Office of Inspector General

Texas Health and Human Services Commission

Stuart W. Bowen, Jr., Inspector General

Performance Audit Report

Bayshore Medical Center
2010 Medicaid Outpatient Hospital Costs

November 10, 2015

IG Report No. 14-80-020817501-10-MO-24

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EXECUTIVE SUMMARY

The Texas Health and Human Services Commission (HHSC), Inspector General (IG), Audit Section completed an audit of Bayshore Medical Center (Provider), Texas Provider Identifier (TPI) 020817501, 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 & 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 $554,066.

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 020817501. 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 January 1, 2010 through December 31, 2010 cost report period. 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 – Employee Relations

The Provider included employee relation costs that exceeded the $50 per eligible employee limit. The Provider was unaware of the TAC limit for employee related costs. As a result, cost center 6.00 was overstated by $402,706, which represents $643,624 total costs minus a Worksheet A-8 adjustment of $162,518 and TAC limit amount of $78,400 (1568 average full time equivalents FTE's as reported in the cost report times $50 per FTE).

According to 1 TAC, §355.103 (b)(17)(A), "...Employee relations costs are limited to a ceiling of $50 per employee eligible to participate per year."

The following table illustrates the recommended adjustment:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative & General	$24,297,845	($402,706)	$23,895,139

Recommendation:

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

Management Response:

We disagree with the proposed adjustment to remove $565,224 for Employee Relations costs exceeding the $50 per eligible employee per 1TAC 355.105 (b)(17)(A). The HHSC/OIG audit staff has applied this $50 ceiling to expense that we do not feel should be considered employee relation expense. Employees meal are specifically addressed elsewhere in the Texas Administration Code per 1TAC 355.103 {b)(1)(A)(iii)(ll)(e) ". 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 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 xxx250, xxx414, and xxx750. Some of these costs have been reviewed and $162,518 of these costs were already removed on Worksheet A-8. The $162,518 amount is being disallowed again as part of the $565,224 adjustment. Your disallowance should be changed to $402,706 ($565,224 minus $162,518). The estimated Medicaid Outpatient Reimbursement impact for removing the $565,224 is $(4,064).

Auditor Response:

Upon further review of the management response and support documentation, the $162,518 for physician meals was traced from worksheet A-8 and was determined removed. Therefore, the revised disallowance is $402,706 ($565,224 minus 162,518).

Finding 2 – Unallowable Advertising Costs

The Provider included costs for unallowable promotional advertising in the cost report. Costs for promotional items such as pill boxes, his/her care kits, and recreation helmets were inadvertently included with allowable advertising and public relation costs. As a result, various cost centers were overstated by $126,123.

According to 1 TAC §355.103 (b)(13)(B) "Unallowable advertising and public relations include: (i) costs of advertising of a general nature designed to invite physicians to utilize a contracted provider's facilities in their capacity as independent practitioners; (ii) costs of advertising incurred in connection with the issuance of a contracted provider's own stock, which seeks to increase client utilization of the contracted provider's facilities; (iv) public or the sale of stock held by the contracted provider in another corporation considered as reductions in the proceeds from the sale; (iii) costs of advertising to the general 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	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative & General	$23,895,139	($92,956)	$23, 802,183
25.00	Adults & Pediatrics	$23,657,303	($395)	$23,656,908
37.00	Operating Room	9,785,387	(32,772)	9,752,615
	Total		($126,123)	

Recommendation:

The Provider should ensure that reported advertising costs comply with TAC rules.

Management Response:

We agree with the proposed adjustment to remove $126,123 for unallowable promotional advertising costs. 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 900355 and Sub-Account xxx716 were not reviewed in its entirety. We will ensure that this account and sub account are analyzed on a go forward basis. The estimated Medicaid Outpatient Reimbursement impact for removing the $126,123 is $(717) overpayment.

Finding 3 – Unallowable Dues and Contributions

The Provider included unallowable dues and contributions to the junior league, rotary club, and chambers of commerce in the cost report. Member dues and contributions associated with civic organizations were mistakenly incorporated with dues and member fees for medical associations and professional licensing which are allowable. As a result, cost center 6.00 was overstated by $25,237.

According to 1 TAC §355.103 (b)(11)(B) "Dues to nonprofessional organizations are unallowable. 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. 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. Chamber of Commerce dues are unallowable. Franchise fees are not considered dues or contributions to organizations."

The following table illustrates the recommended adjustment:

Cost Center	Cost Center Description	Reported Amount	Adjustment Amount	Adjusted Amount
6.00	Administrative & General	$23,802,183	($25,237)	$23,776,946

Recommendation:

The Provider should ensure reported costs comply with TAC rules and CMS instructions.

Management Response:

We agree with the proposed adjustment to remove $25,237 for unallowable dues and contributions to the junior league, rotary club, and chambers of commerce costs. 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 Sub-accounts xxx764 and xxx786 - Dues were not reviewed. We will ensure that this account is an estimated Medicaid Outpatient Reimbursement impact for removing the $25,237 is $(191) overpayment.

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 transactions in the general ledger
- 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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