



**Office of Inspector General**  
**Texas Health and Human Services Commission**

**Stuart W. Bowen, Jr., Inspector General**

**Performance Audit Report**  
**Kingwood Medical Center**  
**2010 Medicaid Outpatient Hospital Costs**

**September 30, 2015**

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## EXECUTIVE SUMMARY

The Texas Health and Human Services Commission (HHSC), Inspector General (IG), Audit Section completed an audit of Kingwood Medical Center (Provider), Texas Provider Identifier (TPI) 112724302, 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 \$42,089.

### **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 112724302. 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. We believe 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 included employee relations costs that exceeded the allowable limit of \$50 per eligible employee. The Provider overlooked some employee relations costs. As a result, various cost centers were overstated collectively by \$20,569, which represents \$92,234 total costs minus \$39,346 (786.91 average full time equivalents (FTEs) as reported in the cost report times \$50 per FTE) and minus a worksheet E-3 adjustment of \$53,824.

According to 1 TAC, §355.103 (b)(17)(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	\$9,327,506	(\$682)	\$9,326,824
6.00	Administrative and General	15,538,326	(19,328)	15,518,998
10.00	Housekeeping	1,522,713	(524)	1,522,189
25.00	Adults and Pediatrics	17,764,404	(35)	17,764,369
	Total		(\$20,569)	

### **Recommendation:**

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

### **Management Response:**

*Finding 1 - Employee Relation Costs - We agree with the proposed adjustment to remove \$20,569 for Employee Relations costs exceeding the \$50 per eligible employee. As a practice, we've performed detail analysis of non-allowable costs and have established standard non-allowable accounts to capture such costs. We have applied to the \$50 to the expenses in General Ledger Account Number 970254 - Other Benefits. However, we have not applied the \$50 limit to expenses in General Ledger Sub-Accounts xxx446 and xxx753. We will ensure that these Sub-Accounts are analyzed on a go forward basis.*

### Finding 2 – Chamber of Commerce Dues

The Provider included unallowable chamber of commerce dues in the cost report. The Provider determined erroneously that these costs were allowable. As a result, Cost Center 6.00 was overstated by \$5,293.

According to 1 TAC, §355.103 (b)(11)(B), "Unallowable dues and contributions to organizations. Dues to nonprofessional organizations are unallowable....Chamber of Commerce dues are unallowable..."

The following table illustrates the recommended adjustment:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative and General	\$15,518,998	(\$5,293)	\$15,513,705

**Recommendation:**

The Provider should ensure costs for chamber of commerce dues are removed from the cost report.

**Management Response:**

*Finding 2 - Chamber of Commerce Dues - We agree with the proposed adjustment to remove \$5,293 of unallowable Chamber of Commerce Dues. As a practice, we've performed detail analysis of non-allowable costs and have established standard non-allowable accounts to capture such costs. It appears that the costs in General Ledger Account Number 900786 - Other Dues were not reviewed. We will ensure that this account is analyzed on a go forward basis.*

**Finding 3 – Home Owner's Association Dues**

The Provider reported unallowable home owner's association dues. The Provider determined erroneously that these costs were allowable. As a result, Cost Center 6.00 was overstated by \$15,669.

According to 1 TAC §355.103 (b)(11)(B), "Unallowable dues and contributions to organizations. Dues to nonprofessional organizations are unallowable...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..."

The following table illustrates the recommended adjustment:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative and General	\$15,513,705	(\$15,669)	\$15,498,036

**Recommendation:**

The Provider should ensure costs for home owner's association dues are removed from the cost report.

**Management Response:**

*Finding 3 - Home Owner's Association Dues - We agree with the proposed adjustment to remove \$15,669 for unallowable Home Owner's Association Dues. As a practice, we've performed detail analysis of non-allowable costs and have established standard non-allowable accounts to capture such costs. It appears that the costs in the General Ledger Account Number 900786 - Other Dues were not reviewed. We will ensure that this account is analyzed on a go forward basis.*

**Finding 4 – Late Charge Penalties Costs**

The Provider included unallowable costs for late charge penalties in the cost report. As a result, Cost Centers 6.00 and 56.00 were overstated collectively by \$558.

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	\$15,498,036	(\$384)	\$15,497,652
56.00	Drugs Charged to Patients	\$9,127,101	(\$174)	\$9,126,927
	Total		(\$558)	

**Recommendation:**

The Provider should ensure costs for late charge penalties are removed from the cost report.

**Management Response:**

*Finding 4 - Late Charge Penalties Costs - We agree with the proposed adjustment to remove \$558 for unallowable late charge penalties. As a practice, we've performed detail analysis of non-allowable costs and have established standard non-allowable accounts to capture such costs. It appears that the costs in the General Ledger Sub-Accounts xxx677 and xxx845 were not reviewed. We will ensure that these Sub-Accounts are analyzed on a go forward basis.*

## **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. 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. We believe 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

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