



Inspector General
Texas Health and Human Services Commission

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Performance Audit Report
Midland Memorial Hospital
2010 Medicaid Outpatient Hospital Costs

September 20, 2015

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EXECUTIVE SUMMARY

The Texas Health and Human Services Commission (HHSC), Inspector General (IG), Audit Section completed an audit of Midland Memorial Hospital (Provider), Texas Provider Identifier (TPI) 136143806, 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 \$5,901,827.

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 136143806. 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 – Unsubstantiated/Undocumented Costs

The Provider included unsubstantiated and undocumented costs in the cost report including legal fees, professional services, dues, recruitment, collection costs, credit card charges, and other ancillary charges. All expenses must be supported by original receipts, invoices, and/or contracts. The Provider believed these costs were allowable and therefore included them in the cost report. As a result, various cost centers were overstated by \$2,690,306.

According to 1 TAC, §355.105(b)(2)(B)(xix), “Adequate documentation. To be allowable, the relationship between reported costs and contracted services must be clearly and adequately documented. Adequate documentation consists of all materials necessary to demonstrate the relationship of personnel, supplies, and services to the provision of contracted client care or the relationship of the central office to the individual service delivery entity level. These materials may include, but are not limited to, accounting records, invoices, organizational charts, functional job descriptions, other written statements, and direct interviews with staff, as deemed necessary by HHSC auditors to perform required tests of reasonableness, necessity, and allowability.... Any expense that cannot be adequately documented or substantiated is disallowed. HHSC is not responsible for the contracted provider's failure to adequately document and substantiate reported costs...”

The following table illustrates the recommended adjustments:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
5.00	Employee Benefits	\$15,478,455	(\$75,635)	\$15,402,820
6.00	Administrative & General	12,413,058	(2,176,036)	10,237,022
7.00	Maintenance & Repairs	8,785,313	(21,070)	8,764,243
11.00	Dietary	826,012	(1,277)	824,735
14.00	Nursing Administration	4,413,440	(7,722)	4,405,718
17.00	Medical Records & Library	2,289,203	(13,211)	2,275,992
37.00	Operating Room	13,580,559	(36,928)	13,543,631
41.00	Radiology – Diagnostics	6,184,705	(128,315)	6,056,390
44.00	Laboratory	7,350,114	(9,260)	7,340,854
59.00	Wound Care	623,342	(2,737)	620,605
59.02	Cardiac Catheterization Laboratory	2,522,157	(2,600)	2,519,557
59.05	Magnetic Resonance Imaging (MRI)	2,959,516	(190,945)	2,768,571
61.00	Emergency	6,394,017	(24,570)	6,369,447
	Total		(\$2,690,306)	

Recommendation:

The Provider should ensure all reported costs are accurate and sufficiently documented in accordance with TAC.

Management Response:

Finding 1 – Unsubstantiated/Undocumented Costs. To be allowable, the relationship between reported costs and contracted services must be clearly and adequately documented. We believe that the costs included in the adjustment are allowable costs. The costs in this finding are being removed from the cost report as they were not documented to the satisfaction of the HHSC auditors. We are reviewing our process for documenting similar costs in future cost reports.

Auditor’s Comments:

The supporting documentation submitted by Provider was not sufficient to validate the allowability of the selected transactions. The auditor disallowed select legal expenses, credit card charges, dues, professional services costs, and returned check charges as the auditor was unable to determine the exact cost because invoices/documentation provided did not match with costs indicated for the selected transactions. Allowable and unallowable expenses were co-mingled on supporting documentation and were not traceable to the audited expense.

Finding 2 – Drugs Charged to Patients Costs

The Provider included a reclassification recordkeeping error from a non-reimbursable account to a reimbursable account that resulted in overstated expense. The Auditor conferred with the Provider and determined that the reclassification was posted in error. As a result, Cost Center 56.00 was overstated by \$2,302,809.

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, revenue reporting guidelines in §355.104 of this title (relating to Revenues), cost report instructions, and applicable program rules. Reporting all allowable costs on the cost report is the responsibility of the contracted provider....”

The following table illustrates the recommended adjustments:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
56.00	Drugs Charged to Patients	10,452,688	(2,302,809)	8,149,879

Table continued from last page:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
100.00	Other Non-Reimbursable Cost Center	\$353,660	\$2,302,809	\$2,656,469
	Total		\$0.00	

Recommendation:

The Provider should ensure the accuracy of information submitted on the hospital cost report and that information is in compliance with TAC.

Management Response:

Finding 2 – Drugs Charged to Patient Costs – We agree that the reclassification of Drugs was posted to the cost report in error and will ensure the accuracy of such reclassifications on future cost reports.

Finding 3 – Employee Relations Costs

The Provider reported \$626,559 of employee relations costs in the cost report. The provider subsequently removed \$129,189 of these costs. However, the allowable TAC limit for employee relations cost was \$61,131 (1222.61 average full time equivalents (FTEs) as reported in the cost report times \$50 per FTE); leaving an overstatement in several cost centers totaling \$436,240.

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	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
5.00	Employee Benefits	\$15,402,820	(\$28,648)	\$15,374,173
6.00	Administrative & General	9,982,870	(73,172)	9,909,698
7.00	Maintenance & Repairs	8,764,200	(75)	8,764,125
14.00	Nursing Administration	4,072,436	(333,257)	4,072,436
16.00	Pharmacy	1,338,530	(70)	1,338,460
25.00	Adults & Pediatrics	16,023,999	(600)	16,023,399

Table continued from last page:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
49.00	Respiratory Therapy	2,796,845	(119)	2,796,726
59.97	Physical Therapy	301,428	(299)	301,129
	Total		(\$436,240)	

Recommendation:

The Provider should ensure reported employee relations costs comply with TAC limits and are adjusted from all general ledger accounts.

Management Response:

Finding 3 – Employee Relations Costs – On future cost reports, we will ensure reported employee relations costs comply with TAC limits for employee relations costs.

Finding 4 – Unallowable Upper Payment Limit Legal Costs

The Provider included unallowable Upper Payment Limit legal costs in the cost report. The costs for services rendered were reported in the Administration/Purchase Services general ledger accounts. The provider was not aware that the costs were unallowable. As a result, Cost Center 6.00 was overstated by \$223,274.

According to 1 TAC, §355.8201(c)(1)(i)(III), "...that no part of any payment under this section will be used to pay a contingent fee, consulting fee, or legal fee associated with the hospital's receipt of the supplemental funds."

The following table illustrates the recommended adjustment:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative & General	\$10,206,144	(\$223,274)	\$9,982,870

Recommendation:

The Provider should ensure Upper Payment Legal costs associated with the hospital's receipt of supplemental funds comply with TAC regarding these types of costs.

Management Response:

Finding 4 – Unallowable Upper Payment Limit Legal Costs – Legal fees associated with the hospital's receipt of supplemental funds will be removed from future cost reports.

Finding 5 – Marketing Costs

The Provider included unallowable advertising and promotional costs which were recorded in various other cost centers of the cost report. The Provider was unaware that marketing and promotional costs had been charged to other cost centers. As a result, the various cost centers were overstated totaling \$163,916.

According to 1 TAC, §355.103(b)(13)(B), “Unallowable advertising and public relations include... 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 adjustments:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
5.00	Employee Benefits	\$15,486,828	(\$7,774)	\$15,479,054
6.00	Administrative & General	12,507,762	(76,913)	12,430,849
7.00	Maintenance & Repairs	8,785,644	(76)	8,785,568
14.00	Nursing Administration	4,426,628	(11,600)	4,415,028
37.00	Operating Room	13,580,682	(123)	13,580,559
39.00	Delivery Room & Labor Room	2,337,512	(69)	2,337,443
41.00	Radiology-Diagnostic	6,191,305	(6,600)	6,184,705
44.00	Laboratory	7,350,198	(84)	7,350,114
52.00	Speech Pathology	79,770	(14)	79,756
59.00	Wound Care	628,163	(4,821)	623,342
59.02	Cardiac Catheterization Laboratory	2,522,580	(423)	2,522,157
59.03	Nuclear Medicine Diagnostic	494,271	(38)	494,233
59.06	Diabetes & Nutritional Learning Center	187,319	(398)	186,921
59.97	Physical Therapy	304,903	(3,475)	301,428
59.98	Hyperbaric Oxygen Therapy	181,027	(378)	180,649
61.00	Emergency	6,445,147	(51,130)	6,394,017
	Total		(\$163,916)	

Recommendation:

The Provider should ensure marketing, advertising, and/or promotional costs reported are in compliance with TAC.

Management Response:

Finding 5 – Marketing Costs – Unallowable advertising and promotional costs will be reported in compliance with TAC in the future.

Finding 6 – Miscellaneous Costs

The Provider included unallowable miscellaneous costs in the cost report. These include costs related to country club activities, gift certificates for doctors, property tax issues, and other non-patient related issues are unallowable in accordance with the TAC. Provider believed the costs were allowable and included the costs in the hospital cost report. As a result, various cost centers were overstated by \$29,467.

According to 1 TAC, §355.102(a), “Allowable and unallowable costs. Allowable and unallowable costs, both direct and indirect, are defined to identify expenses that are reasonable and necessary to provide contracted client care and are consistent with federal and state laws and regulations. When a particular type of expense is classified as unallowable, the classification means only that the expense will not be included in the database for reimbursement determination purposes because the expense is not considered reasonable and/or necessary. The classification does not mean that individual contracted providers may not make the expenditure. The description of allowable and unallowable costs is designed to be a general guide and to clarify certain key expense areas. This description is not comprehensive, and the failure to identify a particular cost does not necessarily mean that the cost is an allowable or unallowable cost.”

The following table illustrates the recommended adjustments:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative & General	\$10,235,473	(\$29,329)	\$10,206,144
44.00	Laboratory	7,338,199	(138)	7,338,061
	Total		(\$29,467)	

Recommendation:

The Provider should ensure that reported costs comply with TAC regarding these types of costs.

Management Response:

Finding 6 – Miscellaneous Costs – Costs related to non-patient related issues will be removed from future cost reports.

Finding 7 – Sale of Scrap Equipment

The Provider reported net revenues from the Sale of Scrap Equipment. The Provider did not provide supporting documentation to clearly identify the scrapped equipment or explain why it was disposed; therefore, the auditor could not determine if any revenue should have been offset. As a result, Cost Center 4.00 was overstated by \$18,548.

According to 1 TAC, §355.105(b)(2)(B), “Adequate documentation. To be allowable, the relationship between reported costs and contracted services must be clearly and adequately documented. Adequate documentation consists of all materials necessary to demonstrate the relationship of personnel, supplies, and services to the provision of contracted client care or the relationship of the central office to the individual service delivery entity level. These materials may include, but are not limited to, accounting records, invoices, organizational charts, functional job descriptions, other written statements, and direct interviews with staff, as deemed necessary by HHSC auditors to perform required tests of reasonableness, necessity, and allowability.”

The following table illustrates the recommended adjustment:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
4.00	New Capital Related Costs – Movable Equipment	\$8,406,044	(\$18,548)	\$8,387,496

Recommendation:

The Provider should remove items from the depreciation schedule when they are disposed, in accordance with TAC.

Management Response:

Finding 7 – Sale of Scrap Equipment – We agree that this is a gain on the sale of equipment. However, a gain or loss should not be recognized for reimbursement purposed on or after December 1, 1997. We will work to improve our documentation of the sale of scrap equipment.

Finding 8 – Unallowable Dues Costs

The Provider included unallowable costs identified as country club dues, research membership dues and dues for community associations in the cost report. The Provider considered these costs allowable and reported them in the hospital cost report. As a result, various cost centers were overstated by \$17,729.

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 types 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. Contributions are unallowable costs....”

The following table illustrates the recommended adjustments:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
5.00	Employee Benefits	\$15,479,054	(\$599)	\$15,478,455
6.00	Administrative & General	12,430,849	(14,729)	12,416,120
7.00	Maintenance & Repairs	8,785,568	(255)	8,785,313
14.00	Nursing Administration	4,415,028	(1,588)	4,413,440
16.00	Pharmacy	1,339,151	(558)	1,338,593
	Total		(\$17,729)	

Recommendation:

The Provider should ensure that all reported costs for dues are in accordance with TAC.

Management Response:

Finding 8 – Unallowable dues – We will document allowable dues costs and remove unallowable dues costs on future cost reports.

Finding 9 – Single Audit Costs

The Provider included unallowable ancillary medical record single audit costs in the cost report. The Provider was unaware that these costs were unallowable. As a result, Cost Center 17.00 was overstated by \$11,682.

According to 1 TAC, §355.103(b)(2)(C)(i)(II), “Unallowable accounting and audit fees... Audit fees associated with the performance of a single audit are unallowable costs....”

The following table illustrates the recommended adjustment:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
17.00	Medical Records & Library	\$2,275,977	(\$11,682)	\$2,264,295

Recommendation:

The Provider should ensure reported single audit costs comply with TAC regarding these types of costs.

Management Response:

Finding 9 – Single Audit Costs – We will remove reported single audit costs to comply with TAC in the future.

Finding 10 – Late Payment/Penalties Costs

The Provider included unallowable late payment fees for supplies and services, additional service charges for credit cards, and penalties in the cost report. The Provider believed these costs are allowable and included them in the cost report. As a result, various cost centers were overstated by \$4,794.

According to 1 TAC, §355.102(f)(1) & (2), “Allowable costs. Allowable costs are expenses, both direct and indirect, that are reasonable and necessary, as defined in paragraphs (1) and (2)...(1)“Reasonable” refers to the amount expended. The test of reasonableness includes the expectation that the provider seeks to minimize costs and that the amount expended does not exceed what a prudent and cost-conscious buyer pays for a given item or service... (2) “Necessary” refers to the relationship of the cost, direct or indirect, incurred by a provider to the provision of contracted client care. Necessary costs are direct and indirect costs that are appropriate in developing and maintaining the required standard of operation for providing client care...”

The following table illustrates the recommended adjustments:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative & General	\$10,237,022	(\$1,549)	10,235,473
7.00	Maintenance & Repairs	8,764,243	(43)	8,764,200
11.00	Dietary	824,735	(4)	824,731
14.00	Nursing Administration	4,405,718	(24)	4,405,694
16.00	Pharmacy	1,338,593	(63)	1,338,530
17.00	Medical Records & Library	2,275,992	(15)	2,275,977
25.00	Adults & Pediatrics	16,024,020	(21)	16,023,999
27.00	Coronary Care Unit	4,462,734	(4)	4,462,730
37.00	Operating Room	13,543,631	(18)	13,543,613
38.00	Recovery Room	2,076,242	(4)	2,076,238
41.00	Radiology – Diagnostic	6,056,390	(314)	6,056,076

Table continued from last page:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
44.00	Laboratory	7,340,854	(2,655)	7,338,199
59.00	Wound Care	620,605	(2)	620,603
59.03	Nuclear Medicine	494,233	(38)	494,195
59.04	Cat Scan	698,556	(9)	698,547
59.05	Magnetic Resonance Imaging (MRI)	2,768,571	(11)	2,768,590
59.08	Outpatient Lactation	140,013	(1)	140,012
61.00	Emergency	6,369,447	(19)	6,369,428
	Total		(\$4,794)	

Recommendation:

The Provider should ensure costs reported on the hospital cost report comply with TAC.

Management Response:

Finding 10 – Late Payments/Penalties Costs – 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. Based on the TAC Rule, we believe that only the late fees to the IRS should be disallowed. Other late fees are part of the normal administrative operations and should not be considered unallowable.

Auditor’s Comments:

The Auditor disallowed the late charges/payments fees under the criteria; TAC 1, §355.102(f)(1) & (2). Payments for late charges and penalties are avoidable and therefore are not reasonable and necessary to patient care.

Finding 11 – Lobbying Costs

The Provider included unallowable lobbying costs in the cost report. The Provider removed \$20,125 of unallowable costs from the cost report on Worksheet A-8; however, the actual amount that should have been removed was \$23,125. As a result, Cost Center 6.00 was overstated by \$3,062.

According to 1 TAC, §355.103(b)(11)(B), “Unallowable dues and contributions to organizations. 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....”

The following table illustrates the recommended adjustment:

Cost Center	Center Description Reported	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative & General	\$12,416,120	(\$3,062)	\$12,413,058

Recommendation:

The Provider should ensure lobbying costs are removed from the cost report in order to comply with TAC.

Management Response:

Finding 11 – Lobbying Costs – On future cost reports, we will use the best information available at the time to remove lobbying costs included in organization dues.

APPENDICES

Appendix A - Objective, Scope, and Methodology

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.

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
- Testing costs to determine allowability
- Interviewing personnel and observing assets and expenditures
- Testing transactions in the general ledger
- Testing depreciation expense schedules
- 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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Appendix B - Report Distribution

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