last year and Medicare sends the hospital $31,510 every other week.

The government agencies and Blue Cross say they cannot withhold payments as long as the hospital has an operating certificate from the state.

### Accountants' Disclaimer

A Blue Cross spokesman said: "The accountants for Medical Arts attached a disclaimer to their reports, meaning they couldn't back up the figures. Our accountants are trying to work out the tangle now."

Mr. Sokolow said he was successful recently in persuading Republic National Life, the Dallas company, to reduce the hospital's loan to $1-million. The one million shares of Bishop Industries that were transferred to Medical Arts with a price of $750,000, and used as collateral on the loan, have dropped sharply in value. At the end of 1973, the state Health Department found they had a value of only $20,000.

Asked the other day about their present value, Mr. Sokolow smiled and held up a hand with thumb and forefinger forming a zero.

Medical Arts occupies the basement and the third, fourth, 15th, 16th and 17th floors and part of the first, second, fifth and sixth floors of the 18-story building, which is at the corner of 57th Street and Avenue of the Americas.

### Some Other Tenants

About one-third the building is occupied by the hospital. The other tenants include doctors, dentists and dental technicians and a wide variety of other occupants. These range from the Brew and Burger restaurant on the ground floor to the National Training Center for Lie Detection, Inc., and a masseuse listed as Denise.

"This arrangement is not conducive to an efficient operation with personnel and services scattered throughout the building," the state's hospital inspectors reported. "In addition, because of the location of offices and companies over which the hospital has no control, the problem of control over fire and safety hazards is increased. Additional problems include the lack of an elevator solely for the hospital."

The hospital has had to use the elevators that serve the rest of the offices in the building ever since the hospital was established in 1936.

The Health Department moved against Medical Arts last Jan. 7. It sent the hospital a notice that it was going to hold a hearing on Jan. 28 for the withdrawal of the hospital's certificate of operation on "charges that you have violated the Public Health law in that there has been a transfer of 10 per cent or more of the stock of the corporation which is the operator of the hospital without the approval of the Public Health Council."

### Injunction Obtained

Mr. Sokolow went into State Supreme Court here and won an injunction against the hearing.

The other day, in his office on the third floor of the hospital, Mr. Sokolow conceded that his occupancy rate was only 71 per cent, but that the hospital was needed because, for example, it provided a place for Cuban refugee doctors to practice.

Walter Livey, the Health Department's attorney in charge of enforcement, indicated there was little enthusiasm now to press for denying Medical Arts a certificate of operation.

"It's all over now," he said, because the main problem of the large debt to Republic had been reduced substantially. Asked about a penalty for the apparently illegal transfer of the ownership, he indicated it was hardly worth the effort because there "would be no more than a $1,000 fine at the most."

The case, he said, is now in the Attorney General's office. Morton Sattler, the assistant attorney general in charge of the case, said, "I really haven't thought about it very much."