



Office of Inspector General
Texas Health and Human Services Commission

Stuart W. Bowen, Jr., Inspector General

Performance Audit Report
Dallas County Hospital District
2010 Medicaid Outpatient Hospital Costs

November 30, 2015

IG Report No. 14-80-127295703-10-MO-24

CONTENTS

EXECUTIVE SUMMARY	1
DETAILED FINDINGS AND RECOMMENDATIONS.....	2
Finding 1 – Employee Relations Costs.....	2
Finding 2 – Training Costs	4
Finding 3 – Physician Recruitment Costs.....	5
Finding 4 – Travel Costs.....	7
APPENDICES	9
Appendix A - Objective, Scope, and Methodology.....	10
Appendix B - Report Distribution.....	12

EXECUTIVE SUMMARY

The Texas Health and Human Services Commission (HHSC), Inspector General (IG), Audit Section completed an audit of Dallas County Hospital District's (Provider), Texas Provider Identifier (TPI) 127295703, 2010 Medicare Cost Report (Cost Report) for the period October 1, 2009 through September 30, 2010.

Audit Results

The Cost Report submitted by the Provider did not comply with Texas Administrative Code (TAC) and Centers for Medicare & 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 \$287,424.

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.

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 127295703. 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 October 1, 2009 through September 30, 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 reported \$615,883 in employee relations costs on its Cost Report. Per the TAC, employee relations costs should be limited to \$50 per eligible employee per year. The Provider did not have a policy sufficiently describing its method for determining employees eligible to participate in employee relations costs. Per Worksheet S-3 of the Cost Report, the Provider reported 8,492 full time equivalent (FTE) employees on its payroll in 2010. This number was used to calculate the employee relations ceiling of \$424,600 (8,492 FTE's × \$50). The Provider was unaware of the TAC limit for eligible employee relations costs. As a result, various cost centers were overstated by \$191,283.

According to 1 TAC, §355.103 (b)(20)(A), "Employee relations expenses...Employee relations costs are limited to a ceiling of \$50 per employee eligible to participate per year."

The following table illustrates the recommended adjustments:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
5.00	Employee Benefits	\$ 107,242,913	(\$173,658)	\$107,069,255
6.00	Administrative & General	110,265,280	(7,840)	110,257,440
8.00	Operation of Plant	27,328,478	(1,135)	27,327,343
9.00	Laundry & Linen Service	3,910,107	(287)	3,909,820
14.00	Nursing Administration	7,330,265	(74)	7,330,191
15.00	Central Services & Supply	5,900,551	(11)	5,900,540
16.00	Pharmacy	13,991,614	(792)	13,990,822
17.00	Medical Records & Supply	17,909,512	(90)	17,909,422
23.00	I&R Services-Other Prgm Costs Apprvd	2,565,277	(39)	2,565,238
25.00	Adults & Pediatrics	59,851,063	(198)	59,850,865
26.00	Intensive Care Unit	9,202,889	(161)	9,202,728
26.02	Burn ICU	3,361,137	(5)	3,361,132
26.04	Neonatal ICU	14,806,299	(31)	14,806,268
31.01	Subprovider 2	2,082,114	(51)	2,082,063
37.00	Operating Room	21,711,978	(116)	21,711,862
39.00	Delivery Room & Labor	13,083,815	(107)	13,083,708
40.00	Anesthesiology	3,308,112	(5)	3,308,107
49.00	Respiratory Therapy	8,008,102	(2,167)	8,005,935
50.00	Physical Therapy	4,608,660	(712)	4,607,948
60.00	Clinic	29,250,450	(527)	29,249,923

Table continued from previous page

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
60.01	COPC	27,546,613	(745)	27,545,868
60.03	Geriatrics	942,546	(37)	942,509
60.04	Jail Health Clinic	20,236,750	(1,873)	20,234,877
61.00	Emergency	20,823,355	(603)	20,822,752
62.01	Observation Beds (Distinct Part)	3,449,071	(19)	3,449,052
	Total		(\$191,283)	

Recommendation:

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

Management Response:

Parkland agrees that employee relations expense in FY 2010 exceeded the TAC limit of \$50 per employee; however Parkland disputes the audited dollar amount finding.

The auditor is proposing to exclude \$248,111 in employee relations expense. Parkland believes this number should be \$142,783. The difference between the auditor finding and the Parkland amount is comprised of two issues.

- *The auditor included \$56,828 relating to meals and snacks provided during management training as employee relations expense. The management training expense occurred offsite and in order to facilitate and maximize the time for management staff required to attend, Parkland opted to provide lunch and snacks. TAC has defined staff training expenses as allowable, however fails to address any meals or snacks provided during training as allowable or non-allowable. Additionally, TAC 355.103 (b)(20)(a) defines employee relations expense as "...expenses intended to boost employee morale and in turn increase the efficiency and quality of care". Meals and snacks provided during required management training does not meet the definition of employee relations as they are for the benefit of the provider with the intention of maximizing training time, instead of for the benefit of the employee. As such, these costs should not be included in the non-allowable employee relations expense.*
- *The auditor inappropriately used the incorrect number in determining the number of employees to apply the allowable employee relations expense. The auditor utilized the cost report Full Time Equivalent (FTE) number reported on the cost report, a weighted number, as opposed to the TAC 355.103 definition of "...per employee..." which should be a physical employee count. The FTE figure combines several part time employees into a single full time employee, thereby limiting the actual number of employees in a year. Parkland provided a document reflecting the number of checks issued in*

September 2010. We believe this figure of 9,462 employees is a more accurate count of employees at Parkland that meets the TAC definition.

When these two data elements are incorporated into the auditor's calculation of non-allowable employee relations expense, the resulting non-allowable expense is \$142,783.

For future filed cost report years, Parkland will incorporate a process to determine if employee relations expense is recorded in accordance with Parkland policy and Medicaid regulations.

Auditor Comment:

The auditor will remove the \$56,828 in meal and snack costs from the employee relations expense total. These costs will be moved to training costs and reported as a separate finding. Per 1 TAC, §355.103 (b)(15)(A)(iii), "...For offsite training, allowable costs include costs such as allowable travel costs, registration fees, seminar supplies, and classroom costs." The management training event occurred in the same city as the Provider. Participants were not on travel status while attending training. Travel costs, such as meal costs, will not apply to this event. The IG does not object to the Provider purchasing meals as a convenience, but the cost should not be transferred to Medicaid.

1 TAC, §355.103 (b)(20)(A) states, "Employee relations costs are limited to a ceiling of \$50 per employee eligible to participate each year." The Provider's alternative calculation of employee relations expenses, based on the checks issued per month, does not conform to the requirements stated in TAC 355.105(b)(2)(B)(xvi). Employee relations documentation must clearly itemize employee relations expenditures. This documentation was not provided to the IG. In the absence of the aforementioned documentation, the IG believes using the FTE count provided in Schedule S-3 of the cost report is reasonable. The summary of changes is as follows:

Summary:

Amount of employee relations costs per the draft audit report	\$ 672,711
Less: Unallowable cost of meals for training	<u>56,828</u>
Balance before allowance.....	615,883
Less: Allowance per TAC (8492 FTE's × \$50).....	<u>424,600</u>
Overstatement of Employee Relation in the Cost Report	<u>\$ 191,283</u>

Finding 2 – Training Costs

A review of invoices reported in the general ledger account, titled Fees Professional Consulting Management, revealed that the costs of meals and snacks were categorized as training costs. The TAC cited below defines the allowable offsite training costs. The cost of meals for offsite training within the Provider's city does not fall under the allowable costs associated with training. Participants were not on travel status while attending training. The Provider believed the costs were allowable and included them on the Cost Report. As a result, Cost Center 6.00 was overstated by \$56,828.

According to 1 TAC, §355.103 (b)(15)(A)(iii), "...For offsite training, allowable costs include costs such as allowable travel costs, registration fees, seminar supplies, and classroom costs."

The following table illustrates the recommended adjustment:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative & General	\$110,257,440	(\$56,828)	\$110,200,612

Recommendation:

The Provider should ensure that training costs comply with TAC.

Management Response:

Parkland does not agree that the training cost related to meals of \$56,828 should be disallowed. It appears the auditors are using the examples in TAC 355.103(b)(15)(A)(iii) as an all-inclusive listing of allowable costs. However, it's obvious from the language use of "such as" that these are just examples and are not an all-inclusive listing. It is not safe for employees to bring food to an environment where there is no refrigerator. In order to make efficient use of employee time, it isn't practical to send employees home or to their work location to get food, thus Parkland has chosen the safe and efficient method of providing a single meal to employees on days that include at least 7 hours of training. Additionally, Medicare allows this expense as training cost. Absent specific TAC guidance, Parkland believes this expense should be considered allowable per the Medicare regulations.

Auditor Response:

The catering costs incurred by the Provider were provided as a convenience to attendees and not necessary for training to occur. According to the training agenda, employees were allowed a lunch break, indicating they were not required to work through their lunch to expedite training. The efficient use of employee time is not a factor during designated break times. Additionally, the training location did not appear to be in an isolated area with limited dining options, indicating attendees would not have been forced to consume an unrefrigerated meal. The Provider's decision to provide a convenient meal and snacks for employees during training are not covered under the allowable costs outlined in 1 TAC §355.103 (b)(15)(A)(iii). Therefore, the finding remains unchanged.

Finding 3 – Physician Recruitment Costs

A review of the Provider's general ledger indicated unallowable physician recruitment costs were included in the Cost Report. TAC rules prohibit costs related to physician

recruitment. The Provider inadvertently included these expenses because they believed all physician recruitment costs had been adjusted from the Cost Report. As a result, Cost Centers 23.00 and 60.01 were overstated by \$33,102.

According to 1 TAC, §355.103 (b)(16)(B)(i), “Unallowable advertising....include costs of advertising of a general nature designed to invite physicians to utilize a contracted provider’s facilities in their capacity as independent practitioners.”

The following table illustrates the recommended adjustments:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
23.00	I&R Services-Other Prgm Costs Apprvd	\$2,565,238	(\$25,602)	\$2,539,636
60.01	COPC	27,545,868	(7,500)	27,538,368
	Total		(\$33,102)	

Recommendation:

The Provider should ensure that physician recruitment costs are removed from future cost reports.

Management Response:

Parkland agrees with this finding; however disputes the calculated dollar amount.

Parkland has developed two processes to uncover non-allowable physician recruitment expenses resulting in exclusion from reimbursable cost on the filed cost report. One is through departments self-identifying these expenses and reporting these non-allowable expenses to the Reimbursement department, and the other is through the Reimbursement department reviewing expenses recorded within the General Ledger under Account 641030, Fees – Physician Recruitment. In FY 2010, Parkland identified the physician recruitment expense via both methods; however the proposed offset wasn’t made because each workpaper was referencing the other one for the offset. This was an oversight which impacted reimbursement for FY 2010. A review was conducted for subsequent cost report years FY 2011 through FY 2014 to ensure the same oversight was not made. No additional adjustments to physician recruitment were identified as necessary to accurately report in those cost report years. Additionally going forward, Parkland will continue to identify the expenses and the workpaper reviewer will be tasked with tracing any references to other workpapers to assure the expense has been both identified and addressed.

Parkland is disputing the amount of physician recruitment expenses identified by the auditor. The auditor has indicated that \$40,091 in physician recruitment expenses should be offset with \$25,602 reported in Line 23, I&R Services – Other Program Costs Approved and \$14,489 reported in line 60.01, COPC. Parkland agrees with the removal of \$25,602 reported in Line 23; however Parkland disagrees with the \$14,489 reported in line 60.01. Parkland has identified an error in the auditor work which results in an overstatement of

physician recruitment expenses of \$6,989 reported in Line 60.01. The \$6,989 represents 3 invoices, sampled by the auditor, comprising a portion of the \$25,602 reported in Line 23. Since the entire amount of \$25,602 is proposed to be offset by the auditor, an additional offset of \$6,989 would be duplicative.

Parkland believes and has internal workpapers to support the final physician recruitment offset to be \$25,602 to Line 23 and \$7,500 to Line 60.01.

Auditor Comment:

The physician recruitment costs included in Cost Center 60.01 were reviewed and the auditor agrees with the Provider. The adjustment to Cost Center 60.01 has been reduced to \$7,500.

Finding 4 – Travel Costs

A review of the Provider’s general ledger transactions revealed that out-of-state travel costs related to nurse recruitment were included in the Cost Report. Per TAC rules, out-of-state travel costs related to nurse recruitment are unallowable. The Provider believed the costs were allowable. As a result Cost Center 5.00 was overstated by \$6,211.

According to 1 TAC, §355.103 (b)(15)(B)(ii), “Out-of-state travel costs are unallowable, unless the purpose of the travel is for staff training in contracted client-care-related services or in quality assurance which is not available in the state of Texas; the purpose of delivering direct contracted client services within 25 miles of the Texas border with adjoining states or Mexico; or the purpose for the travel is to conduct business related to contracted client services in Texas and the travel is between Texas and the contracted provider’s central office.”

The following table illustrates the recommended adjustment:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
5.00	Employee Benefits	\$107,069,255	(\$6,211)	\$107,063,044

Recommendation:

The Provider should ensure that out-of-state travel costs comply with TAC.

Management Response:

Parkland disagrees with this finding. The auditor is disallowing these expenses because they occurred out of State. The auditor sampled invoices for expenses recorded in Account 641029, Fees - Nurse Recruitment. Parkland provided detail for all expenses recorded within this account. Specifically, the \$6,111.26 is comprised of:

- \$1061.22 - Hotel stay for staff to attend the Association of Peri-Operative Registered Nurses Conference in Denver, Colorado.
- \$1,842.00 - Hotel stay for staff to attend the National Teaching Institution & Critical Care Exposition in Washington DC.
- \$496.22 - Hotel stay for staff to attend the National Conference for Nurse Practitioners in Chicago, Illinois.
- \$774.02 - Hotel stay for staff to attend the National Hispanic Nurse Convention in Washington DC.
- \$1,346.58 - Hotel stay for staff to attend the National Black Nurses Association Convention in San Diego, California.
- \$591.22 - Hotel Stay for staff to attend the National Correctional Health Annual Convention in Las Vegas, Nevada.

According to TAC 355.103 (b)(15)(B) travel cost is allowable if the training is not available in the State of Texas. For each of the events listed above, the out of state travel cost incurred is related to nurse recruiting as opposed to training. National conferences offer an opportunity to meet with and recruit technical positions such as nursing staff, at a cost that is greatly reduced when compared to bringing potential candidates to Parkland. In the current hiring environment, where many technical positions are in short supply, Parkland is unable to find enough local candidates to staff at a level which is safe for patients and allows quality care. Recruiting occurs across the nation. The state should support practices that reduce costs while allowing Parkland to identify and hire staff.

Auditor Comment:

In an email response to this finding, dated July 31, 2015, the Provider stated that these out-of-state travel costs were related to recruitment and provided invoices substantiating this claim. While IG appreciates the Provider's efforts to recruit talented nurses around the nation for better medical services, out-of-state travel costs associated with recruitment are not covered under the allowable costs per TAC 355.103(b)(15)(B)(ii) mentioned above. Therefore, the finding remains unchanged.

APPENDICES

November 30, 2015

Performance Audit Report
Dallas County Hospital District
2010 Medicaid Outpatient Hospital Costs
IG Report No. 14-80-127295703-10-MO-24

9

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 outpatient hospital costs reported by the Provider, for the period October 1, 2009 through September 30, 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
- Reviewing allocation methodology and results

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

Team Members

Kacy J. VerColen, CPA, Director of Audit

Jose Oliva, CFE, Manager

Albert Alberto, CIGA, Team Lead

Selena Hiatt, Project Lead

Appendix B - Report Distribution

Health and Human Services Commission

Nicole Guerrero, MBA, CIA, CGAP
HHSC Director of Internal Audit
Mail Code BH-1600
4900 North Lamar Boulevard
Austin, TX 78751

John Spann
Director of Audit
Texas Medicaid & Healthcare Partnership
12365A Riata Trace Parkway, Building 9
Austin, TX 78758

Selvadas Govind
Director of Rate Analysis for Hospitals
Mail Code H-400
4900 North Lamar Boulevard
Austin, TX 78751

Cecile Young
HHSC Chief of Staff
Mail Code 1000
4900 North Lamar Boulevard
Austin, TX 78751

Provider

Frederick P. Cerise, M.D., M.P.H.
Chief Executive Officer
Dallas County Hospital District
5201 Harry Hines Boulevard
Dallas, TX 75235

