

**TEXAS HEALTH AND HUMAN SERVICES COMMISSION**  
**INSPECTOR GENERAL**

**AUDIT OF BAYLOR SCOTT & WHITE  
MEDICAL CENTER – LAKE POINTE  
COST REPORT**

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*Fiscal Year 2014*



**August 31, 2017**

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## INTRODUCTION

The Texas Health and Human Services Commission (HHSC) Inspector General (IG) Audit Division has conducted an audit of the cost report by Baylor Scott & White Medical Center – Lake Pointe (Lake Pointe). This audit report is one in a series of audits on cost reports. The focus of this audit report on the capitalization and moveable equipment cost centers<sup>1</sup> of Lake Pointe’s Medicare cost report. The cost report includes adjustments for Medicaid, for fiscal year June 1, 2013, through May 31, 2014. General information technology (IT) controls were tested for compliance with Lake Pointe’s internal policies. Unless otherwise described, any year referenced is Lake Pointe’s fiscal year.

### Objective

The objective of the audit was to determine whether amounts for selected cost centers reported on the Medicare cost report were accurate, allowable, and adequately supported, in accordance with applicable Centers for Medicare and Medicaid Services (CMS) and state requirements.

### Background

The IG is responsible for enforcing state law relating to the provision of Medicaid and other Health and Human Services (HHS) programs.<sup>2</sup> As a provider of services in the Medicare program, Lake Pointe is required by federal law to report costs relating to health care services provided to Medicare beneficiaries.<sup>3</sup> The cost reports include information such as facility characteristics, utilization data, cost, and charges by cost center. Included in the cost report are adjustments to report Medicaid costs relating to health care services provided to Medicaid beneficiaries as required by state law.<sup>4</sup> Cost reports are required from providers annually.<sup>5</sup> Cost report information is used as a basis for setting certain payment rates. HHSC has the authority to conduct desk reviews and field audits of provider cost reports in order to determine whether financial and statistical information reported in the cost reports conforms to applicable rules and instructions, and if not, require adjustments to the cost report.<sup>6</sup> The IG submits the adjusted cost report to the

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<sup>1</sup> A “cost center” is an organizational unit, generally a department or its subunit, having a common function or purpose for which direct and indirect costs are accumulated, allocated, and apportioned.

<sup>2</sup> 1 Tex. Admin. Code § 371.3(a) (May 1, 2016).

<sup>3</sup> 42 C.F.R. § 413.20(a) and (b) (Dec. 2, 1996).

<sup>4</sup> 1 Tex. Admin. Code § 355.105(b) (Nov. 25, 2012) and (Aug. 1, 2013).

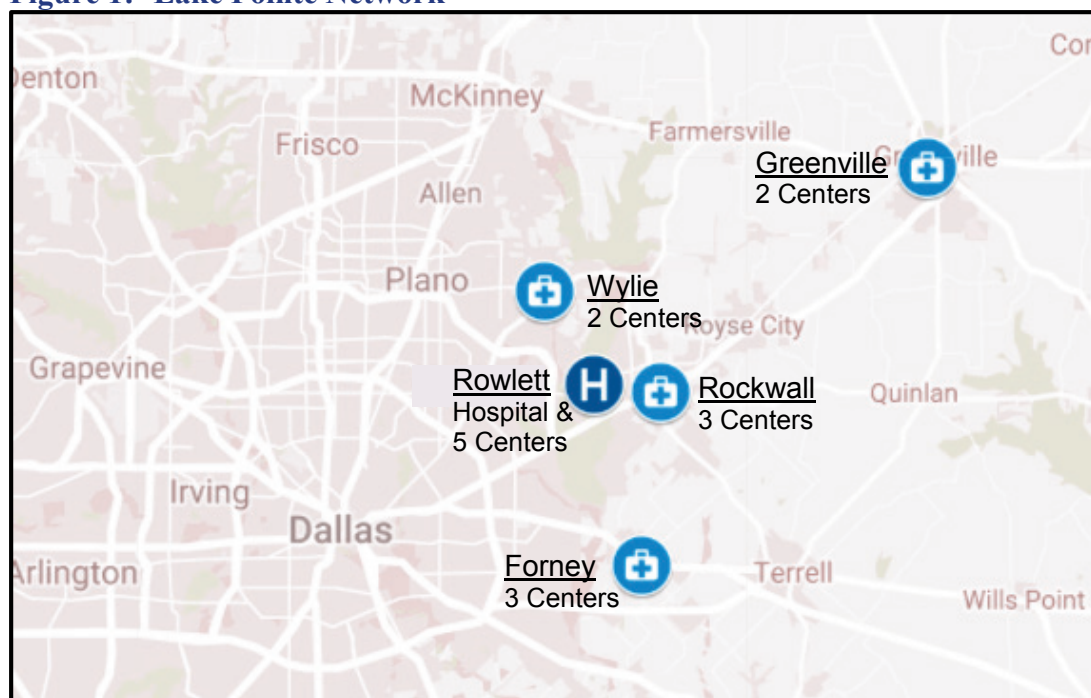
<sup>5</sup> 42 C. F. R. §413.20(b) (Dec. 2, 1996).

<sup>6</sup> 1 Tex. Admin. Code § 355.106(a) (Sep 1, 2011).

Texas Medicaid and Healthcare Partnership (TMHP),<sup>7</sup> the Texas Medicaid fiscal intermediary, for processing. TMHP processes the adjusted cost report and sends the provider a settlement letter within six months from the date TMHP received the adjusted cost report from the IG.

Lake Pointe, a hospital currently owned by Baylor Scott & White Holdings, provides medical services in communities northeast of Dallas, Texas. The Lake Pointe medical center in Rowlett is a 112-bed acute care hospital. The medical center anchors a network of 15 care centers as departments of Lake Pointe, including imaging centers, emergency care centers, and outpatient rehabilitation centers in Forney, Greenville, Rockwall, Rowlett, and Wylie, as shown in Figure 1.

**Figure 1: Lake Pointe Network**



Source: Google Maps

During the cost report period under review, Tenet Healthcare held a majority financial interest in the hospital. Auditors reviewed the two cost centers associated with capitalized assets and movable equipment. Total depreciation expense claimed on Lake Pointe’s 2014 cost report for these cost centers was \$10.7 million, or approximately 10 percent of total Lake Pointe expenses reported.

<sup>7</sup> The Texas Medicaid and Healthcare Partnership (TMHP) is a group of contractors under the leadership of Accenture. Accenture administers Texas Medicaid and other state health-care programs on behalf of the Texas Health and Human Services Commission.

## AUDIT RESULTS

Lake Pointe is required by federal and state requirements to follow straight-line depreciation methods<sup>8</sup> and maintain supporting documentation<sup>9</sup> of depreciation expenses. The IG Audit Division reviewed Lake Pointe's compliance with these requirements related to physical asset verification and depreciation calculation. This report details the results in those areas, as well as the results of limited IT testing.

### **PHYSICAL ASSET VERIFICATION**

Auditors tested a haphazard sample<sup>10</sup> of 12 assets from the listing of 12,195 capitalized assets included in the 2014 cost report for physical verification. Auditors tested these assets to determine whether the assets existed and were (a) identifiable, (b) able to be physically located, (c) in working condition, (d) currently in use, and (e) related to the provision of patient care.

Audit results showed that the assets tested did exist and Lake Pointe was in compliance with state requirements for Medicaid costs.

### **DEPRECIATION CALCULATION**

Auditors tested a haphazard sample of 12 assets that were purchased and capitalized during the cost report period. Auditors tested supporting documentation to determine whether depreciation expense was calculated accurately and according to Lake Pointe's policy, Texas Administrative Code (TAC), CMS regulations, and the book, *Estimated Useful Lives of Depreciable Hospital Assets* (AHA guide).<sup>11</sup>

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<sup>8</sup> 1 Tex. Admin. Code §355.103(b)(10) (June 25, 2000).

<sup>9</sup> 1 Tex. Admin. Code §355.105(b)(2)(A) (Nov. 25, 2012) and (Aug. 1, 2013).

<sup>10</sup> "Haphazard sampling" is a non-statistical technique used by auditors to simulate random sampling.

<sup>11</sup> *Estimated Useful Lives of Depreciable Hospital Assets* is a reference book providing health care organizations and supporting personnel with the estimated useful lives of a wide variety of commonly used depreciable assets. It is referenced in both state and federal regulations as the authority for determining depreciation schedules. American Hospital Association, *Estimated Useful Lives of Depreciable Hospital Assets* (2013).

**Issue 1: Lake Pointe’s Capitalization and Useful Life Policy Did Not Comply With the AHA Guide**

Lake Pointe applied its capitalization and useful life policy when preparing its cost report depreciation data. Lake Pointe’s capitalization and useful life policy is appropriate for other financial reporting purposes; however, for cost reporting Lake Pointe is required to follow the CMS Manual. The CMS Manual states, “For assets acquired on or after January 1, 1981, only the AHA guidelines may be used.”<sup>12</sup> Four of the 12 (33 percent) purchased assets were depreciated using a more conservative useful life than the AHA guide dictates. As shown in Table 1, all four were depreciated using a useful life two years more than the AHA guide useful life policy dictates. Using a longer useful life means less depreciation expense is recorded each year.

**Table 1: Assets Depreciated Differently Than AHA Guidelines**

Asset	Cost	Useful Life per Hospital Policy	Useful Life per AHA Guide	Adjusted Depreciation
Analyzer, 350 Chemistry	\$56,560.86	7	5	(\$ 3,232.05)
Analyzer, Act 5 diff CP Hemato	29,317.14	7	5	(1,675.27)
Laryngoscope, Glidescope AVL Mobile Cart	12,887.47	5	3	(3,651.45)
Analyzer, Chemistry 350	55,513.34	7	5	(8,459.18)
Total				(\$ 17,017.95)

Source: IG Audit Division and AHA Guide

**Recommendation 1**

Lake Point should follow the AHA guide as required when determining the useful lives of assets for cost reporting purposes.

The IG will submit to TMHP an adjustment to the cost report to increase the reported expense in the amount of \$17,017.95.

<sup>12</sup> Centers for Medicare and Medicaid Services Provider Reimbursement Manual § 15-1.104.17 (Dec. 2011).

**Management Response**

Action Plan

*Starting in July 2016 the AHA Guide’s depreciable lives are utilized to depreciate the hospital’s new additions. We will include this depreciation in our cost reports filings ending in 2017 and after.*

Responsible Manager

*CFO/Controller*

Implementation Date

*July 2016*

**Issue 2: Depreciation Expense Could Not Be Supported**

Auditors tested invoices, purchasing documentation, asset disposal general ledger transactions, and print screens from Lake Pointe’s fixed assets system to verify that data used to calculate depreciation was accurate. Within the asset addition and disposal sample items tested, auditors found that the asset cost, acquisition date, disposal proceeds, and disposal date could not be supported.

**Asset Additions**

Five of the 12 (42 percent) asset additions sampled either did not have supporting documentation for the acquisition cost or the supporting documentation did not match the data used in the cost report, as shown in Table 2. Without accurate supporting documentation that meets the requirements of TAC,<sup>13</sup> (a) there is no assurance the documentation was for the reported asset, (b) the depreciation could not be verified, and (c) the depreciation was determined to be incorrect. The cost report will be adjusted for the full acquisition cost of \$331,473.55.

**Table 2: Sample Asset Additions With Inconsistent or Absent Supporting Documentation**

Per Fixed Asset System Data		Per Documentation	
Description	Cost	Description	Cost
X-Ray U-Arm, GE Definum	\$ 172,978.09	X-Ray U-Arm, GE Definum	\$ 178,691.47
Analyzer, 350 Chemistry	56,560.86	Acuson 100 Mainframe	69,510.00
Ultrasound, System	41,738.71	No Support	--
Ultrasound, Acuson Sequoi	30,310.00	Acuson Sequoia	28,000.00
Ultrasound Sonosite, Multi System Bundle	29,885.89	No Support	--
<b>Total</b>	<b>\$ 331,473.55</b>		

*Source: IG Audit Division*

<sup>13</sup> 1 Tex. Admin Code § 355.105(b)(2)(B)(xv) (Nov. 25, 2012) and (Aug. 1, 2013).

## Asset Disposals

Auditors tested an additional haphazard sample of 12 asset disposals reported during the cost report period. The assets were tested to:

- Calculate depreciation expense
- Identify gain or loss amount at the time of disposal
- Determine whether the gain or loss was recorded appropriately

Eight of the 12 (67 percent) disposed of assets did not have supporting documentation for the acquisition cost or date. All 12 of the items tested did not have supporting documentation for the disposal method or proceeds, if sold. Lake Pointe's record retention policy did not require asset documentation used in preparing cost reports to be retained. According to TAC, "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 workpapers 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."<sup>14</sup> Without accurate supporting documentation, the depreciation could not be verified. The cost report will be adjusted for the remaining depreciation for the sample of \$6,940.34, as shown in Table 3.

**Table 3: Sample of Disposed Items and Remaining Depreciation**

Asset	Cost	Accumulated Depreciation	Remaining Depreciation
Ultrasound Diagnostic	\$ 189,610.70	\$ 189,610.70	\$ 0.00
Copier + Fax	6,772.17	6,772.17	0.00
X-Ray Mobile	38,905.05	38,905.05	0.00
Gamma Detection System	35,329.96	35,329.96	0.00
Printer, Laser	4,987.01	4,737.66	249.35
CLV-180 Evis Exera	7,822.42	4,469.95	3,352.47
Treadmill	3,190.64	1,985.29	1,205.35
Ventilator	34,423.30	34,423.30	0.00
Infant Intensive Care	9,334.66	9,334.66	0.00
Computed Aided Surgery System	120,906.59	120,906.59	0.00
Standard Notebook D630	1,544.78	1,544.78	0.00
Glidescope System Monitor	10,665.86	8,532.69	2,133.17
Total	\$ 463,493.14	\$ 456,552.80	\$ 6,940.34

Source: IG Audit Division

<sup>14</sup> 1 Tex. Admin. Code § 355.105(b)(2)(A) (Nov. 25, 2012) and (Aug. 1, 2013).



## **Recommendation 2**

Lake Pointe should (a) ensure the data in its fixed asset system matches the supporting documentation, (b) ensure accurate and sufficiently detailed documentation supporting cost report information is retained, and (c) update its records retention policy to align with the CMS Manual, to allow the fiscal intermediary to reopen cost reports in a three year period from the notice of program reimbursement date.

The IG will submit to TMHP adjustments to the cost report in the amount of \$331,473.55 and \$6,940.34.

## **Management Response**

### Action Plan

*Starting July 2014 we complete monthly capital packets which contain copies and supporting documents for additions, disposals and transfers which is sent to Home Office (originals are kept onsite and scanned copies are sent to Home Office). This results in two sets of records at our disposal and should address the above issue.*

### Responsible Manager

*CFO/Controller*

### Implementation Date

*July 2014*

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## **Issue 3: Lake Pointe Did Not Have a Documented Process for Disposal of Assets**

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Lake Pointe does not have a process for documenting the disposal of assets. A disposal process should include documentation of the disposal method or proceeds, if sold. The CMS Manual states, "Depreciable assets may be disposed of through sale, scrapping, trade-in, donation, exchange, demolition, abandonment, or involuntary conversions such as condemnation, fire, theft or other casualty. Appropriate recording of depreciation includes the identification of the depreciable assets in use, the assets' historical costs, the assets' dates of acquisition, the method of depreciation, estimated useful lives, and the assets' accumulated depreciation."<sup>15</sup>

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<sup>15</sup> Centers for Medicare and Medicaid Services Provider Reimbursement Manual §§ 15-1.104.9 and 104.130 (May 2000).

### **Recommendation 3**

Lake Pointe should develop an asset disposal process that includes documentation and records retention guidelines based on the CMS Manual, to allow for the fiscal intermediary to reopen cost reports in a three year period from the notice of program reimbursement date.<sup>16</sup>

### **Management Response**

#### Action Plan

*We will keep a copy of our monthly schedule B (disposals) in a binder onsite which will serve as our disposal log.*

#### Responsible Manager

*CFO/Controller*

#### Target Implementation Date

*August 2017*

## **INFORMATION TECHNOLOGY GENERAL CONTROLS**

Lake Pointe used a system called S2K to record asset capitalization and depreciation for the cost report period. The system was managed by an external, outsourced firm contracted by Tenet Healthcare. Auditors conducted tests to determine whether Lake Pointe had adequate controls in place to be in compliance with internal policy related to S2K system user access and password requirements. The results of the audit test work indicated that for the S2K system, Lake Pointe's controls over user access and passwords were in compliance with policy.

The IG Audit Division reviewed Ernst and Young's SSAE 16<sup>17</sup> Service Organization Controls Type 1 (SOC 1) report, and the independent service auditor's report incorporated into the SOC 1, dated November 7, 2014, which included tests of the S2K system change management process. A SOC 1 report is intended to evaluate controls at a service organization relevant to user entities' internal controls over financial reporting. The SOC 1 auditor's opinion stated that (a) controls were suitably designed to provide reasonable assurance that control objectives would be achieved and (b) controls tested operated effectively.

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<sup>16</sup> Centers for Medicare and Medicaid Services Provider Reimbursement Manual §15-2931.1(A) (Sept. 1993).

<sup>17</sup> Statement on Standards for Attestation Engagements.

## CONCLUSION

The IG Audit Division completed an audit of the cost report for Lake Pointe. The audit included an evaluation of controls over capitalization and depreciation to determine whether Lake Pointe complied with applicable federal and state requirements. The IT general controls evaluation included an assessment of user access, password requirements, and reviewed Ernst and Young’s SOC 1 report for the IT system change management used to record capitalized assets and depreciation expenses. The IG Audit Division conducted a site visit at Lake Pointe the week of May 22, 2017.

Based on the results of the audit test work, the IG Audit Division determined that capitalization and moveable equipment amounts reported in cost centers on Lake Pointe’s cost report were not accurate or adequately supported, and Lake Pointe was not in compliance with all CMS and state requirements. Based on the results of audit test work, the IG Audit Division determined that the sample of assets selected for physical verification were accounted for and that Lake Pointe was in compliance with internal policies related to user access and passwords.

**Table 4: Total 2014 Cost Report Adjustments Recommended**

Recommendation	Adjustment
1	\$ (17,017.95)
2	331,473.55
3	6,940.34
Total	\$ 321,395.94

Source: IG Audit Division

Table 4 summarizes the total 2014 cost report adjustments recommended. Since cost reports are for Medicare and Medicaid settlement purposes, the \$321,395.94 does not have a dollar to dollar impact on Medicaid funds. The net effect of the adjustments is \$2,944.00, which will be applied against future cost report settlement of Medicaid funds.

The IG Audit Division thanks management and staff at Lake Pointe and Tenet Healthcare for their cooperation and assistance during this audit.

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## Appendix A: Objective, Scope, and Methodology

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### Objective

The objective of the audit was to determine whether amounts for selected cost centers reported on the Medicare cost report were accurate, allowable, and adequately supported, in accordance with applicable CMS and state regulations.

### Scope

The scope of the Lake Pointe audit included the Medicare cost report period from June 1, 2013, to May 31, 2014. The IG Audit Division reviewed the two cost centers associated with capitalized assets and movable equipment and focused on:

- Physical asset verification
- Depreciation calculation
- IT general controls

### Methodology

To accomplish its objective, the IG Audit Division collected information for this audit through discussions and interviews with responsible management and staff at Lake Pointe and Tenet Healthcare and by reviewing the following information for the 2014 cost report:

- Capitalization and depreciation policy and procedure.
- Depreciation schedules.
- Crosswalk of general ledger accounts to cost centers 100 and 200 for capital-related costs.
- Chart of accounts.
- General ledger to the cost report reconciliation.
- Asset list depreciation expense to cost report reconciliation.
- Population of capitalized assets.
- List of employees with access to the information system used to record capitalized assets.
- Most recent physical inventory of capitalized assets.

- List of asset acquisitions within the period.
- List of asset disposals within the period.
- Description of Service Organization Controls System for Tenet Healthcare Corporation
- Ernst and Young Independent Service Auditor's Assurance Report

The IG Audit Division issued an engagement letter on May 2, 2017, to Lake Pointe providing information about the upcoming audit and conducted fieldwork at Lake Pointe in Rowlett, Texas, from May 22, 2017, through May 26, 2017. While on site, the IG Audit Division interviewed responsible personnel, physically located and verified a sample of capitalized assets, and reviewed documents relevant to depreciation calculations for a sample of asset acquisitions and disposals during the cost report period.

### Criteria

The IG Audit Division used the following criteria to evaluate the information provided:

- 42 C.F.R. 413.20(a) (Dec. 2, 1996)
- 42 C.F.R. 413.20(b) (Dec. 2, 1996)
- CMS Provider Reimbursement Manual § 15-1.104.9 (May 2000)
- CMS Provider Reimbursement Manual § 15-1.104.17 (Dec. 2011)
- CMS Provider Reimbursement Manual § 15-1.116(A) (Nov. 1972)
- CMS Provider Reimbursement Manual § 15-1.2931.1 (Sept. 1993)
- 1 Tex. Admin. Code § 355.105(b) (Nov. 25, 2012) and (Aug. 1, 2013)
- 1 Tex. Admin. Code § 355.106 (a) (September 1, 2011)
- 1 Tex. Admin. Code § 371.3(a) (May 1, 2016)
- *Estimated Useful Lives of Depreciable Hospital Assets* (2013)

- Tenet HealthSystem Capitalization and Depreciation Policy
- Tenet HealthSystem Information Technology Policies and Procedures

### **Auditing Standards**

The IG Audit Division analyzed information and documentation collected to determine whether Lake Pointe reported correct and accurate capitalization and depreciation information in the 2014 cost report.

The IG Audit Division conducted this audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the issues and conclusions based on our audit objectives. The IG Audit Division believes the evidence obtained provides a reasonable basis for our issues and conclusions based on our audit objectives.

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## **Appendix B: Sampling Methodology**

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The IG Audit Division examined the 2014 cost report, which covered the period from June 1, 2013, through May 31, 2014. After an initial assessment of cost report risk areas, the IG Audit Division performed testing of the capitalized assets and depreciation cost centers reported on the 2014 cost report.

Auditors selected three haphazard samples:

- Physical verification – 12 of 12,195 current assets
- Asset additions – 12 of 1,509 acquired during the report period
- Asset disposals – 12 of 55 reported as disposed of during the report period

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## Appendix C: Report Team and Distribution

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### Report Team

The IG staff members who contributed to this audit report include:

- Kacy VerColen, CPA, Audit Director
- Lisa Kanette Blomberg, CPA, CIGA, Audit Manager
- Karen Mullen, CGAP, Audit Project Manager
- Sarah Corinne Warfel, IT Staff Auditor
- Albert Alberto, CIGA, Staff Auditor
- Inette Brown, MBA, MHRM, Staff Auditor
- Mo Brantley, Senior Audit Operations Specialist

### Report Distribution

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- Cecile Erwin Young, Chief Deputy Executive Commissioner
- Kara Crawford, Chief of Staff
- Heather Griffith Peterson, Chief Operating Officer
- Karen Ray, Chief Counsel
- Karin Hill, Director of Internal Audit
- Greta Rymal, Deputy Executive Commissioner Financial Services
- Pam McDonald, Director of Rate Analysis
- Selvadas Govind, Director of Rate Analysis for Hospitals

#### Baylor Scott & White Medical Center – Lake Pointe

- Brett Lee, Chief Executive Officer, Baylor Scott & White Medical Center – Lake Pointe
- Jade E. Andrews, Chief Financial Officer, Baylor Scott & White Medical Center – Lake Pointe



- Chris Holcomb, Controller, Baylor Scott & White Medical Center – Lake Pointe
- Keith Bremner, Reimbursement Supervisor, Tenet Healthcare

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## Appendix D: IG Mission and Contact Information

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The mission of the IG is to prevent, detect, and deter fraud, waste, and abuse through the audit, investigation, and inspection of federal and state taxpayer dollars used in the provision and delivery of health and human services in Texas. The senior leadership guiding the fulfillment of IG's mission and statutory responsibility includes:

- Sylvia Hernandez Kauffman, Principal Deputy Inspector General
- Christine Maldonado, Chief of Staff and Deputy IG for Operations
- Olga Rodriguez, Senior Advisor and Director of Policy and Publications
- Roland Luna, Deputy IG for Investigations
- David Griffith, Deputy IG for Audit
- Quinton Arnold, Deputy IG for Inspections
- Alan Scantlen, Deputy IG for Data and Technology
- Judy Hoffman-Knobloch, Interim Deputy IG for Medical Services
- Anita D'Souza, Chief Counsel

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