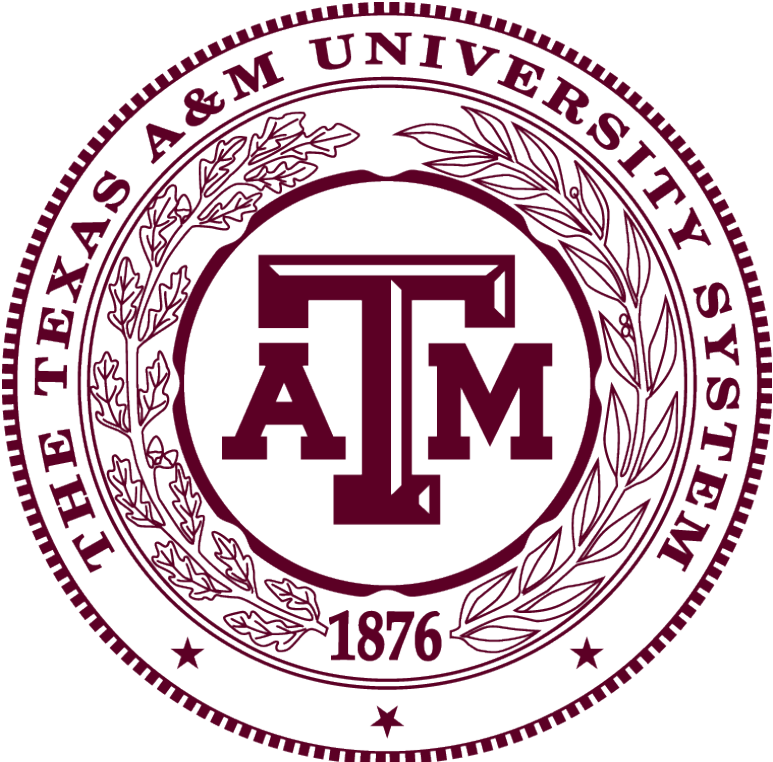


The Texas A&M University System Internal Audit Department

MONTHLY AUDIT REPORT



October 10, 2017



The Texas A&M University System Internal Audit Department  
October 2017

---

## TABLE OF CONTENTS

Texas A&M University  
College of Medicine - Financial Management Services



System Internal Audit  
**THE TEXAS A&M UNIVERSITY SYSTEM**

# **TEXAS A&M UNIVERSITY**

**College of Medicine –  
Financial Management Services**

**October 10, 2017**

**Charlie Hrncir, C.P.A.  
Chief Auditor**

---

**Project #20170209**



## Overall Conclusion

Financial management controls and processes at Texas A&M University College of Medicine are operating as intended and in compliance with applicable laws and policies. Significant improvement is needed to ensure the accuracy of uncompensated care cost reporting. An opportunity for improvement was also noted in the area of agency paid credit cards.

### Areas Reviewed

- 1115 waiver program intergovernmental transfers
- 1115 waiver program uncompensated care reporting
- Expenditures: payment and travel card transactions, voucher transactions
- Facilities and administrative cost distributions

## Summary of Audit Results

### Significant Observations

- Uncompensated patient care costs were not accurately reported to the Texas Health and Human Services Commission, resulting in the College of Medicine receiving between \$200,000 and \$600,000 in excess incentive fund payments that may have to be returned.

### Notable Observations

- Seven of 18 (39%) purchases on IBT individually-named, agency-paid payment and travel cards reviewed included the payment of state sales tax.

## Summary of Management's Response

Management agrees with the recommendations and will have all of the recommendations implemented by February 28, 2018.

## Detailed Results

### 1. Uncompensated Care Cost Reporting

**Uncompensated patient care costs were not accurately reported to the Texas Health and Human Services Commission (HHSC), resulting in the College of Medicine receiving between \$200,000 and \$600,000 in excess incentive fund payments that may have to be returned.** The final amount will be determined by HHSC during their annual reconciliation process which has not yet occurred.

Under the HHSC’s 1115 Waiver

Program, uncompensated care costs include unpaid patient care services provided to Medicaid and uninsured patients. HHSC utilizes reported uncompensated care cost information from multiple state medical providers, including the College of Medicine, to determine each provider’s allocation of incentive fund payments from funds set aside for providers that serve uninsured or underinsured patients. The College of Medicine’s uncompensated care costs were overstated by approximately \$2.6 million for the 2014-2015 reporting period and approximately \$2.3 million for the 2013-2014 reporting period. Inaccurate reporting of costs may result in the College of Medicine being allocated an incorrect portion of the pool of funds.

Payments received for Medicaid and uninsured patient care were added to patient care service costs rather than subtracted for the 2014-2015 and 2013-2014 reporting periods resulting in the overstated uncompensated care costs. The worksheet used to calculate and report uncompensated costs includes a formula which adds the calculated patient service costs to the amounts entered for patient service payments received. Payment amounts must be entered as negative amounts in order to correctly calculate uncompensated costs; however, the College of Medicine entered the payment amounts as positive figures. Instructions provided by HHSC for the completion of the reporting form do not indicate that payment information needs to be entered as negative amounts.

Provider incentive payments from HHSC for the 2014-2015 reporting period have not been completed. Therefore, the College of Medicine was able to revise the previously submitted uncompensated care cost information, removing the \$2.6 million overstatement for the 2014-2015 reporting period.

#### 1115 Waiver Program

The Texas Healthcare Transformation and Quality Improvement Program Section 1115 Waiver is designed to expand Medicaid managed care while preserving hospital funding, provide incentive payments for health care improvements, and direct more funding to medical providers that serve large numbers of uninsured patients. The Texas Health and Human Services Commission received federal approval of the program in 2011.

HHSC has distributed all provider incentive payments for the 2013-2014 reporting period. In addition to the previously mentioned overstatement, costs and payments associated with Medicaid and uninsured patient services were also misstated for the 2013-2014 reporting period. Adjustments to subtract patient payments from patient care service costs and correctly report program costs and payments result in total uncompensated care costs of approximately \$1.1 million. This adjusted cost is \$2.3 million less than the total previously reported to HHSC and may result in approximately \$200,000 to \$600,000 of provider incentive payments that may need to be returned.

Medicaid and uninsured patient service payments were not reported for the 2012-2013 reporting period. An amount for the overstatement of uncompensated costs for 2012-2013 could not be determined prior to the conclusion of this audit.

#### Recommendation

Review the accuracy of reported uncompensated care costs for the 2012-2013 reporting period. Submit revised 2012-2013 and 2013-2014 uncompensated care cost reports to the Texas Health and Human Services Commission if necessary.

#### Management's Response

Management concurs with the recommendation. The College of Medicine will review the accuracy of reported uncompensated care costs for the 2012-2013 reporting period and submit a revised 2012-2013 and 2013-2014 uncompensated care cost reports to the Texas Health and Human Services Commission if necessary. The college will place funds in reserve for this contingent liability. The College of Medicine will implement this response by February 28, 2018.

## 2. Institute of Biosciences and Technology (IBT) – Sales Tax on Purchases

**Seven of 18 (39%) purchases on IBT individually-named, agency-paid payment and travel cards reviewed included the payment of state sales tax.** The amount of tax paid ranged from \$5.27-\$99.99, with a total of \$201.34 and an average of \$28.76. All seven transactions were paid from local funds.

Texas A&M University Financial Management Operations (FMO) Guidelines for the Disbursement of Funds indicate sales tax exemption forms should be used for in-state purchases and Texas state sales tax should not be paid. For a number of the purchases, the employee attempted to use the exemption form, which was not accepted by the vendor. FMO has established accounts and expense codes to be used in the event the exemption form is not accepted by the vendor. When tax is

paid by an employee without properly presenting the exemption form, the employee is responsible for requesting reimbursement from the vendor, utilizing a gift account for the tax amount, or personally reimbursing the tax to the university at the department’s discretion.

Recommendation

Ensure that in-state purchases on payment and travel cards are properly exempted from state sales tax where appropriate.

Management’s Response

Management concurs with the recommendation. The College of Medicine will communicate the proper procedures for handling state sales tax to all faculty and staff via e-mail. The College of Medicine’s Office of Business Affairs will include this as an agenda item on the next scheduled quarterly business staff meeting and will initiate random payment card and travel card checks throughout the year to monitor for compliance. The College of Medicine will implement this response by February 28, 2018.

## **Basis of Review**

### Objective and Scope

The objective of this audit was to determine if selected financial controls and processes at the Texas A&M University College of Medicine are operating as intended and in compliance with applicable laws, policies, regulations, and university rules.

The audit focused on 1115 Waiver Program intergovernmental transfers and uncompensated care reporting, expenditures, and facilities and administrative cost distributions. The audit period was primarily from April 1, 2016 through March 31, 2017. Fieldwork was conducted from May to July, 2017.

### Methodology

Our audit methodology included interviews, observation of processes, review of documentation and testing of data using sampling.

To determine whether expenditures were made in compliance with university procedures, auditors used professional judgement to select a nonstatistical sample of 90 purchases designed to be representative of the population. Purchases were evenly split between payment card, travel card, and purchase voucher transactions. Due to an ongoing State of Texas Comptroller's Office post payment audit, purchases from state fund accounts were excluded from the sample. In addition, purchases from research accounts were excluded from the sample due to the level of review provided by Texas A&M Sponsored Research Services.

To determine the accuracy and completeness of facilities and administrative cost distributions, auditors selected a nonstatistical sample of ten research projects with end dates which fell within or after the audit period through random selection designed to be representative of the population.

### Criteria

Our audit was based upon standards as set forth in Texas A&M University System Policies and Regulations; Texas A&M University procedures; Texas Health and Human Services Commission guidelines; and other sound administrative practices. The audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.



Additionally, we conducted the 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.

## **Audit Team**

Amanda Dotson, CPA, CIA, Director  
David Maggard, CPA, CISA, Senior Manager  
Zahra Brown, CPA  
Rachel Habiger  
Stacy Spann

## **Distribution List**

Mr. Michael K. Young, President  
Dr. Carrie L. Byington, Senior Vice President and Vice Chancellor for Health Services  
Dr. Carol Fierke, Provost and Executive Vice President  
Dr. Jerry R. Strawser, Executive Vice President for Finance and Administration and Chief Financial Officer  
Mr. Michael G. Robbins, Chief of Staff  
Dr. Barry C. Nelson, Associate Vice President for Finance and Administration  
Mr. Matthew D. Brown, Associate Dean for Finance and Administration  
Ms. Margaret Zapalac, Associate Vice President for Risk and Compliance