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An Audit Report on

Charity Care at Health-Related Institutions

May 2007

Report No. 07-034



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Overall Conclusion

Patients receiving charity care¹ at selected state health-related institutions in fiscal year 2006 were eligible under the institutions' guidelines. However, identifying the amounts of charity care reported by each institution in its annual financial report is difficult because health-related institutions do not follow a consistent model for reporting the dollar amount of charity care they provide through their hospitals and practice plans. In identifying various charity care charges and costs, this audit focused on information reported in the annual financial reports because that information is publicly accessible and readily available.

Information reported in the annual financial reports is inconsistent because:

- The institutions' annual financial reports do not clearly and consistently present the total amount of charity care. Hospitals and practice plans follow different reporting guidelines for charity care. The effect of these differences is that the amount of charity care reported by practice plans cannot be compared to the amount of charity care reported by hospitals.
- One institution reviewed included charges in its practice plan for charity care that do not comply with State Auditor's Office reporting guidelines. The other two institutions reviewed in this audit generally followed the definitions provided in the General Appropriations Act when accounting for the amount of charity care they provide.

Reporting inconsistencies among these institutions diminish the value of charity care information and make it difficult to determine the financial impact of charity care on the

Charity Care at Health-Related Institutions

The State's nine health-related institutions reported they provided a combined \$1.3 billion in charity care on their fiscal year 2006 annual financial reports.

The institutions included in this audit report are:

- The University of Texas Southwestern Medical Center at Dallas.
- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Medical Branch at Galveston.

These institutions reported that they provided a combined \$803.7 million in charity care, which represents 61 percent of the total charity care reported by the State's health-related institutions in fiscal year 2006. (See Appendix 2 for more information.)

Faculty Group Practice Plans

The practice plans of the University of Texas System health-related institutions are trust funds created by the Board of Regents. Beneficiaries of the trust funds are the members of the plans, whose professional fees make up the corpus of the trusts, and the institutions themselves, which receive development funds from the plans.

Source: University of Texas System Business Procedures Memorandum 31-06-03.

¹ **Charity care** is a general term used in this report to encompass both unsponsored charity care and indigent care (see page 2 of the Detailed Results section of this report for more information).

institutions.

All three health-related institutions reviewed in this audit report charity care charges instead of the actual costs in the annual financial reports for their hospitals and practice plans, in compliance with current General Appropriations Act and State Auditor's Office guidelines. Charges are the amounts that the health-related institutions charge for the services they provide.

The following are a portion of the charges reported by the three institutions:

- The University of Texas Southwestern Medical Center at Dallas's (Southwestern Medical Center) practice plan reported \$371.3 million in charges for charity care in its fiscal year 2006 financial report.
- The University of Texas M.D. Anderson Cancer Center's (M.D. Anderson) hospital reported \$106.1 million in charges for charity care in its fiscal year 2006 financial report.
- The University of Texas Medical Branch at Galveston's (Medical Branch) hospital reported total charges of \$164.3 million in charity care in fiscal year 2006.

While current reporting guidelines require institutions to report gross charges, reporting only charges does not provide a clear picture of the impact that charity care places on state medical schools and hospitals. Therefore, auditors asked the institutions to estimate the costs of providing charity care. The following is a portion of the cost estimates provided:

- The Southwestern Medical Center's practice plan estimated that the unreimbursed cost of providing charity health care during fiscal year 2006 was \$51.8 million.
- M.D. Anderson's hospital estimated that the unreimbursed cost of providing charity health care during fiscal year 2006 was \$89.4 million.²
- The Medical Branch's hospital estimated that the unreimbursed cost of providing charity health care during fiscal year 2006 was \$55.6 million.

The University of Texas System (UT System) stated that it made attempts to determine how to calculate the actual costs for providing charity care. However, the UT System asserted that these attempts to estimate costs have not yet produced reliable or verifiable data.

The Medical Branch does not ensure that it is accurately billing counties for charity care. The Medical Branch routinely provides health care to county indigent patients under the County Indigent Health Care Program. Auditors found that the Medical Branch's billing process does not always ensure accurate and timely billing

² M.D. Anderson and the Medical Branch included Medicaid net charge amounts in their cost estimates. The reported *charge* amounts for the hospitals in the institutions' annual financial reports, however, do not include net charges for Medicaid.

to the counties; verify receipt of prompt, full payments; or adequately handle disputes with counties. The Medical Branch billed a total of \$8.7 million to 36 counties and hospital districts in fiscal year 2006. At the time of this audit, the Medical Branch had received about \$6.2 million of this amount from the counties.

Two health-related institutions appropriately determine patient eligibility for charity care. Auditors tested charity care eligibility determinations at the Medical Branch and M.D. Anderson and found that patients receiving charity care were eligible under the institutions' guidelines. However, neither institution had a process to review cases in which patients were denied charity care.

Summary of Management's Response

The UT System and the three institutions audited agree with some of the findings and recommendations in this report, but expressed concerns about the inclusion of cost data in this report and the definition of certain terms in this report. (See Appendices 4 through 7 for complete management responses from the UT System and the three institutions.) However, the State Auditor's Office believes it is important to present information on the costs of providing charity care. Also, because a number of terms are used interchangeably among the institutions to refer to charity care, auditors developed definitions of the terms to allow for consistency throughout this report.

Summary of Information Technology Review

Auditors obtained data from computer systems for the hospitals and practice plans at the Medical Branch and M.D. Anderson and reviewed the reliability of this data.

The Medical Branch data obtained from the hospital and practice plan accounting systems was accurate when compared against financial statements. This data was reliable for auditing both the eligibility for indigent care and the proper classification of patient care revenues and sales adjustments. This same data, plus data from the billing system, also was reliable for auditing the invoices sent to counties for indigent care.

M.D. Anderson data obtained from the hospital and practice plan accounting systems was accurate when compared against financial statements. The data was reliable for auditing the proper classification of patient care revenues and sales adjustments, as well as for auditing the patients' eligibility for indigent care.

The Southwestern Medical Center did not provide data to determine the proper classification of patient care revenues and sales adjustments. Auditors made multiple attempts over a four-month period to obtain this data. The Southwestern Medical Center indicated that its inability to produce the data was due to technical issues with its computer systems.

Auditors did not review general information technology controls, including network access, computer room security, disaster recovery procedures, and user access to computer programs. These controls were not directly related to the data used in this audit.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to:

- Determine whether the health-related institutions have an adequate process for determining indigent care eligibility.
- Determine whether the health-related institutions are adhering to contract terms with the contracted counties for indigent care and are adequately processing indigent billings to respective counties.
- Determine whether the health-related institutions are appropriately classifying patient care revenues and sales adjustments for indigent care/unsponsored charity care.

The scope of this audit covered fiscal year 2006 charity care charges, billings, and eligibility determinations at the Medical Branch, the Southwestern Medical Center, and M.D. Anderson.

The audit methodology included conducting interviews with staff at health-related institutions, the UT System, and the Department of State Health Services. Auditors reviewed policies, procedures, statutes, and rules relating to charity care eligibility, charity care reporting, and billing for services provided through the County Indigent Health Care Program. Auditors also obtained automated financial and patient data at two health-related institutions to test for appropriate classification of charity care charges and costs, verify the accuracy of billings to counties, and determine the appropriateness of charity care eligibility determinations.

Contents

Detailed Results

Chapter 1	
Reporting Inconsistencies Diminish the Value of Financial Information about Charity Care at Health-Related Institutions	1
Chapter 2	
The Medical Branch Cannot Ensure the Accuracy of Its Billings and Receipts for the County Indigent Health Care Program.....	11
Chapter 3	
Health-Related Institutions Make Appropriate Eligibility Determinations for Patients Seeking Charity Care	13

Appendices

Appendix 1	
Objectives, Scope, and Methodology.....	15
Appendix 2	
Fiscal Year 2006 Charity Care at Health-Related Institutions.....	19
Appendix 3	
University of Texas System Institutions' Reported Revenue Adjustments, Including Charity Care and Other Allowances.....	20
Appendix 4	
Responses from the University of Texas System.....	22
Appendix 5	
Responses from the University of Texas Medical Branch at Galveston	24
Appendix 6	
Responses from the University of Texas Southwestern Medical Center at Dallas	27
Appendix 7	
Responses from the University of Texas M.D. Anderson Cancer Center.....	28
Appendix 8	
Recent State Auditor's Office Work	34

Detailed Results

Chapter 1

Reporting Inconsistencies Diminish the Value of Financial Information about Charity Care at Health-Related Institutions

Health-related institutions do not follow a consistent model when they report the dollar amount of charity care they provide through their hospitals and practice plans. Reporting inconsistencies among institutions significantly diminish the value of charity care information regarding the financial impact of charity care on the institutions. For example:

Faculty Group Practice Plans

The practice plans of the University of Texas System health-related institutions are trust funds created by the Board of Regents. Beneficiaries of the trust funds are the members of the plans, whose professional fees make up the corpus of the trusts, and the institutions themselves, which receive development funds from the plans.

Source: University of Texas System Business Procedures Memorandum 31-06-03.

- The University of Texas Southwestern Medical Center at Dallas (Southwestern Medical Center) reports faculty group practice plan charity care charges for which it received reimbursement through its contracts with local hospitals. This does not comply with State Auditor’s Office reporting guidelines (see Chapter 1A on page 3). The other two institutions reviewed in this audit—the University of Texas M.D. Anderson Cancer Center (M.D. Anderson) and the University of Texas Medical Branch at Galveston (Medical Branch)—generally followed the definitions provided in the General Appropriations Act when accounting for the amount of charity care they provide.

- The three institutions’ annual financial reports do not clearly and consistently present the total amount of unsponsored charity care they provide. The institutions use an annual financial report schedule for hospital charity care that does not follow the same format as the schedule the institutions use for practice plan reporting. Because of this, the amount of unsponsored charity care reported by practice plans cannot be compared to the amount of indigent care reported by hospitals.

- Institutions’ hospitals use inconsistent terminology to identify charity care, which further complicates reporting inconsistencies. The institutions use a variety of terms for hospital charity care in their annual financial reports (see Appendix 3).³ For the purposes of this report, the State Auditor’s Office uses the following definitions for charity care:

³ Five of the six University of Texas System health-related institutions have hospitals. Each uses a different term for charity care revenue adjustments: “charity care,” “charity services,” “indigent care adjustments,” “indigent care,” and “unsponsored charity care.” None of the amounts reported in these categories includes net charges for Medicaid, in accordance with the definition for “unsponsored charity care” in the General Appropriations Act.

- ♦ **Un-sponsored charity care** is the total amount of charity care according to the General Appropriations Act. This amount includes total charges for services to indigent patients, and net charges for services to patients enrolled in Medicaid and other government programs.
- ♦ **Indigent care** is the amount of charges for services that are (1) not covered by private insurance or a government program and (2) provided to patients meeting the institutions' eligibility requirements for indigent care.
- ♦ **Charity care** is a general term used in this report to encompass both un-sponsored charity care and indigent care.

Charity care is reported in two schedules in the health-related institutions' annual financial reports: the C-1A schedule and the D-6 schedule (see text box). The C-1A schedule used by hospitals provides greater detail about revenue adjustments, and it distinguishes between total charges for indigent care and contractual adjustments for Medicaid and other government programs. However, the C-1A schedule does not clearly identify the amount of Medicaid net charges that should be considered part of uncompensated charity care.

The D-6 schedule used by practice plans requires the institutions to report a combined amount for both indigent care charges and contractual adjustments for government programs.⁴ Consequently, the combined un-sponsored charity care amount reported by the practice plans is not comparable to the indigent

care amount reported by the hospitals. See Appendix 3 for a comparison of reporting terminology and reported amounts for charity care across the hospitals and practice plans for the six University of Texas System (UT System) health-related institutions.

Institutions report charges instead of costs. All three health-related institutions reviewed in this audit report charity care charges instead of the actual costs in the annual financial reports for their hospitals and practice plans, in compliance with current reporting guidelines. Charges are the amounts that the health-related institutions charge for the services they provide. While current reporting guidelines require institutions to report gross charges, reporting only charges does not provide a clear picture

Charity Care Reporting

Health-related institutions report charity care as an adjustment to revenue on two schedules in their annual financial reports: the C-1A schedule for hospitals and the D-6 schedule for practice plans.

The University of Texas System's and the State Auditor's Office's reporting guidelines follow charity care definitions included in Article III provisions of the General Appropriations Act. These guidelines require institutions to report unreimbursed charges to indigent patients.

Source: The University of Texas System Business Procedures Manual No. 30-12-01 Exhibit A; Rider 22, pages 248-249, the General Appropriations Act (79th Legislature).

⁴ Section 20 of the Special Provisions Relating Only To State Agencies of Higher Education, Article III, the General Appropriations Act (79th Legislature), grants the State Auditor's Office the authority to develop reporting standards for practice plans.

of the impact that charity care places on state medical schools and hospitals.⁵ Therefore, auditors asked the institutions to estimate the costs of providing charity care. Chapters 1-A, 1-B, and 1-C of this report discuss the costs estimated by the institutions for both indigent care and unsponsored charity care.

UT System administrators object to including the cost data in this audit report. The UT System stated that it made attempts to determine how to calculate the actual costs for providing unsponsored charity care. The UT System asserted that these attempts to estimate costs have not yet produced reliable or verifiable data. However, the estimates made by the institutions are included in this report to provide additional information and clarification.

Chapter 1-A

Southwestern Medical Center Charity Care

The Southwestern Medical Center reported that it provided a total of \$382.6 million in charity care charges in fiscal year 2006: \$371.3 million was provided through its practice plan and \$11.3 million was provided through its hospitals (see Table 1).

Table 1

Southwestern Medical Center Fiscal Year 2006 Reported Charity Care Charges			
Type of Cost	Hospital Indigent Care	Practice Plan Charity Care ^a	Institution Total
Amount Reported in Fiscal Year 2006 Annual Financial Report	\$11,324,924 ^b	\$ 371,325,155	\$ 382,650,079
^a Practice plans report indigent care and Medicaid net charges together as "unsponsored charity care." ^b This amount does not include net charges for Medicaid. Hospitals report the revenue adjustment for Medicaid separately and do not identify it as charity care (see Appendix 3).			

As indicated in Table 2, the total estimated cost associated with these reported amounts was \$190.8 million, most of which resulted from services provided to patients enrolled in Medicaid and other government programs (\$124.8 million).

⁵ Private health care industry standards require health care institutions to report charity care as the cost of services provided to patients when the institution has no expectation of payment. Source: Healthcare Financial Management Association (HFMA) – Principles and Practices Board Statement 15: *Valuation and Financial Statement Presentation of Charity Care and Bad Debts by Institutional Healthcare Providers*.

Table 2

Southwestern Medical Center Fiscal Year 2006 Self-Reported Estimated Charity Care Costs			
Type of Cost	Hospital Indigent Care	Practice Plan Charity Care	Institution Total
Medicaid/Other Cost	\$ 14,518,940 ^a	\$ 110,358,934	\$ 124,877,874
Indigent Cost	<u>4,007,466</u>	<u>61,903,332</u>	<u>65,910,798</u>
Totals	\$ 18,526,406	\$172,262,266	\$190,788,672
^a Hospitals do not identify net charges for Medicaid as charity care in their annual financial reports. Estimated costs associated with services to clients enrolled in Medicaid programs are included in this table because they are part of the State's definition of un-sponsored charity care.			

The Southwestern Medical Center estimated that indigent care cost the institution about \$65.9 million in fiscal year 2006. However, the Southwestern Medical Center received compensation for most of this care, mainly through contracts its practice plan has with Parkland Hospital and other local hospitals.⁶ In other words, the Southwestern Medical Center reported as charity care the charges for services that local hospitals paid it to deliver. This contradicts the reporting guidelines discussed above, which require institutions to limit reported charity care to unreimbursed charges.

UT System Description of Charity Care

The System's health-related institutions provide charity care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue

Source: University of Texas System Annual Financial Report.

The compensation the Southwestern Medical Center received from Parkland Hospital and others is recognized as revenue in the Southwestern Medical Center's 2006 annual financial report. The Southwestern Medical Center reports the charges associated with this revenue as charity care. The UT System defines charity care in the notes to its annual financial report as services for which no revenue is expected to be collected (see text box). This practice of reporting revenues for charges reported as charity care appears to contradict the UT System's explanation of charity care.

The Southwestern Medical Center estimated that it provided only about \$5.7 million of indigent care for which it received no compensation. Most of this care (\$4 million, or 71 percent) was provided through the institution's hospitals⁷ (see Table 3).

⁶ Parkland Hospital admits the patients, determines their eligibility for charity care, and pays the Southwestern Medical Center faculty and interns to provide services.

⁷ The Southwestern Medical Center acquired Zale-Lipshy Hospital and St. Paul's Hospital in fiscal year 2005.

Table 3

Southwestern Medical Center Fiscal Year 2006 Self-Reported Unreimbursed Charity Care Costs			
Type of Cost	Hospital Indigent Care	Practice Plan Charity Care	Institution Total
Unreimbursed Medicaid/Other Cost	\$ 8,825,234 ^a	\$ 50,147,602	\$ 58,972,836
Unreimbursed Indigent Cost	4,007,466	1,651,062	5,658,528
Totals	\$ 12,832,700	\$ 51,798,664	\$ 64,631,364
^a Hospitals do not identify net charges for Medicaid as charity care in their annual financial reports. Estimated unreimbursed costs associated with Medicaid net charges are included in this table because they are part of the State's definition of unsponsored charity care.			

The Southwestern Medical Center did not provide practice plan data during this audit. Auditors requested data to support the \$371.3 million of unsponsored charity care the Southwestern Medical Center's practice plan reported in its fiscal year 2006 annual financial report. Auditors first requested the data in November 2006. As of the first week of March 2007, the Southwestern Medical Center had not succeeded in extracting data from its automated systems that supported the reported figure. The Southwestern Medical Center indicated that its inability to produce the data was due to technical issues with its computer systems. Consequently, auditors were not able to test a sample of reported charges to verify that the institution correctly classified them.

Chapter 1-B

Medical Branch Charity Care

The Medical Branch reported a total of \$272.0 million in charity care charges in fiscal year 2006: \$164.3 million provided through its hospital, and \$107.7 million provided through its practice plan (see Table 4).

Table 4

Medical Branch Fiscal Year 2006 Reported Charity Care Charges			
Type of Cost	Hospital Indigent Care	Practice Plan Charity Care ^a	Institution Total
Amount Reported in Fiscal Year 2006 Annual Financial Report	\$ 164,293,232 ^b	\$ 107,717,480	\$ 272,010,712
^a Practice plans report indigent care and Medicaid net charges together as "unsponsored charity care."			
^b This amount does not include net charges for Medicaid. Hospitals report the revenue adjustment for Medicaid separately and do not identify it as charity care (see Appendix 3).			

As indicated in Table 5, the total estimated cost associated with these reported amounts was \$312.3 million. The estimated cost exceeds the total reported (charge) amount because it includes \$157.8 million of costs associated with net charges for services provided to patients enrolled in Medicaid. Hospital net charges for Medicaid are not reported as charity care in the Medical Branch's annual financial report (see Appendix 3).

Table 5

Medical Branch			
Fiscal Year 2006 Self-Reported Estimated Charity Care Costs			
Type of Cost	Hospital Indigent Care	Practice Plan Charity Care	Institution Total
Medicaid/Other Cost	\$157,800,000 ^a	\$ 26,800,000	\$ 184,600,000
Indigent Cost	<u>106,500,000</u>	<u>21,200,000</u>	<u>127,700,000</u>
Totals	\$ 264,300,000	\$48,000,000	\$ 312,300,000
^a Hospitals do not identify net charges for Medicaid as charity care in their annual financial reports. Estimated costs associated with services to clients enrolled in Medicaid programs are included in this table because they are part of the State's definition of unsponsored charity care.			

Because of its traditional role as a safety net hospital, the Medical Branch receives most of the revenue it uses to cover the cost of caring for indigent patients through state-appropriated General Revenue. The remaining unreimbursed indigent care (\$4.4 million) is the amount not funded by General Revenue or other sources (see Table 6). The Medical Branch has undertaken several initiatives to manage the amount of charity care it provides to indigent patients. (See Chapter 3-B for a discussion of the Medical Branch's Demand Access Management Program.)

Table 6

Medical Branch Fiscal Year 2006 Self-Reported Unreimbursed Charity Care Costs			
Type of Cost	Hospital Indigent Care	Practice Plan Charity Care	Institution Total
<u>Unreimbursed Costs</u>			
Unreimbursed Medicaid Cost	\$ 46,700,000 ^a	\$ 6,400,000	\$ 53,100,000
Unreimbursed Indigent Cost	<u>8,900,000</u>	<u>(4,500,000)</u> ^b	<u>4,400,000</u>
Totals	\$ 55,600,000	\$ 1,900,000	\$ 57,500,000
<p>^a Hospitals do not identify net charges for Medicaid as charity care in their annual financial reports. Estimated unreimbursed costs associated with Medicaid net charges are included in this table because they are part of the State's definition of unsponsored charity care.</p> <p>^b The Medical Branch transfers funds from its hospital to the School of Medicine/Practice Plan to pay for Medicaid and indigent care provided by faculty and interns. In fiscal year 2006, the Medical Branch transferred more funds than were required to cover the costs of indigent care. The institution believes the unreimbursed costs of Medicaid and indigent care should be considered together.</p>			

The Medical Branch's reported charity care is supported by patient service information in its automated systems. Auditors tested a sample of transactions from the population of charges the Medical Branch compiles to report charity care. The indigent care charges that the Medical Branch reported for its hospital in its fiscal year 2006 annual financial report were supported. Auditors identified minor errors in the amount of unsponsored charity care reported by the practice plan, but the errors constitute less than 1 percent of the reported amount.

Funding for services to victims of Hurricane Rita remains uncertain. The Medical Branch's reported charity care includes about \$39 million in gross charges for services it provided to patients affected by Hurricane Rita. The Medical Branch initially classified these charges as Medicaid, given its understanding of the criteria for a special Medicaid waiver at the time. It later reclassified these patients as indigent when it could not prove that the patients met additional criteria for Medicaid.⁸ Currently, the entire amount is classified as charity care, and it is included in the charity care total the Medical Branch reported for fiscal year 2006. If Medicaid or other funding sources are identified, the actual charity care charges for fiscal year 2006 will decrease.

⁸ The Medical Branch would have to prove that it provided services to uninsured patients from designated disaster areas while the patients were displaced by Hurricane Rita.

M.D. Anderson Charity Care

M.D. Anderson reported a total of \$149.0 million in charity care charges in fiscal year 2006: \$106.1 million provided through its hospital and \$42.9 million provided through its practice plan (see Table 7).

Table 7

M.D. Anderson Fiscal Year 2006 Reported Charity Care Charges			
Type of Cost	Hospital Indigent Care	Practice Plan Charity Care ^a	Institution Total
Amount Reported in Fiscal Year 2006 Annual Financial Report	\$106,135,474 ^b	\$ 42,871,461	\$ 149,006,935
^a Practice plans report indigent care and Medicaid net charges together as "unsponsored charity care." ^b This amount does not include net charges for Medicaid. Hospitals report the revenue adjustment for Medicaid separately and do not identify it as charity care (see Appendix 3).			

As indicated in Table 8 on the next page, M.D. Anderson estimates its total costs for providing charity care in fiscal year 2006 was \$211.8 million. This exceeds the amounts reported as charges (see Table 7) because it includes \$141.5 million in costs associated with the net charges for services provided to patients enrolled in Medicaid. These net charges are not identified as charity care in M.D. Anderson's annual financial report (see Appendix 3).

The estimated cost for care to indigent patients was \$62.6 million for the hospital and practice plan combined (see Table 8).

Table 8

M.D. Anderson Fiscal Year 2006 Self-Reported Estimated Charity Care Costs			
Type of Cost	Hospital Indigent Care	Practice Plan Charity Care	Institution Total
Medicaid/Other Cost	\$ 141,460,462 ^a	\$ 7,728,611	\$ 149,189,073
Indigent Cost	<u>51,585,079</u>	<u>11,058,201</u>	<u>62,643,280</u>
Totals	\$ 193,045,541	\$18,786,812	\$ 211,832,353
^a Hospitals do not identify net charges for Medicaid as charity care in the annual financial reports. Estimated costs associated with services to clients enrolled in Medicaid programs are included in this table because they are part of the State's definition of unsponsored charity care.			

As Table 9 indicates, M.D. Anderson estimated that it was compensated for a little more than half of its estimated charity care costs, leaving the institution's

total estimated unreimbursed costs for charity care at \$102.5 million. However, M.D. Anderson estimated that it was reimbursed for only a small portion of the costs of caring for indigent patients, and it did not receive reimbursement for \$56.7 million of the costs of providing care to these patients.

Table 9

M.D. Anderson			
Fiscal Year 2006 Self-Reported Unreimbursed Charity Care Costs			
Type of Cost	Hospital Indigent Care	Practice Plan Charity Care	Institution Total
Unreimbursed Medicaid/Other Cost	\$ 41,407,823 ^a	\$ 4,421,136	\$ 45,828,959
Unreimbursed Indigent Cost	48,014,986	\$ 8,688,572	56,703,558
Totals	\$ 89,422,809	\$13,109,708	\$ 102,532,517

^a Hospitals do not identify net charges for Medicaid as charity care in the annual financial reports. Estimated unreimbursed costs associated with Medicaid net charges are included in this table because they are part of the State's definition of unsponsored charity care.

M.D. Anderson's reported charity care is materially supported by patient service information in its automated systems. Auditors identified minor errors in M.D. Anderson's classification of the patient financial category that resulted in the inclusion of about \$380,000 of charges in the institution's revenue adjustment for Medicaid. M.D. Anderson asserts that reclassifying these transactions will not affect the amount of indigent care it reported in its annual financial report.

Recommendations

The UT System should facilitate the development of a consistent model for charity care reporting for all UT System health-related institutions' annual financial reports. The UT System may wish to coordinate the development of this model with other non-UT System health-related institutions. This model should:

- Establish a consistent format, terminology, and definitions across all hospitals and practice plans.
- Require hospitals and practice plans to reflect the cost and unreimbursed cost of providing charity care in their reporting.

The Southwestern Medical Center should discontinue the practice of reporting charges for services it performs under contract, and for which it receives reimbursement, as charity care.

It should be noted that the State Auditor's Office will initiate changes to the reporting guidelines for practice plans (Schedule D-6), under the authority granted to it by Article III, Section 20, page III-248, the General Appropriations Act (79th Legislature). The UT System should ensure that the hospital reporting (Schedule C-1A) is presented using formats and definitions that are consistent with the practice plan reporting.

The Medical Branch Cannot Ensure the Accuracy of Its Billings and Receipts for the County Indigent Health Care Program

The Medical Branch does not have adequate processes in place for billing and receiving payments from the County Indigent Health Care Program.

Specifically, the Medical Branch should improve its processes by:

- Ensuring its county billing is timely and accurate.
- Verifying it receives prompt, full payments from counties.
- Tracking information necessary to ensure timeliness of billing and receipts and to facilitate dispute resolution.

The Medical Branch is the only institution reviewed in this audit that contracts with and routinely bills counties for care provided under the County Indigent Health Care Program. The other two institutions do not contract with counties for purposes of the program, and they do not routinely bill counties for services covered under the program.⁹

County Indigent Health Care Program

This program provides access to health care services for Texas residents at or below 21 percent of the federal poverty level, as established in Chapter 61, Texas Health and Safety Code, Subtitle C.

During fiscal year 2006:

- 142 counties and 139 hospital districts participated in the program.
- Statewide county expenditures were \$59,969,549.
- The Medical Branch billed 36 counties and hospital districts for a total of \$8.7 million for services to more than 2,200 patients.

Sources: Department of State Health Services and the Medical Branch.

The Medical Branch does not have an adequate process for billing counties for County Indigent Health Care Program services.

The Medical Branch does not ensure the accuracy of its County Indigent Health Care Program bills. The Medical Branch underbilled 6 of 34 counties and hospital districts that auditors reviewed by a net \$541,142. This amount is 6.2 percent of the total amount the institution billed the counties in fiscal year 2006. Additionally, the Medical Branch cannot verify the accuracy of \$3.3 million it billed three counties through a separate process administered by a third party. The Medical Branch also mistakenly credited \$41,390 to one county in fiscal year 2006.¹⁰ The Medical Branch identified and corrected this mistake.

The Medical Branch's billing errors result from a flawed process that includes manual entry of information without any reconciliation to the original patient service data.

The Medical Branch does not ensure it receives prompt, full payments for County Indigent Health Care Program services. At the time of the audit, the Medical Branch reported it had received about \$6.2 million for County Indigent Health Care Program services it provided during fiscal year 2006. This is about 71 percent of the amount it billed to the counties. However, the Medical Branch

⁹ While the other two institutions did not contract with counties, they reported they billed 11 counties for indigent patients during fiscal year 2006. The Southwestern Medical Center reported it billed eight counties for a total of \$553,855; M.D. Anderson reported it billed three counties for a total of \$130,047.

¹⁰ The Medical Branch credits counties when Medicaid reimburses it for services previously paid for by the counties.

does not reconcile payments it receives with the amount it bills, so it cannot verify whether county payments are accurate, complete, and timely. Additionally, because the bills do not include detailed patient account information, the Medical Branch cannot tie unpaid balances to specific patients and services.

The Medical Branch does not track other essential information necessary to resolve disputes with counties over County Indigent Health Care Program bills. Because the Medical Branch does not track billing date information or consistently track patient eligibility information, it is unable to effectively resolve billing disputes with counties. For example, the Medical Branch is required to bill the counties no later than 95 days after it provides services to patients in the County Indigent Health Care Program. However, the Medical Branch does not track the information necessary to ensure it is complying with this contract term. Additionally, the Medical Branch does not maintain sufficient information to show it verified patients' eligibility for the program prior to billing counties for services, as the contract requires. Finally, as discussed above, the Medical Branch does not track patient-level detail supporting its bills to the counties. All of this information is necessary to resolve disputes about billing.

Recommendations

The Medical Branch should:

- Establish a consistent county billing process that reconciles invoices to payments received at the patient level.
- Reconcile billed amounts to original patient service data.
- Reconcile payments to amounts billed at the patient level.
- Maintain sufficient information necessary to resolve disputes with counties and to ensure compliance with contract terms.

Health-Related Institutions Make Appropriate Eligibility Determinations for Patients Seeking Charity Care

The Medical Branch and M.D. Anderson made appropriate eligibility determinations for patients who received charity care in fiscal year 2006. However, both institutions could improve their quality review processes for eligibility determinations by:

- Verifying patient income calculations.
- Reviewing a sample of cases in which staff determined patients were not eligible for charity care.

The audit team did not test eligibility determinations at the Southwestern Medical Center. Most of the charity care reported by that institution is delivered through its faculty practice plan doctors who work in local hospitals. The local hospitals determine patients' charity care eligibility.

Chapter 3-A

The Medical Branch and M.D. Anderson Appropriately Determine Patient Eligibility for Charity Care

Minor miscalculations of income did not affect the appropriateness of eligibility determinations, with one exception. Auditors tested a sample of patients who received charity care in fiscal year 2006 at the Medical Branch and M.D. Anderson. Income documentation submitted by the patients did not always support the amount used to determine eligibility for charity care provided by the institutions. At the Medical Branch, auditors tested a sample of eligibility determinations and identified six minor errors in income calculation that did not affect the result of the eligibility determinations. Auditors also identified six minor errors in income calculation during testing at M.D. Anderson. One of these errors caused M.D. Anderson to provide a patient with 100 percent charity care when the patient was eligible for only 50 percent.¹¹

The institutions do not track and review denials of charity care eligibility. The Medical Branch and M.D. Anderson do not ensure that patients have been denied charity care eligibility appropriately. The automated system that the Medical Branch uses to track eligibility determinations does not capture sufficient information on eligibility denials to facilitate effective monitoring. M.D. Anderson's automated system tracks some denial information; however, denial information is overwritten with any new documentation subsequently provided by the patient.

The Medical Branch and M.D. Anderson could improve processes for reviewing eligibility determinations. The Medical Branch and M.D. Anderson have processes for

¹¹ This error cost the institution less than \$500.

reviewing charity care eligibility determinations. However, the processes do not include procedures to verify the accuracy of information used to make eligibility decisions, only that the information is recorded. The processes also do not ensure charity care applications are reviewed in a timely manner. The Medical Branch cannot ensure “medically indigent” applications are reviewed within 14 days in accordance with its own policy. At M.D. Anderson, there is no procedure in place that ensures eligibility applications are reviewed by staff within two business days in accordance with its own policy.

Chapter 3-B

The Medical Branch Budgets the Amount of Charity Care It Provides to Eligible Patients

The Medical Branch manages patient access to charity care through its Demand Access Management Program. The Medical Branch created this program to budget services provided to indigent patients, given its hospital’s limited resources. The program budgets funds for charity care to the medical departments and allows those departments to make decisions about whether to provide charity care based on available resources. In fiscal year 2006, the Medical Branch allocated \$119 million across all medical departments for charity care. As reported by the institution, appropriated General Revenue accounted for \$91.4 million (77 percent) of this charity care funding.

The Medical Branch reported that it accepted approximately 45 percent of the indigent patients referred to the institution for treatment. Other factors, including medical education goals and patient continuity of care influence the decision to provide charity care. When the Medical Branch denies access to its services, it refers the patients to other area service providers or non-profit organizations.

Recommendations

The Medical Branch and M.D. Anderson should strengthen their quality assurance policies and procedures to include:

- Verification of income calculations used to determine charity care eligibility.
- Tracking and reviewing of a sample of cases in which the patient was denied eligibility for charity care.
- Timely review of charity care applications.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the health-related institutions have an adequate process for determining indigent care eligibility.
- Determine whether the health-related institutions are adhering to contract terms with the contracted counties for indigent care and are adequately processing indigent billings to respective counties.
- Determine whether institutions are appropriately classifying patient care revenues and sales adjustments for indigent care/unsponsored charity care.

Scope

The scope of this audit covered fiscal year 2006 charges, billings, and eligibility determinations at the University of Texas Medical Branch at Galveston (Medical Branch), the University of Texas Southwestern Medical Center at Dallas (Southwestern Medical Center), and the University of Texas M.D. Anderson Cancer Center (M.D. Anderson).

Methodology

The audit methodology included interviewing staff at the Medical Branch, the Southwestern Medical Center, M.D. Anderson, the University of Texas System (UT System), the Department of State Health Services, and contractors for billing and automation services. The audit team reviewed data supporting eligibility determinations, contracts with and billings to counties, and support for annual financial reports.

Information collected and reviewed included the following:

- Institution and UT System policies and procedures for charity care eligibility and financial accounting and reporting.
- Accounting industry standards and guides related to financial reporting of charity care.
- Patient medical records and charity care financial and medical assistance applications.

- Data from hospital and physician billing, costing, and record retention and reporting systems.
- Physician salary information and time allocation studies.
- Medical Branch boilerplate contract for the County Indigent Health Care Program.
- Information on the institutions' eligibility, county billing and contracting, and financial reporting functions.
- Information regarding the Demand Access Management Program at the Medical Branch.
- Fiscal year 2006 annual financial reports for Texas's nine health-related institutions and the University of Texas System's consolidated annual financial report.

Procedures and tests conducted included the following:

- Analyzed the institutions' financial records and compared them to the reported amounts listed in the annual financial reports.
- Analyzed the institutions' cost data and methodology and reviewed them for reasonableness.
- Tested the institutions' financial reporting for compliance with UT System and General Appropriations Act definitions for charity care.
- Tested charity care eligibility determinations to ensure decisions were adequately supported and reviewed by staff in accordance with institution policy.
- Tested billing and contract processes for compliance with contract terms.
- Tested patient medical records to ensure county patients received services that were billed to counties.
- Reviewed data provided by the institutions for reliability, accuracy, and completeness.

Criteria used included the following:

- Chapter 61, Texas Health and Safety Code (Indigent Health Care and Treatment Act).
- General Appropriations Act (79th Legislature).

- Title 25, Texas Administrative Code, Chapter 14 (County Indigent Health Care Program).
- *County Indigent Health Care Program Handbook*, Department of State Health Services.
- Indigent health care boilerplate contract between the Medical Branch and various Texas counties.
- The Medical Branch’s institutional handbook of operating procedures.
- M.D. Anderson’s institutional policies.
- Policies and procedures for indigent care (eligibility and accounting) at selected health-related institutions.
- Policies and procedures in The University of Texas System—Business Procedures Manual:
 - ♦ No. 30-12-01, General Policies for Accounts Receivable Management of Faculty Practice Plans.
 - ♦ No. 31-06-03, Policies and Procedures Regarding MSRDP/DSRDP/PRS/AHRDP Business Operations.
 - ♦ No. 36-10-86, General Policies Regarding Accounts Receivable Management at The University of Texas System Hospitals.
- “Valuation and Financial Statement Presentation of Charity Care and Bad Debts by Institutional Healthcare Providers,” Healthcare Financial Management Association, Policy and Procedure Board Statement 15.
- “Bad Debts, Charity, and Courtesy Allowances,” Provider Reimbursement Manual, Chapter 3, U.S. Centers for Medicare and Medicaid Services.
- “Audit and Accounting Guide, Health Care Organizations,” Chapter 10, the American Institute of Certified Public Accountants (AICPA).

Project Information

Audit fieldwork was conducted from December 2006 through February 2007. This audit was conducted in accordance with generally accepted government auditing standards.

The following members of the State Auditor’s staff performed the audit:

- Scott Boston, MPAff (Project Manager)
- Hillary Hornberger, CIA (Assistant Project Manager)

- Steve Duffy, MPAff
- Harriet Fortson, MAcy, CGAP
- Mary Goldwater
- Marlen Kraemer, MBA, CISA
- Leticia Mendiola, MPA
- Rachel Snell, MPAff, CFE
- Rachelle Wood, MBA
- J. Scott Killingsworth, CIA, CGFM (Quality Control Reviewer)
- Dave Gerber, MBA, CIA, CISA (Audit Manager)
- Verma Elliott, MBA, CIA, CGAP (Audit Manager)
- Kelly Linder, MSCPR, CGAP (Audit Manager)

Fiscal Year 2006 Charity Care at Health-Related Institutions

Table 10 shows the amount of charity care the State's nine health-related institutions reported in their annual financial reports for fiscal year 2006. All nine institutions have practice plans. Five of the institutions own hospitals.

Table 10

Charity Care at Nine Health-Related Institutions Fiscal Year 2006 Annual Financial Report			
Institution	Hospital Indigent Care	Practice Plan (Physician) Charity Care	Total
The University of Texas Health Science Center at San Antonio	N/A ^a	\$ 101,784,720	\$ 101,784,720
The University of Texas Medical Branch at Galveston ^b	\$ 164,293,232	107,717,480	272,010,712
The University of Texas Health Center at Tyler	15,787,682	8,804,172	24,591,854
The University of Texas Health Science Center at Houston	37,232,652	185,910,119	223,142,771
The University of Texas M.D. Anderson Cancer Center ^b	106,135,474	42,871,461	149,006,935
The University of Texas Southwestern Medical Center at Dallas ^b	11,324,924	371,325,155	382,650,079
Texas Tech University Health Sciences Center	N/A ^a	85,644,627	85,644,627
University of North Texas Health Science Center at Fort Worth	N/A ^a	34,304,462	34,304,462
Texas A & M University Health Science Center	N/A ^a	46,310,027	46,310,027 ^c
Totals (All Nine Institutions)	\$334,773,964	\$984,672,223	\$1,319,446,187
Totals (Three Audited Institutions)	\$281,753,630	\$521,914,096	\$ 803,667,726
^a Not applicable because these institutions do not have university hospitals.			
^b Institutions audited include: the University of Texas Medical Branch at Galveston, the University of Texas M.D. Anderson Cancer Center, and the University of Texas Southwestern Medical Center at Dallas.			
^c Revised number provided for chart after publication of annual financial report.			

University of Texas System Institutions' Reported Revenue Adjustments, Including Charity Care and Other Allowances

Table 11 shows the amount of revenue adjustments included in Schedules C-1A (for hospitals) and D-6 (for practice plans) filed by the six University of Texas System (UT System) health-related institutions as part of their fiscal year 2006 annual financial reports. The terms used to describe these adjustments are presented in the table as they appeared in the annual financial reports.

Table 11

University of Texas System's Hospital and Practice Plan Revenue Adjustments Fiscal Year 2006 Annual Financial Reports				
Institution	C-1A Schedule (Hospital) Revenue Adjustments	Amount	D-6 Schedule (Practice Plan) Revenue Adjustments	Amount
The University of Texas Southwestern Medical Center at Dallas	Contractual Allowances	\$489,230,995	Un-sponsored Charity Care	\$ 371,325,155 ^b
	Charity Care	\$11,324,924 ^a	Contractual Adjustments	\$265,945,451
	Provision for Bad Debts	\$29,131,686	Other Unreimbursed Medical Costs	\$22,195,853
			Bad Debt Expense	\$15,179,535
The University of Texas Medical Branch at Galveston	Charity Services	\$164,293,232 ^a	Un-sponsored Charity Care	\$107,717,480 ^b
	Charity Recoveries	(\$3,027,284) ^a	Contractual Adjustments	\$112,461,150
	Medicaid Contractual Allowance	\$176,126,954	Other Unreimbursed Medical Costs	\$24,874,726
	Medicare Contractual Allowance	\$153,430,386	Bad Debt Expense	\$12,674,426
	Managed Care Contractual Allowance	\$96,574,761		
	TDCJ Adjustments	\$175,192,997		
	Third Party Payor Denials	\$6,948,742		
	Bad Debt/Allowance for Uncollectable Accounts	\$68,999,493		
	Third Party Payor Adjustments	\$32,640,131		
The University of Texas M.D. Anderson Cancer Center	Medicare	\$409,791,416	Un-sponsored Charity Care	\$42,871,461 ^b
	Medicaid	\$71,396,095	Contractual Adjustments	\$390,517,510
	Managed Care	\$445,099,067	Other Unreimbursed Medical Costs	\$14,698,193
	Indigent Care	\$106,135,474 ^a	Bad Debt Expense	\$5,613,711
	Other Adjustments	\$66,933,023		
	Provision for Bad Debts	\$46,676,312		

**University of Texas System's Hospital and Practice Plan Revenue Adjustments
Fiscal Year 2006 Annual Financial Reports**

Institution	C-1A Schedule (Hospital) Revenue Adjustments	Amount	D-6 Schedule (Practice Plan) Revenue Adjustments	Amount
The University of Texas Health Science Center at Houston	Contractual Adjustments - Medicare	\$3,679,008	Un-sponsored Charity Care	\$185,910,119 ^b
	Contractual Adjustments - Medicaid	\$1,658,901	Contractual Adjustments	\$162,594,859
	Contractual Adjustments - HMO/PPO	\$1,793,727	Other Unreimbursed Medical Costs	\$19,532,274
	Contractual Adjustments - Commercial	\$502,825	Bad Debt Expense	\$18,162,194
	Indigent Care Adjustments	\$37,232,652 ^a		
	Bad Debt Written Off Other	\$4,092,104 \$1,123,863		
The University of Texas Health Science Center at San Antonio			Un-sponsored Charity Care	\$101,784,720 ^b
			Contractual Adjustments	\$61,790,954
			Other Unreimbursed Medical Costs	\$1,276,099
			Bad Debt Expense	\$6,082,394
The University of Texas Health Center at Tyler	Un-sponsored Charity Care	\$15,787,682 ^a	Un-sponsored Charity Care	\$8,804,172 ^b
	Medicaid Contractual Adjustments	\$15,703,533	Contractual Adjustments	\$17,719,066
	Bad Debt Write Off	\$10,835,891	Other Unreimbursed Medical Costs	\$723,092
	Medicare Contractual Adjustments	\$61,380,835	Bad Debt Expense	\$2,512,186
	Other Contractual Adjustments	\$17,597,639		
Total Identifiable Charity Care Write-off from Fiscal Year 2006 Revenue Adjustments		Hospitals^a - \$ 331,746,680		Practice Plans^b - \$ 818,413,107
UT System Fiscal Year 2006 Charity Care Grand Total for Hospitals and Practice Plans			\$1,150,159,787	
Charity Care Amount Reported in the UT System Consolidated Annual Financial Report			\$ 1,125,921,878	

^a Only these amounts are included in the Total Identifiable Charity Care Write-off total for hospitals.

^b Only these amounts are included in the Total Identifiable Charity Care Write-off total for practice plans.

Responses from the University of Texas System



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Office of Health Affairs
Dr. Kenneth I. Shine, M.D., Executive Vice Chancellor
601 Colorado St, Suite 205, Austin, Texas 78701
Phone: 512-499-4224 Fax: 512-499-4313

May 16, 2007

The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas - Pan American
The University of Texas
of the Permian Basin
The University of Texas at San Antonio
The University of Texas at Tyler

The University of Texas
Southwestern Medical Center at Dallas
The University of Texas
Medical Branch at Galveston
The University of Texas
Health Science Center at Houston
The University of Texas
Health Science Center at San Antonio
The University of Texas
M. D. Anderson Cancer Center
The University of Texas
Health Center at Tyler

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Mr. John Keel
State Auditor
Robert E. Johnson, Sr. Building
1501 N. Congress Ave.
Austin, TX 78701
P.O. Box 12067
Austin, TX 78711-2067

Dear Mr. Keel:

Thank you for the opportunity to review the draft of the State Auditor's *Report on Charity Care at Health-Related Institutions*. We welcome the recommendation that The University of Texas System (UT System) facilitate the development of a model to report charity care based on the "costs" of such care rather than the related "charges" as currently required by the Texas Legislature in the General Appropriations Act (GAA).¹ We believe any such effort must be done in conjunction with legislative leaders and the three non-UT System health-related institutions.

As we previously discussed with your staff in January 2007, UT System shares the interest of the State Auditor's Office (SAO) in clearly understanding the cost of providing un-sponsored charity care and has worked with our health institutions to better determine how to calculate and characterize these costs. We appreciate the report's recognition of our objection to the inclusion of the "cost" data developed as part of prior UT System efforts and which UT System had determined to be inconsistent and unreliable. While we appreciate recognition of our objection, we remain disappointed with the inclusion of this cost data when more reliable and consistent cost data using federal Medicare cost report guidelines to determine the costs related to the amount of un-sponsored charity care provided by hospitals were available.

We believe it is critical to point out that the "inconsistencies" referenced in the report related to the hospital data in annual financial report schedule C-1A do not impact the consistency or accuracy of the un-sponsored charity care amounts reported to the Texas Legislature as required by the GAA. These "inconsistencies" are related to differences in the format and labels in schedule C-1A but do not affect the un-sponsored charity care reported to the Texas Legislature as part of each institution's performance measure reporting. Additionally, we look forward to the SAO modifying its guidelines for how institutions' practice plans must report un-sponsored charity care in the annual financial report to provide a level of detail more consistent with the detail provided by our hospitals.

¹ 79th Texas Legislature, General Appropriations Act, Article III Special Provisions Relating Only to State Agencies of Higher Education, Riders 22 and 23.

May 16, 2007
Page 2

Finally, we appreciate that portions of the report include the amount of unsponsored charity care related to the contractual allowances for patients eligible for the Medicaid Program. By definition in the GAA, these contractual allowances are required to be reported by health-related institutions. The inclusion of these data is particularly important to reflect the financial impact of unsponsored charity care on our institutions' hospitals. Our state-owned hospitals do not benefit from Disproportionate Share Hospital or hospital Upper Payment Limit funding, two methodologies that have been used by non-State hospitals to offset Texas' low Medicaid reimbursement rates.

Thank you for the opportunity to respond to and comment on the report.

Sincerely,



Kenneth I. Shine, M.D.
Executive Vice Chancellor
for Health Affairs

KIS/tw

xc: Chancellor Mark Yudof
Dr. John Mendelsohn
Dr. John Stobo
Dr. Kern Wildenthal
Mr. Scott Kelley
Mr. Barry McBee
Mr. Brian Jammer
Mr. Patrick Francis
Ms. Amy Shaw Thomas
Mr. Richard St. Onge

Responses from the University of Texas Medical Branch at Galveston



JOHN D. STOBO, M.D.
President

May 16, 2007

Ms. Verma Elliott
Audit Manager
Texas State Auditor's Office
P.O. Box 12067
Austin, Texas 78711-2067

Dear Ms. Elliott:

We have reviewed the draft report, *Charity Care at Health-Related Institutions*, and would like to offer the following management responses, by section, to your report:

Chapter 1

Reported Financial Information

While UTMB is currently reporting the amount of unsponsored charity care absolutely consistent with the General Appropriation Act and State Auditor's guidelines, we recognize the importance of a consistent reporting model for indigent/unsponsored charity care by all UT health-related institutions and will report information in compliance with any future reporting model established by UT System or other governing body.

Chapter 2

County Indigent Health Care Program

UTMB agrees that internal controls related to billing and collections for the County Indigent Health Care Program can be strengthened and in September 2006 began implementing new controls and processes to improve oversight of the program.

Prior to September 2006, the counties and hospital districts received one bill that combined physician and hospital charges. This billing process did not allow UTMB to keep the accounts receivable at the patient level where payments can be tied to specific patients. Payments for services were monitored at the county and hospital district level with any specific patient denial of payment for services being noted in the remittance for payment. The patient denial reasons would typically range from appointment not authorized, patient cap-out (reached the \$30,000 county responsible limit for the year) to the patient is Medicaid eligible resulting in the Medical Branch receiving payment from Medicaid rather than the county or hospital district.

In September 2006, as the result of a Reduction in Force, there was a change in the area with direct oversight responsibilities for the billing processes for the County Indigent Health Care Program. During the transition, UTMB internally identified weaknesses in the combined billing process and began diligently working on changing the combined billing process to one where physician and hospital services will be billed and collected separately. These changes will allow UTMB to manage accounts receivable, payments for services, and denials at the patient level within the two separate billing entities. The counties and hospital districts receiving non-electronic billing were transitioned to the new process for medical services provided to patients effective April 1, 2007. The electronically billed counties and hospital districts will transition as soon as the electronic billed and receipt processes are confirmed between UTMB and applicable third party administrators.

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UTMB would like to address the auditor's statement "the Medical Branch cannot verify the accuracy of \$3.3 million it billed three counties through a separate process administered by a third party." The process established for these billings was to send detailed information related to patient claims electronically from UTMB directly to the counties/hospital districts designated third party administrators. The third party administrators then communicated the claim information to the counties/hospital districts for payment. It is our understanding that the auditors' concern was that UTMB did not have an established reconciliation process to ensure the information sent to the third party administrator was the information they then sent to the counties/hospital districts due to the summarization of information by the third party administrator. As discussed in the previous paragraph, new processes have been established that will allow for sufficient reconciliation of at the patient level.

Additionally, UTMB would like to further address the auditor's statement of "...the net under-billing of \$541,142." One county attributed \$519,892 to the under-billing amount. UTMB agrees that the supporting documentation for this single combined bill for this county was not available due to a different billing process established for this county. The billing process for this county consisted of only sending UTMB's billing entities focus report as the bill. Payments for services from the Focus report were appropriately received from this county. The new billing changes will establish consistent billing processes for the counties and hospital districts.

UTMB believes the changed process of the physician and hospital billing entities billing separately for their services and collecting separately for their payments addresses the audit recommendations.

Chapter 3

Eligibility Determination

UTMB agrees with the recommendation related to verification of the income calculations used to determine charity care eligibility and will implement the following changes to our established processes:

- The Financial Counseling quality assurance procedures will be revised to include a complete manual re-calculation check of all related values and the formula used to arrive at the charity determination.
- All Medical Indigency procedures will be revised to ensure that applications and calculations will be re-verified by the other billing entity once the packet is complete and submitted for approval. *Example: If Physicians' Billing Service initiates and completes the packet, Hospital Patient Financial Services will perform a complete review of all documentation and perform a re-calculation to ensure an accurate classification.*

UTMB agrees with the recommendation to track and review a sample of cases where the patient was denied eligibility for charity care and will implement the following changes:

- A method to identify patients who applied for charity consideration and were denied will be developed and implemented.
- The Financial Counseling quality assurance policy will be revised to include the review of patients who applied for charity classification but were deemed to be ineligible.

UTMB agrees with this recommendation related to timely review of charity care applications, but would like to note that the recommendation relates to the 14 day turnaround stated on our *medical indigence* policy for medically indigence charity care applications. UTMB will modify its procedures to ensure all requests are date stamped on the date received and ensure that the requests are responded to within 14 business days.

UTMB appreciates the professionalism of your team during the audit and if you have any questions, please contact Kimberly Hagara at (409) 747-3277.

Sincerely,

A handwritten signature in black ink, appearing to read "John D. Stoba".

John D. Stoba, M. D.
President

Responses from the University of Texas Southwestern Medical Center at Dallas



John A. Roan
Executive Vice President for Business Affairs

May 16, 2007

John Keel, CPA
Office of the State Auditor
P.O. Box 12067
Austin, TX 78711-2067

Re: Management Responses to Uncompensated/Indigent Care at Health-Related Institutions

Dear Mr. Keel:

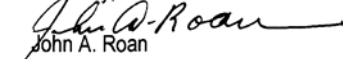
We have reviewed the draft report entitled Uncompensated/Indigent Care at Health-Related Institutions. Here is our response to the recommendation.

UT Southwestern Medical Center agrees with the importance of a consistent reporting model for unsponsored charity care. We are convinced we are following the definition in the General Appropriations Act (GAA) and UT System policies regarding unsponsored charity care reporting. We believe the definition in Article III of the GAA regarding unreimbursed services to financially indigent patients means that the patient's insurance does not provide reimbursement. This definition is consistent with the use of the term *reimbursement* in the health care industry. As pointed out in the report, consideration could be given to a new reporting format which re-defines the method of quantifying the very substantial work of health institutions in support of unsponsored charity care in both its physician practice plans and hospitals, including its participation in the State's Medicaid program and receipt of contract support from local governments and other providers. UT Southwestern stands ready to participate in that process. We will comply with any revisions to the reporting model established by UT System and the State Auditor's Office.

Regarding your request for detailed transaction data, due to technical problems, we were unable to fulfill the request. After 100 hours of programmer time and 20 hours of computer run time, issues with accessing the daily production database and archived database for the full year caused the data extraction process to fail.

Should you require any additional information, please call me at 214.648.3572.

Sincerely,


John A. Roan
Executive Vice President
for Business Affairs

cc: Kern Wildenthal, President
Robert Rubel, Director, Office of Internal Audit
Scott Boston, Project Manager, State Auditor's Office

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Responses from the University of Texas M.D. Anderson Cancer Center

THE UNIVERSITY OF TEXAS
MD ANDERSON
CANCER CENTER

May 23, 2007

Office of the President

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jmendelsohn@mdanderson.org

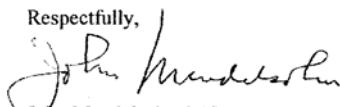
Ms. Verma Elliott
Audit Manager
State Auditor's Office
1501 N. Congress Avenue
Austin, Texas 78701

**SUBJECT: State Auditor's Office (SAO)
Report of Charity Care at Health-Related Institutions,
draft dated May 9, 2007**

We are in receipt of the latest draft of the State Auditor's Office (SAO) Report of Charity Care at Health-Related Institutions, dated May 9, 2007. We appreciate the opportunity to present our comments regarding this important subject. Upon review of the draft report, The University of Texas M. D. Anderson Cancer Center (M. D. Anderson) has observed several items for which we would like to offer management response. These items include: 1) charity care definitional issues, 2) differences between annual financial report schedule C-1a and D-6, 3) differences in reporting between the system components, 4) chapter 1-C recommendations 5) other observations. These concerns along with our previous comments responding to the SAO's eligibility recommendations are provided in the attached report titled, "The University of Texas M.D. Anderson Cancer Center Management Comments to the SAO Report of Charity Care at Health-Related Institutions".

The State's prescribed charity care reporting system is complex. The prescribed reporting guidelines need to be reconsidered and possibly revised. M. D. Anderson welcomes all efforts to improve and clarify the reporting for unsponsored charity care. We stand ready to assist in every appropriate way.

Respectfully,



John Mendelsohn, M.D.

President

c: Lewis Foxhall, M.D.
Leon Leach
Dwain Morris
John Tietjen
Mike Peppers
Mark Moreno
Angela Simmons

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A Comprehensive Cancer Center designated by the National Cancer Institute
located in the Texas Medical Center

**The University of Texas M.D. Anderson Cancer Center
Management Comments to the SAO Report of Charity Care at Health-Related Institutions
May 16, 2007**

Charity Care “definitional” issues

The SAO report presents a new definition – charity care, described as a “general term used to encompass both unsponsored charity care and indigent care”. We recommend against the introduction of any additional new terms as this causes additional confusion among report users. We recommend strict adherence to and use of the terms and definitions prescribed by the current General Appropriations Act and the SAO guidelines.

Differences between annual financial report schedules C-1a and D-6

The SAO contends that differences between C-1a and D-6 create lack of comparability. We disagree. Indeed at M. D. Anderson the C-1a (hospital) and D-6 (practice plan) can be compared when the amounts for indigent care are added together with Medicaid contractual adjustments on the C-1a. This comparison is shown here in Table 1 below.

The SAO report states that the institutions are not following a consistent model with respect to unsponsored charity care reporting between hospitals and practice plans. We are unclear whether the SAO is referring to the differences between the reports (C-1a and D-6) or is referring to differences in reporting among the system components. Again the schedules C-1a and D-6 and their respective reporting requirements are prescribed by the State Legislature, and the institutions are not at liberty to make any changes to the prescribed reporting. Furthermore, as seen in Table 1 below, the two schedules can indeed be compared together for M. D. Anderson.

Differences among system components

As discussed in the section titled “Differences between annual financial report schedules C-1a and D-6”, SAO makes several comments throughout its report stating that institutions are not following a consistent model for reporting. We remain unclear as to whether the SAO is referring to the differences between the reports (C-1a and D-6, see above) or referring to differences in reporting among the system components. If these comments are related to consistency among the system components, it is our contention that M. D. Anderson has fully complied with all reporting requirements prescribed by the current General Appropriations Act and the SAO guidelines.

Chapter 1-C recommendations

We strongly recommend that Chapter 1-C (titled M.D. Anderson Charity Care) be removed and replaced with the following five tables. All narratives will need to be revised accordingly also.

Table 1

U.T. M.D. Anderson Cancer Center Fiscal Year 2006 Un-sponsored Charity Care Charges by Hospital and Faculty			
	Hospital UCC C-1A	Practice Plan UCC D-6	Total
Indigent Care adjustments	\$106,135,474		\$106,135,474
Medicaid contractual adjustments	\$71,396,095		\$71,396,095
Un-sponsored Charity Care*		\$42,871,461	\$42,871,461
UCC Totals	\$177,531,569	\$42,871,461	\$220,403,030

* Practice Plan total includes Medicaid and Indigent Care components combined

Table 2

U.T. M.D. Anderson Cancer Center Fiscal Year 2006 Un-sponsored Charity Care Total Gross Charges for Hospital and Faculty			
	Hospital UCC	Practice Plan UCC	Total
Indigent Care	\$190,994,853		\$190,994,853
Medicaid	\$178,159,725		\$178,159,725
Un-sponsored Charity Care*		\$60,602,619	\$60,602,619
UCC Totals	\$369,154,578	\$60,602,619	\$429,757,197

Practice Plan total includes Medicaid and Indigent Care components combined

Table 3

U.T. M.D. Anderson Cancer Center Fiscal Year 2006 Un-sponsored Charity Care Estimated Total Costs** by Hospital and Facility (Self-reported)			
	Hospital UCC	Practice Plan UCC	Total
Indigent Care	\$101,720,867		\$101,720,867
Medicaid	\$91,324,675		\$91,324,675
Un-sponsored Charity Care*		\$18,786,812	\$18,786,812
UCC Totals	\$193,045,542	\$18,786,812	\$211,832,354

* Practice Plan total includes Medicaid and Indigent Care components combined

** Total Costs calculated on Total Gross charges for patients with adjustments noted above

Table 4

U.T. M.D. Anderson Cancer Center Fiscal Year 2006 Un-sponsored Charity Care Payments*** by Hospital and Facility			
	Hospital UCC	Practice Plan UCC	Total
Indigent Care	\$41,859,413		\$41,859,413
Medicaid	\$61,763,319		\$61,763,319
Un-sponsored Charity Care*		\$5,677,104	\$5,677,104
UCC Totals	\$103,622,732	\$5,677,104	\$109,299,836

* Practice Plan total includes Medicaid and Indigent Care components combined

*** Payments reflect all patient account payments and estimates for Governmental payor settlements

Table 5

U.T. M.D. Anderson Cancer Center Fiscal Year 2006 Un-sponsored Charity Care Unreimbursed Estimated Costs for Hospital and Faculty			
	Hospital UCC	Practice Plan UCC	Total
Indigent Care	\$59,861,454		\$59,861,454
Medicaid	\$29,561,356		\$29,561,356
Un-sponsored Charity Care*		\$13,109,708	\$13,109,708
UCC Totals	\$89,422,810	\$13,109,708	\$102,532,518

* Practice Plan total includes Medicaid and Indigent Care components combined

Other observations

We observed the following items and respectfully suggest that the below comments provide additional clarity:

Page ii:

- The statement “The University of Texas M.D. Anderson Cancer Center’s hospital reported \$106.1 million in charges for charity care in its fiscal year 2006” would be more appropriately characterized as Indigent care provided by the facility.
- The report states “M.D. Anderson’s hospital estimated that the unreimbursed cost of providing charity care during fiscal year 2006 was \$89.4 million.” The \$89.4 million is a reflection of estimated unreimbursed costs for the hospital’s Un-sponsored Charity Care.

Page 1

- The report states, “The three institutions’ annual financial reports do not clearly and consistently present the total amount of un-sponsored charity care they provide”. May we suggest that the language be changed to read “*Certain institutions*” (rather than “*The three institutions*”) because we contend that M.D. Anderson fully complies with reporting standards set forth by the General Appropriations Act and the SAO.

Page 2

- The report states, “However, the C-1A schedule does not clearly identify the amount of Medicaid net charges that should be considered part of the uncompensated charity care”. Reporting of Medicaid net charges is not a requirement for C-1a.

SAO Eligibility Recommendations

Management Response:

Management appreciates these recommendations to improve the quality review process for Supplemental Financial Assistance eligibility determinations and is taking immediate steps to address the issues which were identified.

Verification of income calculations used to determine charity care eligibility.

- By May 1, 2007 an Income Calculation Worksheet will be developed and included in the Supplemental Financial Assistance (SFA) Policy for use in verifying the accuracy of the income determination.

Tracking and reviewing of a sample of cases where the patient was denied eligibility for charity care.

- Planning for the development of a process to archive and track charity care denials will begin immediately and will be treated as a priority project.
- Ongoing monthly review of a statistically significant number of denied Supplemental Financial Assistance Applications will begin in June, 2007.

Timely review of charity care applications.

- By May 1, 2007 the SFA Calculation Worksheet will be modified to include the date the application was received, the date that complete documentation was received from the applicant and the date the Home Center Supervisor approves the application.

* * * * *

Please direct any questions regarding this management response to Paula Moynihan, Associate Director Clinical Revenue and Reimbursement at 713-792-0938.

Recent State Auditor's Office Work

Recent SAO Work		
Number	Product Name	Release Date
07-017	An Audit Report on Correctional Managed Health Care Funding Requirements	March 2007
07-316	State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2006	March 2007
07-003	An Audit Report on the Cost of the State's Correctional Managed Health Care	October 2006

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