



Office of Inspector General
Texas Health and Human Services Commission

Stuart W. Bowen, Jr., Inspector General

Performance Audit Report
St. Joseph Regional Health Center
2010 Medicaid Outpatient Hospital Costs

December 18, 2015

IG Report No. 14-80-127267603-10-MO-02

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EXECUTIVE SUMMARY

The Texas Health and Human Services Commission (HHSC), Inspector General (IG), Audit Section completed an audit of St. Joseph Regional Health Center (Provider), Texas Provider Identifier (TPI) 127267603, 2010 Medicare Cost Report (Cost Report) for the period January 1, 2010 through December 31, 2010.

Audit Results

The Cost Report submitted by the Provider did not comply with Texas Administrative Code (TAC) and Centers for Medicare and Medicaid Services (CMS) instructions. The Detailed Findings and Recommendations section of this audit report identified expense findings that were noted in the audit and resulted in adjustments totaling \$42,058.

Objective

The objective of IG's audit was to determine whether the Medicaid outpatient hospital costs included in the 2010 Cost Report submitted by the Provider were in compliance with TAC and CMS instructions.

Background

The Provider agreed to abide by the policies, procedures, laws, and regulations of the Texas Medicaid program by signing a Texas Medicaid Provider Agreement and submitting Medicaid claims under TPI 127267603. Medicaid outpatient hospital costs are reimbursed in accordance with 1 TAC §355.8061. The reimbursement methodology is based on reasonable cost/interim rates and is similar to that used by Title XVIII (Medicare). The hospital must submit the Medicare Cost Report to CMS for reimbursement and reporting purposes. A copy of the cost report is submitted to Texas Medicaid & Healthcare Partnership for review and settlement of requested Texas Medicaid cost reimbursement.

Summary of Scope and Methodology

The audit of the Provider covered the cost report period beginning January 1, 2010 through December 31, 2010. The IG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The IG believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. See Appendix A for a more detailed description of the audit scope and methodology.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1 – Employee Relations Costs

The Provider supplied additional documentation, as part of their management response that showed \$60,637 of Cost Center 41.00 patient related costs. In addition, the Provider also identified that \$16,495 of Special Functions were related to non-hospital employee physicians and their guests at two events; as such these costs are unallowable and have been adjusted in Finding 5 below.

As a result, the original employee relations amount of \$168,347 minus the allowed \$60,637 Cost Center 41.00 costs equals \$91,215 of employee relations costs. This \$91,215 minus the \$87,129 TAC limit amount (1,742.57 average full time equivalents (FTEs) reported in the cost report times \$50 per FTE) results in a Cost Center 6.00 overstatement of \$4,086.

According to 1 TAC, §355.103(b)(17)(A), "Employee relations costs are limited to a ceiling of \$50 per employee eligible to participate per year."

The following table illustrates the auditor's recommended adjustment:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative and General	\$28,934,364	(\$4,086)	\$28,930,278

Recommendation:

The Provider should ensure reported employee relations costs comply with TAC.

Management Response:

The costs analyzed during the audit contained an entire department of radiology without recognizing costs associated specifically to employee benefits. Department 01.716, cost center 41.00 is a radiology department known as "SJH Specials". Apparently the auditor included the department in the employee relations costs for the reason that the name of the department included the word Specials. In her other work she searched out the "special functions" description for accounts, which is where employee relations costs can be found, however the department SJH Specials represents an actual department of radiology procedures. The costs of the department included with employee relations comes to \$60,636.65 and does not include any employee relations cost. We feel that this cost should be excluded from the total of \$168,395 reported as the needed adjustment of employee relations. I have attached the summary general ledger for the department as well as the summary general ledger of the expenses alone for your review. Please see Attachment 1.

We have also realized that, included with employee relations costs, is a department for medical staff services special functions. The department is general ledger department

01.948 and is called SJH Medical Staff Services. The general ledger account is Special Functions and does indeed pertain to special function costs, however, the physicians are not employees. The cost associated with this department pertains to medical staff, doctors, that perform patient care services at St. Joseph. The physicians are not employees of the hospital, yet the costs for meetings are related to the care of the patient by meeting administrative duties such as quality and peer reviews, required medical staff meetings and building positive relationships with the physicians attending which in turn builds morale to support better patient care. The total cost subjected to employee relations is \$16,495.07. Of this amount, the director of the department was able to supply me with the costs of two "special function" meetings that were held during the year 2010. The total costs of these two functions, one in April and the other in December, was \$5,027.81 and \$6,600.53, respectively, for a total of \$11,628.34. I have attached the agenda and expense detail for your review and if you need further documentation of the remaining costs I can gather that for you, I will just need a week or two to pull the documentation from offsite storage. Please see Attachment 2. We feel that the costs associated with physician relations should be excluded from the adjustment to employee benefits costs of \$168,395.

Remedy for Improvement:

Compare total of general ledger accounts for "Special Functions" with the allowed employee relations cost of \$50 per FTE.

Auditor Response:

Due to the additional information provided to the Auditor, the following will be adjusted in the Employee Relations Finding:

- a) \$60,637 will be removed from the original amount of \$168,347.
- b) \$16,495 located under the Special Function Costs account number 01.948.395 will be a separate finding. Finding 5 Entertainment Cost, will reflect the amount of \$16,495 which was used for physicians and is unallowable as the costs were not for clients or hospital employees.
- c) The remaining balance of \$91,125 for Employee Relation minus \$87,129 (FTE 1742.57 x \$50) equals \$4,086, for overstatement of Employee Relations Costs.

Finding 2 – Late Charge Penalty Costs

The Provider reported unallowable late charge penalty costs in the cost report. The Provider stated the costs were included in the costs report as they were considered immaterial. As a result, various cost centers were overstated by \$5,402.

According to 1 TAC, §355.103(b)(17)(G), "Fines and Penalties. Fines and penalties for violations of regulations, statutes, and ordinances of all types are unallowable costs. Penalties or charges for late payment of taxes, utilities, mortgages, loans or insufficient banking funds are unallowable costs."

The following table illustrates the recommended adjustments:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative and General	\$28,930,278	(\$3,953)	\$28,926,325
37.00	Operating Room	6,777,004	(184)	6,776,820
41.02	Cancer Center	2,346,004	(20)	2,345,984
44.00	Laboratory	9,872,116	(208)	9,871,908
63.53	Caldwell RHC	1,484,302	(595)	1,483,707
63.54	Somerville RHC	275,930	(17)	275,913
65.00	Ambulance Services	4,121,867	(425)	4,121,442
	Total		(\$5,402)	

Recommendation:

The Provider should ensure reported late charge penalty costs comply with TAC.

Management Response:

We find no exception to the proposed adjustment to costs of \$5,402.

Remedy for improvement:

- *Review of EOC (Expense Object Code) 452 per general ledger summary to determine the amount of late fees incurred in cost reporting period. Remove that amount from allowable cost.*

Finding 3 – Public Relations Costs

The Provider reported unallowable public relations costs in the cost report. Provider believed their reported public relations costs to be accurate. As a result, Cost Center 6.00 was overstated by \$2,853.

According to 1 TAC, §355.103(b)(13), "Advertising and public relations. Unallowable advertising and public relations include: (i) costs of advertising of a general nature designed to invite physicians to utilize a contracted provider's facilities in their capacity as independent practitioners; (ii) costs of advertising incurred in connection with the issuance of a contracted provider's own stock, or the sale of stock held by the contracted provider in another corporation considered as reductions in the proceeds from the sale; (iii) costs of advertising to the general public which seeks to increase client utilization of the contracted provider's facilities; (iv) public relations costs; (v) any business promotional advertising; and (vi) costs of the development of logos or other company identification."

The following table illustrates the recommended adjustment:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative and General	\$28,926,325	(\$2,853)	\$28,923,472

Recommendation:

The Provider should ensure reported public relation costs comply with TAC.

Management Response:

We find no exception to the proposed adjustment of \$2,853. This amount represents .1124% of the reported total public relations costs of \$2,538,503.03, we really cannot provide a measure to improve this by.

Finding 4 – Advertising Costs

The Provider reported unallowable advertising costs in the cost report. The Provider was unaware that the unallowable advertising costs had not been completely removed. As a result, various cost centers were overstated by \$13,222.

According to 1 TAC, §355.103(b)(13)(B)(III), "Unallowable advertising and public relations costs include...costs of advertising to the general public which seeks to increase client utilization of the contracted provider's facilities; (v) any business promotional advertising; and (vi) costs of the development of logos or other company identification."

The following table illustrates the recommended adjustments:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative and General	\$28,923,472	(\$562)	\$28,922,910
60.00	Clinic	2,728,236	(2,850)	2,725,386
61.00	Emergency	5,643,504	(418)	5,643,086
63.51	Franklin RHC	559,320	(3,840)	555,480
63.52	Normangee RHC	352,451	(150)	352,301
63.53	Caldwell RHC	1,483,707	(1,195)	1,482,512
63.54	Somerville RHC	275,913	(1,049)	274,864
63.55	Centerville RHC	288,995	(436)	288,559
63.56	Madisonville RHC	1,231,393	(1,872)	1,229,521

Table continued from last page:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
63.57	Lexington RHC	483,337	(850)	482,487
	Total		(13,222)	

Recommendation:

The Provider should ensure reported advertising costs comply with TAC.

Management Response:

We find no exception to the proposed adjustment of \$13,222.

Remedy for improvement:

- *The costs being removed pertained to departments other than those in A&G, for which an A-8 Adjustment is made in order to remove. The remedy for correcting this oversight is to include all general ledger accounts pertaining to advertising in this A-8 Adjustment, EOC 501-503, in the future.*

Conclusion

Based upon our review, we have estimated that the total cost adjustment should be \$25,612. This is detailed in the following table:

<i>Finding 1 – Employee Relations Costs</i>	<i>\$4,135</i>
<i>Finding 2 – Late Charge Penalty Fees</i>	<i>\$5,402</i>
<i>Finding 3 – Public Relations Costs</i>	<i>\$2,853</i>
<i>Finding 4 – Advertising Costs</i>	<i><u>\$13,222</u></i>
<i>TOTAL ADJUSTMENTS</i>	<i>\$25,612</i>

Finding 5 – Entertainment Costs

The Provider supplied additional documentation, as part of their management response that identified that \$16,495 of Special Function costs related to non-hospital employee physicians and their guests at two events. These costs are unallowable because they were not for clients or employees. The Provider believed these costs were allowable, as reflected in their management response. As a result, Cost Center 6.00 was overstated by \$16,495.

According to 1 TAC, §355.103(b) (17)(A), “Entertainment expenses other than those for the benefit of current clients or those for staff employee relations described above are unallowable costs.”

The following table illustrates the recommended adjustment:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative and General	\$28,922,910	(\$16,495)	\$28,906,415

Recommendation:

The Provider should ensure reported entertainment costs comply with TAC.

APPENDICES

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Appendix A - Objective, Scope, and Methodology

Objective

The objective of the IG's audit was to determine whether the Medicaid outpatient hospital costs included in the 2010 Cost Report submitted by the Provider were in compliance with TAC and CMS instructions.

Scope

The audit scope was limited to hospital costs reported by the Provider, for the period January 1, 2010 through December 31, 2010.

Methodology

The IG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The IG believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit included obtaining an understanding of compliance criteria, and the processes related to the preparation of the Cost Report. Accounting records, transactions, and supporting documentation were reviewed to determine that only reasonable, necessary, and allowable costs were submitted for reimbursement to the Texas Medicaid Program.

The audit methodology included:

- Discussions with Provider management and staff
- Obtaining an understanding of relevant controls, compliance criteria, and processes relating to the preparation of the Cost Report
- Reviewing applicable Medicaid laws and regulations
- Using the Medicare Cost Report to identify costs and charges
- Reviewing available accounting schedules, exhibits, and other supporting documentation to substantiate Medicaid costs and charges

Criteria Used

- 1 TAC, §§355.101 - 110
- Guidelines and policies to implement Medicare regulations set forth in CMS Publication 15-1, Provider Reimbursement Manual, Chapters 1 through 29
- Specific instructions for the completion of the hospital cost report, CMS Form 2552-96 as set forth in CMS Publication 15-2, Provider Reimbursement Manual, Chapter 36
- Generally Accepted Accounting Principles
- Provider policies and procedures

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Appendix B - Report Distribution

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