

TEXAS HEALTH AND HUMAN SERVICES COMMISSION
INSPECTOR GENERAL

**AUDIT OF THE UNIVERSITY OF TEXAS
MEDICAL BRANCH AT GALVESTON
COST REPORT**

Fiscal Year 2014



May 30, 2017



HHSC IG

TEXAS HEALTH AND HUMAN
SERVICES COMMISSION
INSPECTOR GENERAL

WHY THE IG CONDUCTED THIS AUDIT

The Texas Health and Human Services Commission (HHSC) Inspector General (IG) is responsible for enforcing state law relating to the provision of Medicaid and other Health and Human Services (HHS) programs. HHSC has the authority to conduct desk reviews and field audits of provider cost reports in order to ensure that financial and statistical information reported in the cost reports conforms to applicable rules and instructions.

Providers participating in the Medicare program are required by federal and state law to submit information to report costs relating to health care services rendered to Medicare and Medicaid beneficiaries. Cost reports are submitted annually to Centers for Medicare and Medicaid Services (CMS). Cost report information is used as a basis for setting certain payment rates.

This audit report is one of a series of audits on cost reports.

WHAT THE IG RECOMMENDS

There were no reportable issues identified in this audit. Consequently, the IG did not offer any recommendations for improvement.

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AUDIT OF THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON COST REPORT

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WHAT THE IG FOUND

The capitalization and depreciation expense cost centers reported on the University of Texas Medical Branch at Galveston (UTMB) cost report for fiscal year 2014 were accurate, allowable, and adequately supported, and that UTMB was in compliance with applicable standards related to its information technology (IT) system.

The audit objective was to determine whether selected cost centers reported on the Medicare cost report were accurate, allowable, and adequately supported according to CMS and state requirements. The scope of the audit included the cost report period from September 1, 2013, to August 31, 2014, which is UTMB's fiscal year.

The IG Audit Division evaluated whether UTMB was in compliance with requirements in the following areas: physical asset verification, depreciation calculation, and IT general controls over the system used to record depreciation and capitalized asset information. Auditors tested a haphazard sample of one percent of the total population of assets for physical verification, five percent of the assets acquired during the cost report period, and six percent of the assets disposed during the cost report period. UTMB must follow straight line depreciation methods and maintain supporting documentation of depreciation expenses.

Auditors reviewed the two cost centers associated with capitalized assets and movable equipment. Total depreciation expense claimed on the 2014 cost report for these cost centers was \$107.2 million, which represented approximately 6 percent of total UTMB expenses reported.

Test results showed that UTMB's 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; depreciation expense was calculated accurately and according to regulations and policy; and UTMB had controls in place over user access, passwords, and change management in the PeopleSoft Asset Management system UTMB uses to track its assets.

UTMB is a division of the University of Texas System and includes schools of medicine, nursing, and other health professions. It also includes a network of hospitals and clinics that provide both primary and specialized medical care.

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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 at the University of Texas Medical Branch at Galveston (UTMB). This audit report is one of a series of audits on cost reports. This audit report is focused on the capitalization and depreciation cost centers¹ of UTMB's Medicare cost report for fiscal year September 1, 2013, through August 31, 2014. General information technology (IT) controls were tested for compliance with Texas Department of Information Resources security standards for state agencies. Unless otherwise described, any year that is referenced is UTMB's fiscal year.

Objective

The audit objective 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.² Providers of services participating in the Medicare program are required by federal law³ to report costs relating to health care services rendered to Medicare beneficiaries. Included in the cost report are adjustments to report Medicaid costs relating to health care services rendered to Medicaid beneficiaries as required by state law.⁴ Cost reports are required from providers annually. 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 as applicable,⁵ and, if not, require adjustments to the cost report.

UTMB is a division of the University of Texas System and includes schools of medicine, nursing, and other health professions. It also includes a network of hospitals and clinics that provide both primary and specialized medical care.

¹ 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.

² 1 Tex. Admin. Code § 371.3(a) (May 1, 2016).

³ 42 C.F.R. § 413.20(b) (Dec. 2, 1996).

⁴ 1 Tex. Admin. Code § 355.105(b) (July 31, 2008).

⁵ CMS Provider Reimbursement Manual § 15-2.100-140 (Oct. 2007).

Auditors reviewed the two cost centers associated with capitalized assets and movable equipment. Total depreciation expense claimed on UTMB's 2014 cost report for these cost centers was \$107.2 million, which represented approximately 6 percent of total UTMB expenses reported.

AUDIT RESULTS

UTMB is required by federal and state requirements to follow straight line depreciation methods⁶ and maintain supporting documentation⁷ of depreciation expenses. The IG Audit Division reviewed UTMB's compliance with these requirements related to physical asset verification, depreciation calculation, and information technology (IT) general controls over the system used to record depreciation and capitalized asset information. This report details the results in those areas, as well as the results of limited IT testing.

PHYSICAL ASSET VERIFICATION

Auditors tested a haphazard sample⁸ of 12 assets from the listing of capitalized assets included in the cost reporting period 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 UTMB was in compliance with state requirements for Medicaid costs.

DEPRECIATION CALCULATION

Auditors tested a haphazard sample of 15 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 hospital policy, Texas Administrative Code (TAC), CMS regulations, and the book, *Estimated Useful Lives of Depreciable Hospital Assets*.⁹

Auditors also tested a haphazard sample of 16 assets that were disposed of during the hospital's cost report period. Auditors tested supporting documentation to determine whether depreciation expense was calculated accurately and according to hospital policy, TAC, and CMS regulations. The disposed assets were tested for gain or loss at disposal, and whether the gain or loss was recorded appropriately.

⁶ CMS Provider Reimbursement Manual § 15-1.116(A) (Nov. 1972).

⁷ 1 Tex. Admin. Code § 355.105(b) (Aug. 1, 2013).

⁸ "Haphazard sampling" is a non-statistical technique used by auditors to simulate random sampling.

⁹ *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).

The results of the items tested showed that UTMB was in compliance with its policy and federal and state requirements for calculating and recording depreciation expenses.

GENERAL INFORMATION TECHNOLOGY CONTROLS

UTMB uses a system called PeopleSoft Asset Management to record asset capitalization and depreciation. Auditors conducted tests to determine whether UTMB had adequate controls in place to be in compliance with Texas Department of Information Resources security standards for state agencies related to PeopleSoft system user access, password strength, and change management.¹⁰

The results of the audit test work indicated that, for the PeopleSoft Asset Management System, UTMB was in compliance with applicable standards.

¹⁰ Texas Department of Information Resources, Security Control Standards Catalog, v. 1.3 (Feb. 26, 2016).

CONCLUSION

The IG Audit Division completed an audit of the cost report for UTMB. The audit included an evaluation of controls over capitalization and depreciation to determine whether UTMB complied with applicable federal and state requirements. This evaluation included an assessment of user access, password requirements, and change management for the IT system used to record capitalized assets and depreciation expenses. The IG Audit Division conducted a site visit at UTMB the week of April 3, 2017.

Based on the results of the audit test work, the IG Audit Division determined that capitalization and depreciation amounts reported in cost centers on the fiscal year 2014 UTMB cost report were accurate, allowable, and adequately supported according to CMS and state requirements; and UTMB was in compliance with applicable standards related to the IT system security standards.

The IG Audit Division thanks management and staff at UTMB for their cooperation and assistance during this audit.

Appendix A: Objective, Scope, and Methodology

Objective

The objective of this 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 requirements.

Scope

The scope of the UTMB audit included the Medicare cost report period from September 1, 2013, to August 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 stated objectives, the IG Audit Division collected information for this audit through discussions and interviews with UTMB management and staff, and review of 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 cost report reconciliation.
- Audited financial statements for 2014.
- Asset list depreciation expense to the 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.

The IG Audit Division issued an engagement letter on March 14, 2017, to UTMB providing information about the upcoming audit, and conducted fieldwork at UTMB in Galveston, Texas, from April 3, 2017, through April 21, 2017. While on site, the IG Audit Division interviewed responsible personnel, physically located a haphazard sample of capitalized assets, and reviewed documents relevant to depreciation calculations for a sample of asset acquisitions and disposals during the cost report period.

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

- 42 C.F.R. 413.20(b) (Dec. 2, 1996)
- CMS Provider Reimbursement Manual § 15-1.116(A) (Nov. 1972)
- CMS Provider Reimbursement Manual § 15-2.100-140 (Oct. 2007)
- 1 Tex. Admin. Code § 355.105(b) (July 31, 2008)
- *Estimated Useful Lives of Depreciable Hospital Assets* (2013)
- UTMB Capitalization and Depreciation Policy
- UTMB Information Technology Policies and Procedures
- Texas Department of Information Resources, Security Control Standards Catalog, v. 1.3 (Feb. 26, 2016)

The IG Audit Division analyzed information and documentation collected to determine whether UTMB was reporting correct and accurate capitalization and depreciation information in the 2014 cost report. Professional judgment was exercised in planning, executing, and reporting the results of this audit.

Auditing Standard

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.

Appendix B: Sampling Methodology

The IG Audit Division examined the 2014 cost report, which covered the period from September 1, 2013, through August 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 haphazard samples of one percent of the total population of assets for physical verification, five percent of the assets acquired during the cost report period, and six percent of the assets disposed during the hospital's cost report period.

Appendix C: Report Team and Distribution

Report Team

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

- Kacy VerColen, CPA, Audit Director
- Joel Brophy, CIA CRMA CFE, 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

Health and Human Services

- Charles Smith, Executive Commissioner
- Cecile Erwin Young, Deputy Executive Commissioner
- Kara Crawford, Chief of Staff
- Heather Griffith Peterson, Chief Operating Officer
- Karen Ray, Chief Counsel
- Karin Hill, Director of Internal Audit
- Pam McDonald, Director of Rate Analysis
- Selvadas Govind, Director of Rate Analysis for Hospitals
- Charles Greenberg, Director of Policy, Legal Services
- Trish Winkler, Legal Assistant, Legal Services

University of Texas Medical Branch at Galveston

- Robert Dowless, Associate Vice President, Finance, Government Reimbursement
- Nickie Lloyd, Associate Director, Finance, Government Reimbursement

Appendix D: IG Mission and Contact Information

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
- Deborah Weems, Deputy IG for Medical Services
- Anita D'Souza, Chief Counsel

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