

# The Texas A&M University System Internal Audit Department



Monthly Audit Report  
September 13, 2018

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Prairie View A&M University - Owens Franklin Health Center



System Internal Audit  
THE TEXAS A&M UNIVERSITY SYSTEM

**PRAIRIE VIEW A&M UNIVERSITY**  
**OWENS FRANKLIN HEALTH CENTER**

**September 13, 2018**

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

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**Project #20180503**



## Overall Conclusion

Significant improvements are needed in business process controls to ensure the Prairie View A&M University Owens Franklin Health Center (Health Center) is operating as intended. The areas requiring significant improvements include the control environment and account reconciliations. Opportunities for improvement were also noted in financial management and oversight, and monitoring of employee training.

### Areas Audited

- Patient billing and collections
- Reconciliations
- Rates
- Pharmacy inventory
- Purchases
- Information security
- Credentials and certifications
- Training

The Health Center provides professional and comprehensive health care, health education, and health promotion for a diverse population of students, faculty, staff, and the community.

Management concurred with the audit recommendations and indicated that implementation will occur by the end of August 2019.

## Summary of Audit Results

### Significant Observations

- Improvements are needed in the administration and oversight over business management processes to strengthen the control environment.
- The Health Center does not perform comprehensive reconciliations of patient charges, insurance billings, collections, and revenues.

### Notable Observations

- The Health Center does not have comprehensive financial information for management's use in decision-making or establishing patient rates for services provided.
- Patient charges are not applied consistently.
- The Health Center is not currently billing Medicare for outstanding patient charges.

- The Health Center does not have procedures in place for the collection of outstanding patient balances.
- Pharmacy inventory records are not accurate.
- Completion of training identified in the Health Center’s manual is inconsistent.

## Detailed Results

### 1. Control Environment

**Improvements are needed in the administration and oversight over business management processes to strengthen the control environment.**

Weaknesses in controls were noted in financial, pharmacy, and employee training processes. Turnover and changes to position responsibilities have occurred over time without adequate steps being taken to ensure all necessary processes are being completed. Employees have not consistently been trained when they assume additional responsibilities and management does not have processes in place to monitor activities to ensure expectations are being met. A management succession plan for the retiring Health Center administrator was not successfully completed. As a result, this position and an assistant director position have been vacant for four months, contributing to the lack of financial oversight.

The control environment is defined by standards, processes, and structures that guide employees at all levels in carrying out their responsibilities for achieving organizational objectives. A strong control environment encompasses oversight and supervision, internal controls such as policies and procedures, access to necessary information, and responsiveness to results of monitoring activities.

#### Recommendation

Fill vacant management positions and develop a comprehensive plan to strengthen administrative oversight and controls over Health Center operations. Ensure that employees receive training necessary to understand how to perform their position responsibilities.

#### Management’s Response

We agree that the Health Center’s control environment needs to be strengthened. We will take the following actions:

- Fill the vacant Administrator and Assistant Director positions. The Administrator posting closed on August 29, 2018. The applicants will be screened promptly. The Assistant Director position will be posted and filled upon the hiring of the Administrator to allow his/her input.
- The Administrator will provide periodic status reports to management regarding operations including achievement of goals and financial condition.
- Update the Health Center procedures manual regarding financial, pharmacy, and training processes and procedures.

Implementation date: January 31, 2019

## 2. Reconciliations

**The Health Center does not perform comprehensive reconciliations of patient charges, insurance billings, collections, and revenues.** Patient billing information is contained in several different information systems (Medicat, Novitas, and FAMIS), but is not compared between the systems to ensure the completeness of patient revenue. Funds received were not compared to the number of patient visits, services provided, insurance billings, and collections. Under the current process, available support documents are filed with monthly account reports, but there is no reconciliation of information between multiple systems. Outstanding items, such as errors on customer account receivables, were not identified and resolved.

Timely reconciliations are an important control to ensure revenues are appropriately accounted for and outstanding charges are billed and collected. Monitoring and oversight of the reconciliation process is important to ensure that employees understand account reconciliation processes, and how and when to alert management to issues or problems in resolving outstanding items.

### Recommendation

Establish a process to reconcile transactions in all relevant information systems to ensure that revenues, receivables, and payments are accurately reflected in all systems. Establish monitoring processes to ensure the reconciliations are completed and outstanding items are resolved.

### Management's Response

We will address the comprehensive reconciliation of revenues, receivables, and payments by establishing procedures to ensure financial matters are accurately reflected in the different information systems. The reconciliations will be

reviewed to ensure outstanding items are resolved in a timely manner. The Health Center procedures manual will be updated to reflect the new processes.

Implementation date: August 31, 2019

### 3. Comprehensive Financial Information

**The Health Center does not have comprehensive financial information for management’s use in decision-making or establishing patient rates for services provided.** The Health Center has several operating accounts, but no process in place for providing summary financial information from these accounts documenting the Health Center’s financial operations. In addition, operating cost information is not available to compare the cost of providing services and products to the revenue generated to ensure appropriate service rates are being charged. The last rate review was conducted in August 2016, but only included a comparison of office visit rates obtained from a telephone survey of local healthcare providers.

Timely and periodic financial reports should include the following:

- Comprehensive cost information
- Budget to actual cost comparison
- Prior to current year comparison
- Financial position information

This information is necessary to ensure management makes informed financial decisions regarding the Health Center’s operations.

A&M System Regulation 21.01.01, *Financial Accounting and Reporting*, encourages system members to maintain proprietary basis reports of expenses and revenues and a comprehensive balance sheet for the results of auxiliary enterprise operations for management to utilize in making decisions regarding auxiliary activities. The National Association of College and University Business Officers’ (NACUBO) College and University Business Administration states that accounting records are essential to ascertain the degree of self-support of an auxiliary enterprise and to provide the basis for control. Financial reports should be designed to disclose the sources and uses of funds and should summarize financial and other management data in a meaningful way.

#### Recommendation

Develop financial reports to provide a comprehensive assessment of the Health Center’s financial condition and performance. Ensure that necessary cost

information is available to perform a comprehensive cost analysis as part of the biannual rate review.

#### Management's Response

Health Center administration will work with Accounting Services to create a balance sheet and statement of net position using Business Objects. These reports will provide a comprehensive assessment of the financial condition and performance of the department. Additionally, the financial information will be used to perform a comprehensive cost analysis and rate review as part of the biannual rate review. The Health Center procedures manual will be updated to include these financial processes.

Implementation date: August 31, 2019

### 4. Patient Charges

**Patient charges are not applied consistently.** Four of 30 (13%) non-student patient statements did not include all applicable charges. Patients received lab work without being charged the lab service fee. This occurred as a result of data entry errors. Without adequate training and monitoring procedures, errors or irregularities may not be detected. Non-student patients represent approximately 10% of all patient visits at the Health Center.

#### Recommendation

Establish procedures to ensure proper charges are applied to patient statements. Provide training to employees on how charges are to be applied.

#### Management's Response

Patient charge and billing procedures will be established to ensure proper charges are applied to patient statements. Health Center staff will be trained on these procedures. The Health Center procedures manual will be updated to reflect the new processes.

Implementation date: May 31, 2019

### 5. Medicare Billing

**The Health Center is not currently billing Medicare for outstanding patient charges.** Medicare billing, which averages \$3,000 annually, has not been performed since the Health Center administrator retired in February 2018.

Another employee has obtained access to the system used for Medicare billing but has not yet been trained on how to use the system. Although Medicare will accept claims filed up to one year after the date services are provided, timely filing of claims prevents a backlog and allows patient balances to be cleared promptly.

Recommendation

Ensure that employees have the training and access to bill Medicare, and that Medicare billing is performed timely.

Management's Response

We will establish procedures to ensure Medicare charges are accurately billed in a timely manner. Employees will be trained and provided access to the Novitas system to process the charges. The Health Center procedures manual will be updated to reflect the new processes.

Implementation date: May 31, 2019

6. Accounts Receivable Collection Procedures

**The Health Center does not have procedures in place for the collection of outstanding patient balances.** Outstanding accounts receivable over 180 days past due total \$152,000 and date back to 2005. The following procedures are not being performed:

- Statements and demand letters are not being sent to patients with outstanding balances
- State holds are not being applied to delinquent accounts
- Outstanding balances are not evaluated for further collection or write-off

Health Center procedures require payment at the time services are provided, so no collection procedures are in place. A&M System Regulation 21.01.04, *Extension of Credit*, requires procedures for the collection of outstanding receivables.

Recommendation

Update Health Center procedures to ensure compliance with system requirements for extension of credit and collection procedures. Evaluate the aged receivables report to determine accounts for collection efforts and those to be written off as uncollectible.



### Management's Response

We will establish extension of credit and collection procedures to ensure all patient financial transactions are accurately recorded. The aged receivable report will be reviewed and reconciled to patient records to determine accounts that need to be billed. Collection efforts will be documented and, if necessary, uncollectible accounts will be written off. The Health Center procedures manual will be updated to reflect these new processes.

Implementation date: August 31, 2019

## 7. Pharmacy Inventory

**Pharmacy inventory records are not accurate.** Seven of 24 (29%) inventory items on hand did not agree to the amounts recorded in Mediat, the Center's medical information system. Variances are likely the result of data entry errors. Inventory counts are not performed on a regular basis to ensure the records are accurate and irregularities are detected. Without periodic verification of inventory records, errors or misappropriations may occur without detection. Inaccurate records may also result in an inadequate supply of medications to meet patient needs.

### Recommendation

Establish procedures to perform periodic inventory counts to ensure on-hand quantities reconcile to reported quantities. Review any discrepancies and make appropriate adjustments. Monitor to ensure periodic inventories are performed and the records are accurate.

### Management's Response

We will establish procedures to ensure the accuracy of pharmacy inventory records including periodic inventory counts and supervisory reviews. The Health Center procedures manual will be updated to reflect the new processes.

Implementation date: January 31, 2019

## 8. Employee Training

**Completion of training identified in the Health Center's manual is inconsistent.** Although employees completed A&M System required training, not all employees have consistently completed additional training listed in the Health Center Policy and Procedures Manual. The manual does not specify which

employees/positions are required to complete each of the trainings listed. In addition, Health Center procedures have not been established for the assignment and monitoring of training. Without determining and communicating employee training requirements, employees may not receive adequate training needed to understand their job duties and responsibilities.

Recommendation

Review employee responsibilities and establish training requirements based upon position duties. Document training requirements including those that apply to all employees and those that are specific to positions. Establish procedures for assigning and monitoring employee training. Include the additional training required by the Health Center in the annual employee performance review process.

Management's Response

We will establish an optimal training schedule specific to each employee type/title to ensure staff members are appropriately trained. The training requirements will be documented in the Health Center procedures manual. Required training will be reviewed in conjunction with the staff members' annual evaluation reviews.

Implementation date: January 31, 2019

## Basis of Review

### Objective and Scope

The objective of this audit was to determine whether business processes and controls are in place to ensure the Owens Franklin Health Center is operating as intended.

The audit focused on the following:

- Patient billing and collections
- Reconciliations
- Rates
- Pharmacy inventory
- Purchases
- Information security
- Credentials and certifications
- Training

The audit period was primarily April 2017 to May 2018. Fieldwork was conducted from May 2018 to July 2018.

### Methodology

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

To test appointment closeouts for accuracy and compliance with established procedures, auditors judgmentally selected a non-statistical sample of 60 appointment records designed to be representative of the population.

To test the accuracy of the pharmacy inventory, auditors judgmentally selected a non-statistical sample of 25 inventoried items designed to be representative of the population.

To test purchases for compliance with establish procedures, auditors judgmentally selected a non-statistical sample of 40 purchases designed to be representative of the population.

To test account reconciliations for compliance with established procedures, auditors judgmentally selected a non-statistical sample of two account reconciliations designed to be representative of the population.

To test compliance with bacterial meningitis regulations, auditors selected a non-statistical sample of 30 student records through random selection designed to be representative of the population.

To test the accuracy of the controlled asset inventory, auditors judgmentally selected a non-statistical sample of 33 controlled assets designed to be representative of the population.

To test the information technology logical security controls, auditors judgmentally selected a non-statistical sample of seven workstations and one server designed to be representative of the populations.

## Criteria

Our audit was based upon standards as set forth in the following:

- Texas A&M University System Policies and Regulations
- Prairie View A&M University Rules and Procedures
- Medicare Claims Processing Manual
- Texas State Board of Pharmacy Rules
- Texas Education Code
- Texas Higher Education Coordinating Board Rules
- National College and University Business Officers' College and University Business Administration
- Committee of Sponsoring Organization's Internal Control – Integrated Framework
- 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.

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