



Office of Inspector General
Texas Health and Human Services Commission

Stuart W. Bowen, Jr., Inspector General

Performance Audit Report
John Peter Smith Hospital
2010 Medicaid Outpatient Hospital Costs

November 20, 2015

IG Report No. 14-80-126675104-10-MO-24

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EXECUTIVE SUMMARY

The Texas Health and Human Services Commission (HHSC), Inspector General (IG), Audit Section completed an audit of John Peter Smith Hospital's (Provider), Texas Provider Identifier (TPI) 126675104, 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 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 \$445,138.

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 126675104. 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. These standards require that the audit is planned and performed to obtain sufficient and appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The IG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. See Appendix A for a more detailed description of the audit scope and methodology.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1 – Unallowable Fees and Penalties Costs

The Provider included unallowable fees and penalties costs in the Cost Report. The Provider was unaware that these fees and penalties are violations of TAC, and therefore, unallowable. As a result, Cost Centers 6.00, 15.00, and 16.00 were overstated by \$1,917.

According to 1 TAC, §355.103 (b)(17)(G), "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 | \$53,056,022 | (\$1,677) | \$53,054,345 |
| 15.00 | Central Services & Supply | \$3,230,488 | (\$100) | \$3,230,388 |
| 16.00 | Pharmacy | \$7,024,535 | (\$140) | \$7,024,395 |
| | Total | | (\$1,917) | |

Recommendation:

The Provider should ensure fees and penalties costs are removed from future cost reports.

Management Response:

Finding 1 — Unallowable Fees and Penalty Costs of \$1,917

We agree these costs comprised of late fees, penalties and guest meals are not allowable expenses to be included on the cost report. In the future we will complete an analysis in greater detail to identify these unallowable expenses.

Finding 2 – Unallowable Legal Fees Associated with Litigation

The Provider included unallowable legal fees associated with litigation in the Cost Report. According to the Provider's explanation, they paid the District Attorney's Office to handle their malpractice litigation cases which account for 60% of the overall amount of legal fees reported in the Cost Report. TAC does not allow legal fees associated with litigation in the Cost Report. As a result, Cost Center 6.00 was overstated by \$346,058.

According to 1 TAC, §355.103 (b)(17)(I), "Unless explicitly allowed elsewhere in this chapter, no court-ordered award of damages or settlements made in lieu thereof or legal

fees associated with litigation which resulted in any court ordered award of damages or settlements made in lieu thereof, or a criminal conviction, are allowable.”

The following table illustrates the recommended adjustment:

| Cost Center | Cost Center Description | Reported Amount | Adjustment Amount | Adjusted Amount |
|-------------|----------------------------|-----------------|-------------------|-----------------|
| 6.00 | Administrative and General | \$53,054,345 | (\$346,058) | \$52,708,287 |

Recommendation:

The Provider should ensure future unallowable legal fees associated with litigation are removed from the Cost Report.

Management Response:

Finding 2 — Unallowable Legal Fees Associated with Litigation of \$346,058
We agree the fees associated with malpractice litigation are not an allowable expense to be included on the cost report. In the future, we will work with the Tarrant County District Attorney’s Office to better identify these costs and offset through an appropriate cost report adjustment.

Finding 3 – Unallowable Dues and Subscription Costs

The Provider reported unallowable dues and subscriptions costs on the Cost Report. The Provider was unaware that dues and subscriptions to nonprofessional organizations are unallowable. As a result, Cost Center 6.00 was overstated by \$1,614.

According to 1 TAC, §355.103 (11)(B), "Dues to nonprofessional organizations are unallowable. Assessments whose purpose is to fund lawsuits or any legal action against the state or federal government are unallowable. Portions of dues based on revenue or for the purposes of lobbying, or campaign contributions are unallowable costs. Costs of membership in civic organizations whose primary purpose is the promotion and implementation of civic objectives are unallowable. Dues or contributions made to any type of political, social, fraternal, or charitable organization are unallowable. Chamber of Commerce dues are unallowable. Franchise fees are not considered dues or contributions to organizations."

The following table illustrates the recommended adjustment:

| Cost Center | Cost Center Description | Reported Amount | Adjustment Amount | Adjusted Amount |
|-------------|----------------------------|-----------------|-------------------|-----------------|
| 6.00 | Administrative and General | \$52,708,287 | (\$1,614) | \$52,706,673 |

Recommendation:

The Provider should ensure unallowable dues and subscriptions costs are removed from future cost reports.

Management Response:

Finding 3 — Unallowable Dues and Subscription Costs of \$1,614

We again agree with this finding associated with the disallowance of nonprofessional organization dues and subscription cost. In the future we will complete an analysis of these expenses in greater detail to identify and exclude these unallowable expenses.

Finding 4 – Unallowable Patient Transportation Costs

The Provider reported unallowable Patient Transportation costs in various cost centers. The Provider stated that these unallowable Patient Transportation costs were erroneously included in the cost report. As a result, these various cost centers were overstated by a total of \$35,549.

According to 1 TAC 355.102 (c), "Accurate cost reporting. Accurate cost reporting is the responsibility of the contracted provider. The contracted provider is responsible for including in the cost report all costs incurred, based on an accrual method of accounting, which are reasonable and necessary, in accordance with allowable and unallowable cost guidelines in this section and in §355.103 of this title."

The following table illustrates the recommended adjustments:

| Cost Center | Cost Center Description | Reported Amount | Adjustment Amount | Adjusted Amount |
|-------------|------------------------------------|-----------------|-------------------|-----------------|
| 6.00 | Administrative and General | \$52,706,673 | (\$450) | \$52,706,223 |
| 14.00 | Nursing Administration | \$5,945,825 | (\$30,101) | \$5,915,724 |
| 26.00 | Intensive Care Unit | \$9,898,732 | (\$38) | \$9,898,694 |
| 31.00 | SubProvider | \$5,266,278 | (\$2,769) | \$5,263,509 |
| 59.00 | Psychiatric/Psychological Services | \$1,728,169 | (\$421) | \$1,727,748 |
| 60.00 | Clinic | \$38,637,617 | (\$417) | \$38,637,200 |
| 61.00 | Emergency | \$19,340,306 | (\$1,353) | \$19,338,953 |
| | Total | | (\$35,549) | |

Recommendation:

The Provider should ensure future patient transportation related expenses are reported in the appropriate cost center.

Management Response:

Finding 4 — Incorrect Reporting of Ambulance Costs of \$35,549

We disagree with how this adjustment is handling the issue by reclassifying patient transportation expenses to a cost center that contains no total costs or charges. Instead we suggest these patient transportation costs be adjusted-off on worksheet A-8 of the cost report. We originally explained in our correspondence, these costs were included in error, were not allowable and should be offset. In the future we will complete an analysis in greater detail to identify these unallowable expenses.

Auditor Comment:

We considered the Provider’s management response and agree with the Provider’s proposal for handling the transportation expenses by removing them via a worksheet A-8 adjustment instead of reclassification; the table above has been revised accordingly.

Finding 5 –Malpractice Paid Claims - Settlement Costs

The Provider reported malpractice paid claims-settlement costs in the Cost Report. The Provider agreed that these malpractice paid claims-settlement costs should have been removed or adjusted from the Cost Report. As a result, Cost Center 6.00 of the Cost Report was overstated by \$60,000.

According to 1 TAC, §355.103 (b)(17)(i), “Litigation expenses and awards. Unless explicitly allowed elsewhere in this chapter, no court-ordered award of damages or settlements made in lieu thereof or legal fees associated with litigation which resulted in any court-ordered award of damages or settlements made in lieu thereof, or a criminal conviction, are allowable.”

The following table illustrates the recommended adjustment:

| Cost Center | Cost Center Description | Reported Amount | Adjustment Amount | Adjusted Amount |
|-------------|----------------------------|-----------------|-------------------|-----------------|
| 6.00 | Administrative and General | \$52,706,223 | (\$60,000) | \$52,646,223 |

Recommendation:

The Provider should ensure unallowable malpractice paid claims-settlement costs are removed from future cost reports.

Management Response

Finding 5 - Malpractice Paid Claims-Settlement Costs of \$60,000.

We agree with this finding, to disallow the actual settlement expenses from this period related to malpractice litigation. Consistent with Finding 2, above, we will work with the

Tarrant County District Attorney's Office to identify malpractice cases the organization is negotiating settlements for and the amount of the settlements,

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APPENDICES

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. These standards require that the audit is planned and performed to obtain sufficient and appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The IG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the 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 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

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