



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

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

**Performance Audit Report**  
**San Jacinto Methodist Hospital**  
**2010 Medicaid Outpatient Hospital Costs**

**October 2, 2015**

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## **EXECUTIVE SUMMARY**

The Texas Health and Human Services Commission (HHSC), Inspector General (IG), Audit Section completed an audit of San Jacinto Methodist Hospital (Provider), Texas Provider Identifier (TPI) 137962006, 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 \$1,281,236.

### **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 137962006. 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 – Unsubstantiated Costs**

The Provider included unsubstantiated costs in the cost report. The Provider asserts that the costs are allowable and were incurred to improve patient care by informing the public of the services provided by the San Jacinto Methodist Hospital. As a result various cost centers are overstated by \$1,079,724.

According to 1 TAC, §355.105(a)(b)(2)(A), “Recordkeeping. Providers must ensure that records are accurate and sufficiently detailed to support the legal, financial, and other statistical information contained in the cost report. Providers must maintain all work papers and any other records that support the information submitted on the cost report relating to all allocations, cost centers, cost or statistical line items, surveys, and schedules. HHSC may require supporting documentation other than that contained in the cost report to substantiate reported information.”

The following table illustrates the recommended adjustments:

<b>Cost Center</b>	<b>Cost Center Description</b>	<b>Reported Amount</b>	<b>Adjustment Amount</b>	<b>Adjusted Amount</b>
5.00	Employee Benefits	\$15,147,811	(\$278,438)	\$14,869,373
6.00	Administrative and General	36,251,453	(790,511)	35,460,942
42.00	Radiology-Therapeutic	1,125,071	(10,775)	1,114,296
	Total		(\$1,079,724)	

#### **Recommendation:**

The Provider should ensure that recordkeeping of all work papers comply with TAC.

#### **Management Response:**

*Houston Methodist San Jacinto Hospital will implement a cost report review procedure to ensure that only allowable marketing expenses will be reported in the future cost reports.*

#### **Auditor Comment:**

These costs were unsubstantiated which means proper documentation was not provided. These costs may be allowable if properly supported by invoices or receipts.

**Finding 2 – Charitable Contributions to Nonprofessional Organizations Costs**

The Provider reported unallowable charitable contributions to nonprofessional organizations in the cost report. The Provider stated they inadvertently failed to remove these costs. As a result, two cost centers were overstated by a collective total of \$118,237.

According to 1 TAC, §355.103 (b)(11)(B), “Dues to nonprofessional organizations are unallowable...Dues or contributions made to any type of political, social, fraternal, or charitable organization are unallowable. Chamber of Commerce dues are unallowable...”

The following table illustrates the recommended adjustments:

<b>Cost Center</b>	<b>Cost Center Description</b>	<b>Reported Amount</b>	<b>Adjustment Amount</b>	<b>Adjusted Amount</b>
6.00	Administrative and General	\$35,460,942	(\$114,734)	\$35,346,208
8.00	Operation of Plant	5,481,629	(3,503)	5,478,126
	Total		(\$118,237)	

**Recommendation:**

The Provider should ensure reported charitable contributions and dues to nonprofessional organizations costs comply with TAC.

**Management Response:**

*Texas Administrative Code (TAC) Title 1, Part 15, Chapter 355.103(11)(A) states, “Costs are allowable for membership in professional associations directly and primarily concerned with the provisions of services for which the provider is contracted. Allowable Costs of Memberships in such organizations include initiation fees, dues, and subscriptions to related professional periodicals.”*

*Texas Administrative Code (TAC) Title 1, Part 15, Chapter 355, Section 355.103(11)(B) states, “Dues to nonprofessional organizations are unallowable.. Dues or contributions made to any type of political, social, fraternal, or charitable organization are unallowable.”*

*Houston Methodist San Jacinto Hospital will implement a cost report review procedure to ensure unallowable charitable contribution and dues costs are excluded from future cost reports.*

**Finding 3 – Entertainment and Special Function Costs**

The Provider reported unallowable entertainment and special functions costs in the cost report. The Provider stated they inadvertently failed to remove these costs from the cost report. As a result Cost Center 6.00 was overstated by \$20,323.

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	\$35,346,208	(\$20,323)	\$35,325,885

**Recommendation:**

The Provider should ensure entertainment and special functions costs are reported in compliance with TAC.

**Management Response:**

*Houston Methodist San Jacinto Hospital will implement a cost report review procedure to exclude entertainment and special functions costs from future cost reports.*

**Finding 4 – Depreciation on Retired or Traded Asset Costs**

During the physical field verification of assets, nine items could not be found. According to the Provider these assets were traded. The Provider later submitted documentation to the auditor that accounted for five of the nine assets. However, four of the asset verification items did not have documentation available and are disallowed. As a result, Cost Center 4.00 was overstated by \$62,953.

According to 1 TAC, §355.102 (b)(c), “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 adjustment:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
4.00	New Capital Related Costs- Movable. Equip.	\$9,633,934	(\$62,953)	\$9,570,981

**Recommendation:**

The Provider should ensure reported depreciation costs comply with TAC.

**Management Response:**

*Houston Methodist San Jacinto Hospital will implement a cost report review procedure to ensure proper record retention for open cost reports.*

## **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 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
- 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
- Provider policies and procedures.

### **Other**

Fieldwork was conducted on August 18, 2014 through August 22, 2014

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## **Appendix B - Report Distribution**

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