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An Audit Report on

**The Department of State Health
Services' Public Health
Laboratories**

September 2010
Report No. 11-001



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Overall Conclusion

The Department of State Health Services (Department) did not provide adequate fiscal and operational oversight over its three public health laboratories. This lack of oversight has resulted in significant weaknesses in the laboratories' financial, inventory control, and information technology environments. Specifically:

- The Department does not ensure that it consistently issues bills and collects revenue in a timely manner for the services the laboratories provide. The Department had not billed customers for most of the billable tests conducted at the South Texas Laboratory since July 2008, and it has not ensured that it billed for all billable tests conducted at the Austin Laboratory. According to Department records, the unbilled amount for the tests conducted at the South Texas Laboratory from July 2008 until February 2010 is approximately \$440,000. The Department did not have sufficient documentation to support its current fee schedules and did not have a reasonable cost allocation methodology on which to base its fee schedules for tests that its laboratories conduct. Statute prohibits the Department from charging more for a laboratory service than the cost to the Department for providing the service. However, the Department does not regularly update the laboratories' fee schedules.
- The Department has procedures in place to ensure that its laboratories' revenues and expenditures, as well as Medicaid allocations, comply with specific riders in the General Appropriations Act. However, the Department did not accurately report financial information related to the laboratories' operations in its fiscal year 2009 annual financial report. Auditors identified more than \$9.1 million in

Background Information

The Department of State Health Services has oversight responsibilities for three laboratories: the Austin Laboratory in Austin, the Women's Health Laboratory in San Antonio, and the South Texas Laboratory in Harlingen.

The Austin Laboratory has 369 employees, Women's Health Laboratory employs 43, and South Texas Laboratory employs 16, for a total of 428 employees.

General Appropriations Act funding for the Laboratory Services Strategy for the 2008-2009 biennium was \$72,954,290 and for the 2010-2011 biennium was \$85,696,508. The Austin Laboratory provides management oversight of the Women's Health Laboratory and the South Texas Laboratory.

These three laboratories provide a wide range of services, including newborn screenings, clinical chemistry, prenatal testing, DNA diagnosis, microbiological testing, environmental testing, and the identification of bioterrorism and chemical terrorism agents.

The laboratories also provide services to health clinics, local health departments, and the general public. In fiscal year 2009, the Department reported that its laboratories processed more than 2.29 million submitted specimens. As the Texas population continues to grow, so does the number and kinds of laboratory tests provided.

Source: Department of State Health Services.

This audit was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0132.

For more information regarding this report, please contact Angelica Ramirez, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

accounts receivable that the Department should have reported, but did not report, in its fiscal year 2009 annual financial report.

- While the laboratories have detailed standard operating procedures that outline acceptable ranges for the amount of time it takes to process a specimen once it is received, the Department cannot provide assurance that the laboratories adhered to those procedures because of the significant control weaknesses over the applications that track the testing information.
- The Department lacks an adequate process for tracking and safeguarding the inventory of supplies used in laboratory tests and has not completed a plan to protect inventory in the event of an emergency. As a result, the Department faces increased risk that supplies needed by its laboratories will not be available during testing, will expire before use, and/or may be stolen or wasted without detection.
- The Department did not ensure that it always inspected hazardous materials as required.
- The Department did not ensure that the laboratories' information management applications would provide system functionality and usability, or that identified problems were addressed in a timely manner.
- The Department did not require its laboratories to comply with the Department's documented security standards and guidelines, which include detailed policies and procedures for information technology security, acceptable use, access controls, and change management. Auditors identified significant weaknesses in the Department's controls over the information management applications used to track testing and billing information for its laboratories.

As a result of the information technology weaknesses identified, auditors cannot provide assurance that the information in the Department's testing and billing applications is complete or accurate, or that the Department adequately limits access to confidential information to only those individuals who require that access.

Summary of Management's Response

The Department generally agrees with the recommendations in this report. The Department's management responses are presented immediately following each set of recommendations in the Detailed Results section of this report.

Summary of Information Technology Review

The Department's three public health laboratories use five separate information technology applications to track testing information. The laboratory information applications do not interface with each other, nor do they interface with the Department's laboratory billing application.

Auditors also identified significant weaknesses in the Department's general controls, application controls, physical controls, and access controls over the laboratories' applications. As a result, the Department cannot ensure that the testing and billing information in those applications is complete and accurate.

To minimize the risk associated with public disclosure, this report summarizes the weaknesses in information technology security identified during the audit, but it does not reveal specific vulnerabilities.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine whether the Department:

- Manages selected funding streams for the state laboratory in compliance with the General Appropriations Act and collects revenues and sets fees for lab services in compliance with federal and state statutes and rules.
- Has controls to safeguard and account for inventories of supplies used in laboratory tests.
- Has, and adheres to, policies and procedures that ensure timely receipt and processing of samples for testing at the state laboratory.

The scope of this audit covered all laboratory-related information for fiscal years 2008 and 2009 and the first two quarters of fiscal year 2010.

The methodology for this audit included collecting documentation and information, conducting interviews with the Department's and the laboratories' management and staff, performing selected tests and other procedures, analyzing the results of the tests, and conducting walk-throughs of laboratory branches and testing areas in the Austin Laboratory, the Women's Health Laboratory in San Antonio, and the South Texas Laboratory in Harlingen.

Auditors also identified other less significant issues that were communicated separately in writing to the Department.

Contents

Detailed Results

Chapter 1	
The Department Did Not Ensure That It Issued Bills and Collected Revenue in a Timely Manner and Set Fees in Compliance with State Statutes and Rules	1
Chapter 2	
While the Department’s Laboratories Have Detailed Procedures for Processing Specimens Submitted for Testing, the Department Lacks Sufficient Controls to Safeguard and Track the Laboratories’ Inventories of Testing Supplies	16
Chapter 3	
The Department Does Not Have Adequate Controls or Provide Sufficient Oversight to Ensure that the Information in Its Testing and Billing Applications for Its Laboratories Is Complete or Accurate.....	25

Appendices

Appendix 1	
Objectives, Scope, and Methodology	29
Appendix 2	
Background Information on the Department’s Public Health Laboratories	33
Appendix 3	
Organizational Chart	35
Appendix 4	
General Appropriation Act Riders Related to the Department of State Health Services’ Public Health Laboratories	36

Detailed Results

Chapter 1

The Department Did Not Ensure That It Issued Bills and Collected Revenue in a Timely Manner and Set Fees in Compliance with State Statutes and Rules

Public Health Laboratories

The Department of State Health Services has oversight responsibilities for three laboratories:

- **The Austin Laboratory:** Processes newborn screenings, medical tests, human and non-human public health tests, and water tests.
- **The Women's Health Laboratory in San Antonio:** Processes women's clinical tests and sexually transmitted disease tests.
- **The South Texas Laboratory in Harlingen:** Processes medical and water tests in South Texas.

The Department of State Health Services (Department) did not ensure that it billed and collected revenue for two of its three public health laboratories (see text box for a list of laboratories). The Department receives payments from private insurance companies, private-pay individuals, municipalities, and federal grants such as Medicaid.

The Department had not billed for most billable tests conducted at the South Texas Laboratory since July 2008, and it did not ensure that it billed for all billable tests conducted at the Austin Laboratory. Department records show that the unbilled amount for the tests conducted at the South Texas Laboratory from July 2008 until February 2010 is approximately \$440,000.

In addition, the Department did not have sufficient documentation to support its current fee schedules and did not have a reasonable cost allocation methodology on which to base its fee schedules for tests that its laboratories conduct. Statute prohibits the Department from charging more for a laboratory service than the cost to the Department for providing the service.

The Department also did not ensure that it accurately reported financial information related to the laboratories' operations in its annual financial reports. Auditors identified more than \$9.1 million in accounts receivable that the Department should have reported, but did not report, in its fiscal year 2009 annual financial report.

The Department has procedures in place to ensure that laboratory revenues and expenditures are accounted for and distributed in compliance with Rider 17, page II-60, the General Appropriations Act (81st Legislature), and that its Medicaid allocations comply with Rider 89, page II-76, the General Appropriations Act (81st Legislature).

The Department Had Not Billed for Most Tests Conducted at the South Texas Laboratory since July 2008

The South Texas Laboratory implemented two new applications between 2006 and 2008 to record and store environmental and clinical testing results. However, the Department experienced significant problems in transferring the data from those new applications to the Department's billing application, which was implemented in March 2008 (see Chapter 3 for more information on the Department's information technology weaknesses).

Because of the data transfer problems at the South Texas Laboratory, Department management decided to stop all billing for testing services performed at the South Texas Laboratory as of July 2008. Based on the information in the Department's laboratory information management applications, auditors estimate that the unbilled amount for the tests conducted at the South Texas Laboratory from July 2008 through February 2010 is approximately \$440,000. Of that amount, approximately \$99,745 can no longer be collected. Specifically:

Time Line for Submitting Medicaid Claims

Texas Administrative Code, Title 1, Section 354.1003(a)(3) states:

"Claims from all other providers delivering services reimbursed by the Texas Medicaid acute care program must be received by the Health and Human Services Commission or its designee within 95 days from each date of service on the claim or 95 days from the date the Texas Provider Identifier (TPI) Number is issued, whichever occurs later."

- An estimated \$27,495 in Medicaid-eligible tests were identified in the Department's applications that cannot be billed to Medicaid because more than 95 days have passed since the service date of the test; as a result, reimbursement for these expenditures cannot be recovered (see text box for requirement). However, auditors did not review the completeness or accuracy of the eligibility information on the submitter forms, which could have affected the Department's ability to obtain reimbursement from Medicaid.
- An estimated \$72,250 in Medicare-related tests cannot be recovered because the Department is not currently a Medicare provider. According to Department management, the Department has actively pursued obtaining provider status since at least October 2008.

Recommendations

The Department should:

- Resume all billing for tests conducted at the South Texas Laboratory and review and address all unbilled activity as appropriate.
- Establish a process to review and bill for tests conducted at the South Texas Laboratory that have not been billed.
- Establish and implement a process to ensure Medicaid-eligible services are billed within the required time period.

- Pursue obtaining provider status through the U.S. Centers for Medicaid and Medicare Services to become a Medicare provider.

Management's Response

Recommendation 1-2:

- *Resume all billing for tests conducted at the South Texas Laboratory and review and address all unbilled activity as appropriate.*
- *Establish a process to review and bill for tests conducted at the South Texas Laboratory that have not been billed.*

Management Response:

DSHS would note that for the period reviewed, the Department was implementing a new Laboratory Information Management System (LIMS) with a new billing component. During this time, the DSHS laboratories generated approximately \$64 million in revenue for services performed. Implementation of LIMS was rolled out in phases to realize maximum revenues, with efforts being put towards the Austin Laboratory which generates approximately \$60 million of the revenue for this period and South Texas Laboratory as the final phase based upon the limited number of tests and revenue.

DSHS concurs that the Department should resume billing for billable tests conducted at the South Texas Laboratory and did begin partial billing, limited to water testing, in April 2010. Water testing is limited to two specific tests and is billed directly to the submitter. As a result of the volume and complexity of medical testing, billing for medical services will resume upon completion of the LIMS implementation for South Texas Laboratory and the completion of efforts to address the recommendation presented in Chapter 3.

Responsible Party: Accounting Director, in coordination with the Information Technology Section and Laboratory Services.

Implementation Date: March 31, 2011

Recommendation 3:

- *Establish and implement a process to ensure Medicaid-eligible services are billed within the required time period.*

Management Response:

DSHS concurs that it is important to implement a process to ensure Medicaid eligible services are billed within the required time period and did so for approximately \$37 million for the Women's Health Lab and the Austin Lab. DSHS will complete LIMS implementation for the South Texas Lab by March

31, 2011. Under federal law, Medicaid is the 'payor of last resort', and therefore to be eligible to enroll in Texas Medicaid, a provider must be a Medicare provider. South Texas Laboratory's Medicaid enrollment application will be submitted within 30 days of receipt of the Medicare provider number.

Responsible Party: Accounting Director, in coordination with Information Technology and Laboratory Services Section.

Implementation Date: Anticipated as February 1, 2011. Please note the Medicaid Applications will be submitted within 30 days of receipt of the Medicare provider number, estimated to receive by January 3, 2011.

Recommendation 4:

- Pursue provider status through the Centers for Medicaid and Medicare services to become a Medicare provider.

Management Response:

DSHS agrees and has actively been pursuing status through the Centers for Medicaid and Medicare Services (CMS) to become a Medicare provider since October 2008. DSHS received confirmation as a Medicare provider for the Austin Laboratory on August 3, 2010, retroactive to March 1, 2010. Pursuant to 42CFR §424.540, regarding deactivation of Medicare billing privileges resulting from non-submission of a claim, South Texas Laboratory's Medicare enrollment application will be submitted six months prior to the anticipated billing date of March 31, 2011.

Responsible Party: Laboratory Services Section Director

Implementation Date: March 31, 2011

The Department Did Not Ensure That It Billed for All Tests Conducted at the Austin Laboratory

Laboratory Information Management Applications

The Department's laboratories primarily use five different laboratory information management applications:

- **Harvest:** Stores results for "clinical" tests, such as tests for diabetes and prenatal testing.
- **Lifecycle:** Stores results for newborn screenings.
- **LabWare:** Stores results for public health-related tests, such as tests for rabies, flu, and bioterrorism.
- **Labworks:** Stores results for environmental tests, such as tests of water, dairy products, and food.
- **Power Path:** Stores results for women's health clinical tests and sexually transmitted disease tests (used only at the Women's Health Laboratory).

The Department did not reconcile the information in its billing application (Healthpac) to the billable test data in the laboratories' various information management applications (see text box) to ensure that it appropriately bills for all billable tests conducted. Auditors compared testing information in the Austin Laboratory's information management applications with the information in Healthpac and identified errors. Specifically:

- In fiscal year 2009, 28,223 excess records totaling \$1,018,876 were transferred from the laboratory's applications to Healthpac. These excess records could result in duplicate billings.
- In the first two quarters of fiscal year 2010, 34,090 records totaling \$537,825 that should have been transferred were not transferred from the laboratory's applications to Healthpac and, as a result, may not have been billed.

Table 1 summarizes the overall results from the auditors' comparison.

Table 1

Results of Auditors' Comparison of Testing Information in Austin Laboratory's Applications with Billing Information in Healthpac Fiscal Year 2009 and First Two Quarters of Fiscal Year 2010								
Fiscal Year	Number of Records in Austin Laboratory's Applications	Number of Records in Healthpac	Difference in Number of Records	Percent Difference	Total Fees in Austin Laboratory's Applications	Total Fees in Healthpac	Difference in Fees	Percent Difference
2009	1,255,916	1,284,139	28,223	2.2%	\$22,463,881	\$23,482,757	\$1,018,876	4.5 %
2010 ^a	616,039	581,949	(34,090)	(5.5%)	\$10,584,782	\$10,046,956	(\$537,825)	(5.1 %)

^a Auditors reviewed the records for September 2009 through February 2010.

Auditors identified the highest rate of errors in the comparison between the information in the application that Austin Laboratory uses to track public health-related tests (such as tests for hepatitis, tuberculosis, and others) and the information in Healthpac. Specifically:

- In fiscal year 2009, the Department transferred more than 45,000 excess records (28 percent of the total number of tests recorded in the laboratory's application in fiscal year 2009) totaling \$1,109,052 from the Austin Laboratory's public health-related testing application to Healthpac.

- In the first two quarters of fiscal year 2010, the Department failed to transfer more than 24,000 records (20 percent of the total number of tests recorded in the laboratory's application in the first two quarters of fiscal year 2010) totaling \$399,316 from the Austin Laboratory's public health-related testing application to Healthpac. As a result, these tests may not have been billed.

Without performing reconciliations on a regular basis, the Department cannot ensure that the information in its billing application is complete and accurate or identify and correct errors on a timely basis. An internal audit report on the Austin Laboratory's billing process issued in August 2009 included a recommendation that the Department strengthen the controls over that laboratory's billing process to ensure that information in the laboratory's applications was accurate and complete. As of April 2010, the Department had not fully implemented this recommendation.

The Austin Laboratory stored some environmental test records outside its laboratory management information application.

Auditors identified a separate database that the Austin Laboratory used to track environmental testing records that should have been stored in the laboratory's information management application. Auditors identified 5,917 environmental test records totaling \$410,085 in a separate database that was stored on an employee's desktop with no security controls or secondary review to ensure that the data was correctly entered. These records represented more than 10 percent of the total environmental tests conducted at the Austin Laboratory in fiscal year 2009 and the first two quarters of fiscal year 2010.

According to Department management, the Austin Laboratory maintained the separate database because the Department had not added the test types to the applicable laboratory information management application. While it appears that the Department billed for the tests recorded in the separate database, recording and retaining testing results in an unsecured location with no compensating controls creates a significant risk of error and data loss.

Recommendations

The Department should:

- Perform and document periodic reconciliations between its billing application and the laboratories' information management applications to ensure that billings are complete and correct. It should also follow up on and correct all errors identified during those reconciliations.

- Ensure that all testing records are properly recorded and retained in a system with proper security controls, supervisory reviews, and backup procedures.

Management's Response

With the assistance of the Laboratory Information Management System (LIMS) vendors as appropriate, processes for reconciliation and verification of data extracts will be documented through the Laboratory Change Control Board (LCCB) as well as in application development standard operating procedures. This project has been included in the FY 2011 Laboratory IT Work Plan. This process, once finalized, may ultimately become a function of the Laboratory.

Responsible party: Laboratory Services Director, in coordination with the Information Technology Section, Accounting Director and Budget Director.

Implementation date: December 31, 2010 to develop a reconciliation process.

Chapter 1-C

The Department Did Not Have a Reasonable Cost Allocation Methodology on Which to Base Its Fee Schedules

The Department did not have sufficient documentation to support its current fee schedule and did not have a reasonable cost allocation methodology on which to base a fee schedule for tests that its laboratories conduct. Additionally, the Department did not regularly update its fee schedules. The laboratories' public fee schedules went into effect in September 2007 and were based on fiscal year 2006 cost allocation calculations. These schedules have not been updated in their entirety since that time. Texas Health and Safety Code, Section 12.032(c), limits the fee that the Department can charge for a service to no more than the cost to the Department for providing the service.

If the Department does not regularly analyze the costs of providing laboratory services, it cannot determine whether it is complying with that statute. Due to the lack of detailed tracking of costs, auditors were unable to determine whether the fees for specific tests exceeded the costs of performing the tests.

While the Department does have a documented cost allocation methodology, auditors identified several weaknesses in it. Specifically:

- The Department allocated costs among the sections of its laboratories (such as environmental sciences, biochemistry and genetics, and microbiology) rather than allocating reasonable costs for specific types of

tests. This resulted in an average cost and does not reflect reasonable costs for specific tests.

- The Department did not consistently use the correct percentage rate to account for indirect costs. For example, in its 2006 cost allocation calculations for the Austin Laboratory, the Department used an indirect cost rate of 31.70 percent when it should have used the federally approved provisional rate of 21.30 percent. Also, in its 2007 cost allocation calculations for the Women’s Health Laboratory, the South Texas Laboratory and newborn screenings at the Austin Laboratory, the Department used an indirect cost rate of 29.53 percent when it should have used the federally approved provisional rate of 21.30 percent.

In addition, laboratory personnel adjusted some fees for laboratory services based on their knowledge and expertise and approval by laboratory management. However, the Department did not retain documentation to support those changes.

The U.S. Centers for Medicaid and Medicare Services (CMS) identified weaknesses in the Department’s cost calculations for newborn screenings, and since November 2008, the Department has billed Medicaid for newborn screenings at a higher rate than other payors.

Newborn Screenings

Austin Laboratory is the sole provider of newborn screening tests in Texas. Austin Laboratory sells newborn screening kits to health service providers. These kits consist of a piece of cardboard material upon which a sample of the newborn’s blood is placed. The cost of a kit includes the cost to perform the test at the Austin Laboratory. The Department provides newborn screening kits at no cost to hospitals and clinics for Medicaid-eligible newborn screenings. Medicaid then reimburses the Department at an agreed-upon rate that includes the testing of the blood sample for Medicaid-eligible recipients.

CMS, managed by the U.S. Department of Health and Human Services, identified several weaknesses in the Department’s cost allocation methodology that are similar to the weaknesses discussed above. Because of the weaknesses in the Department’s cost allocation methodology, CMS informed the Department in 2008 that the methodology should be modified.

Because CMS determined that the Department’s cost allocation methodology needed to be modified, it agreed in June 2009 to the Department requesting reimbursement at 100 percent of the Medicare rate for Medicaid-eligible newborn screening tests (see text box for more information on the newborn screening kits). The approval was retroactive to newborn screenings conducted since November 1, 2008. The current Medicare reimbursement rate for a newborn screening test is \$137.02. Hospitals, clinics, and other health care providers purchase prepaid newborn screening tests for \$34.50 that

they then can use for patients who are not eligible for Medicaid reimbursement.

Based on the number of tests recorded in Department records for fiscal year 2009, auditors calculated that 402,815 (56 percent) of the 716,035 newborn screening kits processed by the Department were Medicaid-eligible. The remaining 313,220 kits were prepaid by the hospitals, clinics, or other providers. Of the \$46,067,689 in revenues in fiscal year 2009 from newborn

screening kits, \$36,827,699 (80 percent) was from Medicaid, while \$9,239,990 (20 percent) was from the prepaid kits.

Recommendations

The Department should:

- Develop, document, and implement procedures for setting fees for laboratory services. This should include updating and implementing a documented cost allocation methodology that determines reasonable costs for specific types of tests.
- Retain all documentation related to fee setting, including the setting of fees for new tests and any modifications to existing test fees.
- Ensure that it uses a documented methodology to set all fees for laboratory services.
- Analyze its costs and update its fee schedules as needed so that the fees per test do not exceed the costs per test, as required by Texas Health and Safety Code, Section 12.032(c).

Management's Response

Recommendation 1-2:

- *Develop, document, and implement procedures for setting fees for laboratory services. This should include updating and implementing a documented cost allocation methodology that determines reasonable costs for specific types of tests.*
- *Retain all documentation related to fee setting, including the setting of fees for new tests and any modifications to existing test fees.*

Response:

The DSHS laboratories' public health fee schedule was last updated with an effective date of September 1, 2007. DSHS acknowledges the need to revise the public health fees to recover the current costs incurred by the laboratory to provide these testing services. DSHS will update, implement and document a cost allocation methodology that determines reasonable costs for laboratory tests performed. The updated cost allocation methodology will identify reasonable cost per laboratory test and will be based on 2011 data as a result of an inordinate volume of H1N1 testing in FY10 which was an anomaly and would distort the actual costs for the year if used.

DSHS will ensure all documentation related to public health fee schedule- fee setting is retained.

Responsible party: Accounting Director, in coordination with the Budget Director and Laboratory Services Section Director.

- *12/31/2010 Refine cost allocation methodology*
- *06/30/2011 Capture data*
- *07/31/2011 Perform cost allocation*
- *08/31/2011 Evaluation and adjustment of fees against rules*

Implementation date: Cost Allocation process to be completed by September 30, 2011; supporting documentation will be maintained according to the record retention schedule.

Recommendation 3-4:

- *Ensure that it uses a documented methodology to set all fees for laboratory services.*
- *Analyze its costs and update its fee schedule as needed so that the fees per test do not exceed the costs per test, as required by Texas Health and Safety Code, Section 12.032(c).*

Response:

DSHS acknowledges the need to better document and refine the existing cost allocation methodology to ensure fees cover , but do not exceed reasonable costs for tests, to the degree applicable.

DSHS would note that the Department does not set fees for Medicaid Texas Health Steps and Newborn Screen sole source testing services; until instructed otherwise by the Center for Medicaid and Medicare Services and/or the Enterprise, these services will continue to be reimbursed at the prevailing Medicare allowable rate.

Responsible party: Accounting Director, in coordination with the Budget Director and Laboratory Services Section Director.

Implementation date: Cost Allocation process to be completed by September 30, 2011

The Department Did Not Report Accounts Receivable for Its Laboratories or Have Procedures for Writing Off Uncollectible Receivables

Uncollectible Billings

Comptroller of Public Accounts
Accounting Policy Statement 027
states:

“The agency or institution must follow the Office of Attorney General’s (OAG’s) collection procedures in an attempt to collect any past due accounts owed the agency. Only after the agency and the OAG have followed these procedures without success may a debt be classified as uncollectible and be written off on the agency’s financial accounting records.”

As of August 31, 2009, Department records showed more than \$9.1 million in uncollected fees for laboratory services that the Department should have reported (but did not report) in its annual financial report as accounts receivable in compliance with the Comptroller of Public Accounts’ reporting requirements. Of those total uncollected revenues, more than \$3.5 million had been outstanding for more than 150 days.

Additionally, the Department does not have documented policies and procedures for identifying and writing off uncollectible billings for its laboratories in compliance with the Office of the Attorney General’s requirements (see text box). At a minimum, the Department should generate and analyze an accounts receivable aging report on a regular basis to determine which amounts should be written off. An internal audit report on the Austin Laboratory’s billing process issued in August 2009 recommended that the Department strengthen its processes for collecting receivables related to the laboratories. As of April 2010, Department staff reported that it had not implemented a collection process for receivables related to laboratory tests; however, the laboratories’ management and the Department’s legal team had conducted ongoing discussions about implementing such a process.

The Department does not follow up on laboratory test delinquent accounts.

The Department does not have a process in place to contact delinquent payors for laboratory tests. The Department has developed a letter to send to payors with delinquent accounts; however, the letter was never officially approved and used. The Department does continue to send monthly bills to payors who are delinquent.

The Department will not be able to collect for certain Medicaid revenues.

As of March 31, 2010, the Department’s billing application (Healthpac) showed \$1.8 million in potential reimbursements from Medicaid that were more than 120 days after the date of service. Department management acknowledged that a portion of this balance comprises Medicaid billings that the Department failed to bill within the 95-day deadline, and therefore is ineligible for reimbursement. In addition, management stated that it had received payment for a portion of this balance, but it had not posted those payments. However, the Department did not provide any documentation supporting this. Due to billing application deficiencies, auditors were not able to calculate the exact unbilled amount for Medicaid-eligible services.

Recommendations

The Department should:

- Report uncollected accounts receivable balances for its laboratories at the end of each fiscal year as required by the Comptroller of Public Accounts.
- Develop policies and procedures for disposing of uncollectible accounts receivable and writing off accounts receivable considered uncollectible in compliance with the Office of the Attorney General's requirements.
- Develop policies and procedures for informing laboratory test payors of delinquent accounts.

Management's Response

Recommendation 1:

- *Report accounts receivable balances for uncollected billings for the laboratory at fiscal year-end in compliance with Texas Comptroller reporting requirements.*

Management Response:

DSHS agrees that accounts receivable should be reported and will be reported in the Department's Annual Financial Report, including an appropriate allowance for uncollectible debt.

Responsible Parties: Accounting Director

Implementation Date: November 20, 2010

Recommendation 2:

- *Develop policies and procedures for disposing of uncollectible receivables and writing off receivables considered uncollectible in compliance with the Office of the Attorney General's requirements.*

Management Response:

The Department concurs with this recommendation and will develop policies and procedures for disposing of uncollectible receivables and writing off receivables considered uncollectible in compliance with the Office of the Attorney General's requirements.

Responsible party: Accounting Director, Laboratory Services Section Director and General Counsel.

Implementation date: October 31, 2010

Recommendation 3:

- *Develop policies and procedures for informing medical test submitters of delinquent accounts.*

Management Response:

DSHS continues to send monthly billings to customers notifying them of delinquent balances; however, the Department concurs that the processes should be enhanced and additional policies and procedures developed. In addition to the monthly billings, DSHS will develop a separate automated process to send and track delinquency notices.

Responsible party: Accounting Director, in coordination with the Laboratory Applications Development Unit and Laboratory Services Section.

Implementation date: May 31, 2011

Chapter 1-E

The Department Properly Processed Payments Received for Austin Laboratory Services; However, the Department Did Not Accurately Credit Accounts for Prepayments Received at the South Texas Laboratory

Auditors identified no errors in any of the 30 tested payments received at the Austin Laboratory and the South Texas Laboratory. However, as of May 2010, 15 payments received at the South Texas Laboratory totaling \$1,361 were not posted to the Department's laboratory billing application (Healthpac).

The Department receives a significant number of requests from submitters to correct the billings related to programs funded by Medicaid and Texas Health Steps (see text box). The Department does not have a methodology for tracking these submitter billing statement disputes. Auditors reviewed 521 biller payment disputes that the Department received for one week and determined that 404 (78 percent) of them related to tests that should have been billed to Texas Health Steps but were instead billed to Medicaid. A majority of the submitter billing statement disputes could be avoided if submitters used a specific form to submit samples to be tested under the Texas Health Steps program. The Department is implementing a process to address the frequency of submitter billing statement disputes and is developing a form to be used for Texas Health Steps claims.

Texas Health Steps

Texas Health Steps is a program that provides regular medical and dental checkups and case management services to children from birth through 20 years of age who have Medicaid.

Recommendations

The Department should:

- Implement policies and procedures for tracking submitter billing statement disputes.
- Continue the implementation of the process to address submitter billing disputes, including use of the separate form for submitters to use when submitting claims for the Texas Health Steps program.

Management's Response

Recommendation 1:

- *Implement policies and procedures for tracking submitter billing statement disputes.*

Management Response:

DSHS concurs that procedures are necessary to track submitter billing statement disputes and has been utilizing a feature in the billing system that allows the user to document notes and comments at an individual account level. These comments are viewable onscreen and can also be printed in a report format. DSHS will formally document these policies and procedures to ensure uniformity of use which will enhance the reporting from this system.

Responsible Party: Accounting Director

Implementation date: March 31, 2011

Recommendation 2:

- *Continue the implementation of the process to address the submitter billing disputes including use of the separate form for submitter to use when submitting claims for the Texas Health Steps program.*

Management Response:

DSHS agrees and has been performing analysis of account disputes received as the Department has yielded a large volume of unnecessary corrections resulting from improper completion of the laboratory submission form. To better manage the volume of account disputes, the Department has been actively sending out notifications to it's customers to remind them of the importance of completing the submission form completely and accurately. Additionally, the Department has notified it's customers as to timelines for submitting valid billing errors.

DSHS has also implemented a separate Medicaid Texas Health Steps submission form in June 2010 to address the large volume of account disputes, by giving the submitter a more uniform method to properly identify testing submitted as part of a Texas Health Steps medical checkup.

Responsible Party: Accounting Director and Laboratory Services Section Director

Implementation date: Completed the implementation of the Medicaid Texas Health Steps submission form and will continue to refine the process to address billing disputes.

Chapter 1-F

The Department Has Processes to Manage Selected Appropriations in Accordance with the General Appropriations Act

Rider 17, page II-60, the General Appropriations Act (81st Legislature) requires laboratory-related revenues generated by the Department to be deposited to General Revenue and appropriated to the Department for payment of bond debt service. The Department has procedures in place to ensure that laboratory revenues and expenditures are accounted for and distributed in compliance with Rider 17.

Rider 89, page II-76, the General Appropriations Act (81st Legislature) requires the Department to make specific allocations for Medicaid reimbursements for immunizations, laboratory services, women's and children's services, mental health state hospitals, and central administration. The Department has procedures in place to ensure that its Medicaid allocations comply with Rider 89.

While the Department's Laboratories Have Detailed Procedures for Processing Specimens Submitted for Testing, the Department Lacks Sufficient Controls to Safeguard and Track the Laboratories' Inventories of Testing Supplies

The Department's laboratories have detailed policies and procedures in place that outline acceptable ranges for the amount of time it takes to process a specimen once it is received. However, the Department did not have a process for tracking the inventory of supplies used in laboratory tests, and it did not formally address a plan to safeguard inventory in the event of an emergency. In addition, the Department did not ensure that it accurately reported consumable inventory related to the laboratories' operations in its annual financial report for fiscal year 2009 as required by the Comptroller of Public Accounts' reporting requirements.

The Department also did not ensure that all inspections of hazardous materials were conducted as required, and it did not implement controls over user access to inventory information applications or inventory storage buildings. Without those controls in place, the Department is at risk for inventory misuse or loss and financial loss.

Chapter 2-A

The Department's Laboratories Have Detailed Policies and Procedures for the Processing of Specimens

The Department's laboratories have documented, detailed standard operating procedures that outline acceptable ranges for the amount of time it takes to process a specimen once it is received. The procedures are specific to three areas: receiving, data entry and reporting, and the processing of specimens. Specifically:

- The receiving procedures specify the time frame in which a specimen must be received; define key terms; identify required equipment; and explain how to receive, sort, and deliver specimens for testing.
- The data entry and reporting procedures vary depending on the type of specimen received; however, the procedures define key terms, identify necessary equipment, and provide step-by-step walk-throughs for entering information and generating reports.
- The procedures for processing specimens are specific to each laboratory and include definitions of key terms; identification of necessary equipment; step-by-step instructions for performing the tests; descriptions of how to calculate and analyze results; and general notes and precautions about the processes.

In addition, a copy of the standard operating procedures was readily available in the laboratories that auditors visited. However, because of the significant control weaknesses over the laboratories' information management applications (see Chapter 3 for more information), the Department cannot provide assurance that the laboratories adhere to those procedures. In addition, the Women's Health Laboratory did not have a process to review the data entry of information into one of its laboratory information management applications to identify errors. Because of this lack of review and the information technology weaknesses, auditors could not determine whether the laboratories processed specimens in a timely manner.

Management's Response

Though not a formal recommendation under Chapter 2-A, DSHS would like to address statements within the report which could call into question the integrity of the testing work conducted at the laboratory. The weaknesses identified in regard to the file transfer of information required for the billing and tracking of testing services from the various LIMS to the billing system (HealthPac) are separate and independent from the validation and accuracy of test results in compliance with specific SOPs [Standard Operating Procedures], and turn around times. The laboratory maintains full documentation of the validation of the testing data stored in the LIMS. In addition the laboratory has available extensive documentation, outside of the LIMS, of the tests performed which can be used to verify that the laboratory does adhere to documented procedures.

Chapter 2-B

The Department Does Not Have Controls for Accounting for the Laboratories' Inventories

The Department did not ensure that its laboratories track their inventories and account for supplies used in laboratory tests. While some individual areas within the Department's laboratories have created informal procedures for tracking some inventories, the Department does not have a comprehensive inventory tracking process for its laboratories. Because the Department has not developed standard policies and procedures to help the laboratories track and manage their inventories, the mechanisms and procedures that are in place are haphazard and not followed consistently.

Without an accurate inventory tracking process, the Department is exposed to increased risk of waste and theft. In addition, the Department cannot ensure that it is complying with the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities* (see text box in Chapter 2-C below).

Inventory Items at the Laboratories

The Department's laboratory groups use inventory items for each test they conduct. Some of these inventory items are general lab supplies that are common across virtually all the laboratory groups, such as gloves and test tubes.

Laboratory supplies also include hazardous materials, such as hydrochloric acid and chloroform. Each laboratory group also uses supplies specifically for the tests it conducts.

For example, newborn screening kits, human immunodeficiency virus (HIV) test kits, and tuberculosis test supplies are used exclusively for those tests. The laboratory groups also purchase various chemicals and reagents used to process tests. Many inventory items have expiration dates and a short shelf life. Some items must be kept at specific temperatures and require refrigeration.

Auditors conducted inventory counts and performed other inventory-related tests at each of the Department's three laboratories. The three laboratories generally ensured that:

- Items received first were used first to prevent using expired items.
- Items requested were received, and receipt of the items was documented.

However, auditors identified significant deficiencies in the accounting for inventory at two of the three laboratories. Those weaknesses are summarized below.

The Department does not consistently account for its laboratories' inventories.

Auditors performed an inventory count and compared the items counted to the Department's requisition information at each of the three laboratories, including four laboratory testing areas at the Austin Laboratory. Auditors did not identify any significant errors for:

- 75 types of inventory items tested at the South Texas Laboratory.
- 30 types of inventory items tested in the general laboratory supply area at the Austin Laboratory.
- 30 types of inventory items tested in the media preparation area at the Austin Laboratory.
- 2 types of inventory items tested in the newborn screening area at the Austin Laboratory.

However, the amount of items on hand differed from the amount listed on laboratory requisition information for the following:

- 9 of 31 types of inventory items tested at the Women's Health Laboratory.
- 4 of 6 types of inventory items tested in the container preparation area at the Austin Laboratory.

The Department does not ensure that its laboratories perform annual inventory reconciliations.

The Department does not have formal policies or procedures for performing annual reconciliations of the laboratories' inventories. This increases the risk that inventory items could be lost or misused, potentially resulting in financial loss. For example, some of the laboratories' inventory items range in cost from \$2,400 to \$10,500 per item. In addition, the Department has a central laboratory supply area, in which supplies commonly used across multiple laboratory testing areas are stored. While the central laboratory supply area

has a reconciliation process, there is no schedule for conducting the reconciliations, nor are there documented procedures for performing the reconciliations.

Recommendations

The Department should:

- Develop and implement a comprehensive inventory tracking process for its laboratories, including documented policies and procedures. This process should include regular inventory counts and reconciliations of inventory.
- Ensure that its laboratories can quantify the amounts of inventory on hand.

Management's Response

DSHS agrees that the Laboratories should have an inventory tracking process. A base inventory will be conducted at 2010 fiscal year end for inclusion in the agency Annual Financial Reports.

Beginning in fiscal year 2011, Laboratory Management will work to develop and implement an inventory tracking process for its laboratories to include documented policies and procedures, and which will be in compliance with agency requirements related to reconciliation and frequency.

Responsible party: Laboratory Services Section Director

Implementation date:

- *Base inventory will be completed and submitted to DSHS Accounting such that it can be included in the FY10 AFR.*
- *Review of systems available in the department for possible long term use completed by December 31, 2010.*

Establishment of an ongoing tracking process to be completed by August 31, 2011

The Department Did Not Report Consumable Inventory in Its Annual Financial Reports as Required

Reporting Requirement for Annual Financial Reports

According to the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, agencies must use the consumption method to record their change in inventories in which "...agencies initially report the inventories they purchase as an asset and defer the recognition of an expenditure until the period in which the inventories are consumed."

The Department did not ensure that it accurately reported consumable inventory related to the laboratories' operations in its annual financial report for fiscal year 2009 as required by the Comptroller of Public Accounts' reporting requirements (see text box). For example, the Department did not report \$4.2 million of consumable inventory for newborn screening tests that, according to Department records, it had on hand in its fiscal year 2009 annual financial report as required by the Comptroller of Public Accounts' reporting requirements. As a result, the Department may have underreported assets and overreported expenditures as of the end of fiscal year 2009 by not reporting this inventory information in its annual financial report.

Recommendation

The Department should report the amounts of inventory on hand in its laboratories at the end of each fiscal year in its annual financial report as required.

Management's Response

DSHS concurs with this recommendation and will develop procedures for accounting of inventory in the State Laboratories. The inventory on hand at the end of the fiscal year will be reported in the Department's Annual Financial Report (AFR).

Responsible Party: Accounting Director

Implementation date: November 20, 2010

The Department Does Not Have a Process to Ensure That Specimens Are Protected and Processed in a Timely Manner in the Event of an Emergency or Disaster

The Department's laboratories are developing a comprehensive continuity of operations plan for responding to disasters and emergencies; however, these efforts are currently in the planning phase. According to the Department, those efforts include adjustments to the continuity of operations plan due to the increased demands for laboratory services related to the recent H1N1 pandemic. As a result, the laboratories do not have complete procedures to

ensure that testing supplies and laboratory equipment are available and operational to conduct tests during an emergency or disaster.

According to Department management, the goal is to develop emergency agreements with other laboratories to outsource critical operations if the Department's primary laboratory facility was inoperative. The Department assigned priority rankings to help identify the most critical and time-sensitive tests that should be given the highest priority for shifting to other laboratories for processing if an emergency prevents the Departments' laboratories from processing them. For example, according to the Department, the Austin Laboratory processes more than 2,000 samples daily. However, the Department has not made arrangements for other laboratories to assume the Department's testing workload in the event that the Austin Laboratory is non-operational as a result of an epidemic or disaster.

A power outage at the Austin Laboratory in September 2009 resulted in what the Department estimated was a loss of more than 2,000 specimens and \$125,000 in supplies and equipment. The Department's continuity of operations plan for its laboratories does not include procedures that address the safeguarding of specimens submitted for testing, reagents used for conducting tests, other consumable inventory, and laboratory equipment in the event of an emergency or sudden loss of power. As a result, the Department is at an increased risk of losing supplies that may be required to conduct laboratory tests, which could interfere with the laboratories' ability to conduct tests within required timeframes.

Recommendations

The Department should:

- Establish a time line for completing the continuity of operations plan for its laboratories. This includes developing agreements to outsource critical operations as needed during an emergency.
- Implement procedures to ensure that the laboratories have a plan in place to protect specimens submitted for testing, testing supplies, and laboratory equipment in the event of an emergency.

Management's Response

DSHS agrees with the recommendation. The Laboratory Management staff has developed a Continuity of Operations Plan that is currently undergoing management review. The DSHS Laboratory COOP workgroup has identified laboratories, based on the critical testing needs, which may provide assistance if testing operations were to be suspended.

The laboratory will ensure that procedures for protecting specimens, supplies and equipment during a power outage are documented as part of the COOP and the laboratory's Incident Response Plan

Responsible party: Laboratory Services Section Director

Implementation date:

- *Plan completion and approval 1/31/11*
- *Necessary agreements and Memoranda of Understanding to be executed by 8/31/2011*

Chapter 2-E

The Department Did Not Conduct Inspections of Hazardous Materials Storage as Required

The Department complied with its hazardous waste disposal procedures by ensuring that a hazardous waste disposal form was completed for each disposal of hazardous chemicals. However, the Department did not ensure that weekly inspections of the hazardous materials storage building in Austin were always conducted as required by the Code of Federal Regulations.

The Department implemented procedures for the Austin Laboratory's safety officer to perform weekly inspections of the hazardous materials storage building. However, these inspections were not conducted for 6 (11 percent) of the 53 weeks during fiscal year 2009 and 2010 tested because the safety officer was on leave and the Department had not designated a backup position or developed alternative procedures to ensure that the inspections were conducted during the safety officer's absence. Because of the volatility and safety risks of hazardous materials, it is important that they are regularly inspected to ensure that they are accounted for and stored properly.

Recommendation

The Department should implement a process to ensure that inspections of the laboratories' hazardous materials storage building are conducted weekly as required by federal law.

Management's Response

Please note the Federal law related to disposal of hazardous chemical waste requires that at least once a week, container storage areas must be visually inspected for leaking and deteriorating containers (40 CFR §264/265.174).

The Federal law does not address the storage of hazardous materials that are not considered waste.

The DSHS Laboratory Management Standard Operating Procedure (SOP), document # QC-1005 entitled “Inspection of the Hazardous Materials Storage Building”, has been developed and approved. This SOP includes procedures to ensure that the building is inspected during the absence of the Laboratory Safety Officer.

Additionally, Laboratory Management will install electronic key card readers to each of the doors to the Hazardous Materials Building. This will allow the Laboratory to limit access to the building and track access.

Responsible party: Manager, Quality Assurance Unit, Laboratory Services Section

Implementation date: A request to install the electronic key card readers to each of the doors to the Hazardous Materials Building will be submitted by 9-30-2010.

(Changes internal to DSHS have already been implemented. Changes requested by TFC are anticipated to be completed not later than September 30, 2011)

Chapter 2-F

The Department Lacks Controls to Safeguard Inventory Items

The Department did not have controls to track access to inventory storage buildings at the Women’s Health Laboratory or the South Texas Laboratory. The inventory storage building at the Women’s Health Laboratory contains hazardous materials. The inventory storage building at the South Texas Laboratory contains common laboratory supplies and extra inventory items not stored in the testing areas. Without a system in place to track who has accessed those buildings, there is a risk that inventory could be lost or stolen, which could result in financial loss and potential risks to public health.

In addition, the Department did not have adequate access controls over its information applications. Title 1, Texas Administrative Code, Chapter 202, requires that a user’s access authorization be appropriately modified or removed when the user’s employment or job responsibilities within the agency change.

Recommendations

The Department should:

- Develop a process to track access to the laboratories' inventory storage buildings.
- Enhance access controls over the laboratories' information management applications.

Management's Response

DSHS agrees with the recommendations and is instituting changes for the Women's Health Lab (WHL) and South Texas Lab (STL) to enhance controls over tracking access to the laboratories' inventory storage buildings and over information management applications according to the Department's IT policy.

Responsible party: Laboratory Unit Manager in coordination with the STL Branch Manager and WHL Branch Manager.

Implementation date: December 1, 2010.

The Department Does Not Have Adequate Controls or Provide Sufficient Oversight to Ensure that the Information in Its Testing and Billing Applications for Its Laboratories Is Complete or Accurate

Auditors identified significant weaknesses in the Department's controls over the information technology applications used to track testing, billing, and accounting information for the Department's laboratories. As a result of those weaknesses, auditors cannot provide assurance that the information in the Department's testing and billing applications is complete or accurate. Without assurance that the Department's applications contain complete and accurate information, the Department cannot determine whether testing or billing records have been incorrectly altered or deleted, whether it is appropriately billing for all tests, or whether it is limiting access to confidential information to only those individuals who require that access.

The Department has documented security standards and guidelines, which include detailed policies and procedures for information technology security, account management, and change management. However, the Department did not ensure that its laboratories complied with those standards and guidelines. There is a lack of coordination between management and information technology employees at the laboratory level and those at the Department level. As a result, the Department did not provide sufficient oversight and support to ensure that the laboratories' applications had adequate security and that all software installations and changes were evaluated.

The Department also did not ensure that the laboratories' information management applications were designed and implemented to ensure application functionality and usability, or that identified problems were addressed in a timely manner.

The Department did not ensure that its laboratories followed a change management process, monitored access controls, or complied with the Department's acceptable use policies.

The Department has a detailed change management policy that establishes rules and guidelines to manage changes to Department systems. This policy covers any systems that fall within the scope of the statewide data center contract. However, this policy does not include the laboratory applications, which are proprietary applications and are not a part of the statewide data center contract.

A formal, documented change management process is an important control to ensure that changes to an automated environment do not inadvertently alter data and/or incorporate weaknesses into existing or proposed applications.

However, the Department did not ensure that the laboratories' implemented a change management process. As a result, the laboratories did not document

changes made to their laboratory information management applications by a third-party vendor, the laboratories' database administrators, or information technology employees at the Department. These changes were made without going through a formal change management process. To address these issues, the laboratories created their own change control review board in May 2010.

Because the Department did not enforce its acceptable use policies, unauthorized software was installed on Department workstation computers without the approval or knowledge of the Department's information technology section. This unauthorized software created a serious security risk of unauthorized access to confidential information on the Department's and laboratories' testing and billing applications. The Department's network security group discovered and removed the software at a later date. It is unknown whether this security risk resulted in any lost information or disclosure of confidential information.

Auditors identified significant weaknesses in the access controls over the laboratories' information management applications. The Department should enhance its password security to comply with the Department's password guidelines.

The Department did not ensure that the laboratories' information management applications were designed and implemented to ensure system functionality and usability and that application data was complete, accurate, and secure.

The Department's three public health laboratories use five separate laboratory information management applications to track testing information. The laboratory information applications do not interface with each other, nor do they interface with the Department's laboratory billing application. The laboratories' applications were developed and installed as part of a request for offers that the Department issued in 2006. The request specified a fully functional laboratory management information system, including an integrated billing and accounts receivable application. However, the Department did not receive any offers that included a billing function. According to Department management, the Department went forward and purchased applications from a variety of vendors, without a billing function.

After trying three more times to solicit bids for a public health laboratory billing and accounts receivable system, the Department received four bids in July 2007. The Department selected the vendor with the lowest bid, however it was later determined that the billing application purchased was not robust enough to address the laboratories' needs. For example, the billing application does not produce a report that shows the total activity for an account. According to Department information technology management, those decisions were made at a time during reductions in information technology staffing and turnover in information technology management.

The Department did not ensure that information about information technology-related problems was adequately communicated to all affected parties.

The Department's process to transfer information from its laboratories' information management applications to the billing application is not automatic. It requires the Department to extract data from one application and then electronically transfer the data to the billing application, which then determines the bill for services. The Department experienced difficulty with these transfers, and while the information technology personnel assigned to work with the laboratories were aware of the data transfer problems between the laboratories testing applications and the Department's billing application, the Department's executive information technology management was not made aware of the problems. These problems resulted in the decision to delay billing at the South Texas Laboratory which has resulted in approximately \$440,000 in unbilled services provided from July 2008 until February 2010 (see Chapter 1-A for details).

The Department also did not have a process to ensure that information technology-related billing issues identified were communicated to appropriate management or to ensure that responsibility was assigned to resolve the issues. Specifically, the billing branch provided to the Department's accounting management a weekly report of billing issues related to the laboratory applications, such as missing test files and duplicate bills. Although neither the laboratories' manager nor the information technology supervisor received this report, there may have been other forms of communication to address these concerns. However, auditors did not identify a process or obtain documentation showing that the Department follows a process to resolve issues that are identified or to assign responsibility for the resolution of the issues.

The Department did not reconcile information in the laboratories' information management applications with information in the Department's laboratory billing application.

As discussed in Chapter 1, auditors identified inaccuracies in the transfer of information from the laboratories' applications to the Department's billing application resulting in duplicate bills and instances in which services were provided but for which bills were not generated.

Recommendations

The Department should:

- Develop a process to ensure that the policies and procedures in place at the Department, including change management and acceptable use policies, are communicated and incorporated in the operations of the laboratories.

- Develop a process to ensure that all software installations are properly authorized and reviewed prior to implementation, in accordance with the Department's information technology security policy.
- Conduct a review of user access security to ensure that user access is appropriate and is based on each user's job roles and responsibilities.
- Implement a process to monitor and update user access to the Department's information technology applications to ensure that access is appropriate and granted to only current employees.
- Review password controls over the laboratory information management applications to ensure that appropriate password policies have been established on the network and on each laboratory application.
- Develop and perform reconciliation procedures, such as a record total count, to ensure that records are complete and accurate prior to the transfer of data to the billing application.

Management's Response

The Information Technology section (IT) will assist in the formation of and be a participant in a Laboratory Change Control Board (LCCB) by September 2010. IT, in conjunction with the LCCB, will define and incorporate software installation as part of the change control process and ensure all hardware and application changes are documented and approved by the LCCB prior to implementation.

Significant action addressing security issues has already been completed. Action has been initiated to complete the following:

- (A) Review of the change management and acceptable use policies and practices to ensure they are incorporated into laboratory operations*
- (B) Review of the software implementation practices to ensure compliance with IT Security Policy*
- (C) Review of user access practices to ensure that access is appropriate and monitored*
- (D) Review and implementation of reconciliation procedures for the transfer of data to the billing application*

Responsible Party: Information Resource Manager, in coordination with Laboratory Services Section Director and Accounting Section Director.

Target Implementation Date(s): New or Revised Processes and Controls - 1/31/2011

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether the Department of State Health Services (Department):

- Manages selected funding streams for the state laboratory in compliance with the General Appropriations Act and collects revenues and sets fees for lab services in compliance with federal and state statutes and rules.
- Has controls to safeguard and account for inventories of supplies used in laboratory tests.
- Has, and adheres to, policies and procedures that ensure timely receipt and processing of samples for testing at the state laboratory.

Scope

The scope of this audit covered all laboratory-related information for fiscal years 2008 and 2009 and the first two quarters of fiscal year 2010.

Methodology

The methodology for this audit included collecting documentation and information, conducting interviews with Department and the laboratories' management and staff, performing selected tests and other procedures, analyzing the results of the tests, and conducting walk-throughs of laboratory branches and testing areas in the Austin Laboratory, the Women's Health Laboratory in San Antonio, and the South Texas Laboratory in Harlingen. Auditors also performed a general assessment of the information technology controls over the applications used to track and store information relating to the laboratories. This assessment included a review of logical access controls, program change controls, physical access controls, and application controls.

Information collected and reviewed included the following:

- List of pending litigation involving the Department's laboratories.
- The laboratories' *Standard Operating Procedures*.
- Bond debt service information related to the Department for fiscal years 2008, 2009, and 2010.

- Health and Human Services Administrative System (HHSAS) revenue and expenditure data.
- The Department's strategic plan.
- The Department's organizational chart.
- Correspondence from the U.S. Centers for Medicare and Medicaid Services to the Health and Human Services Commission.
- The Department's public fee schedules for laboratory services.
- Documentation related to the Department's cost allocation process for its laboratories and for setting the fees for laboratory services.
- Information related to indirect cost rates and employee benefit rates.
- Request for offers and purchase orders related to the billing and accounts receivable application for the Department's laboratories.
- Information from the Department's internal audit department regarding an ongoing audit of Department billing.
- *Texas Department of State Health Services: Report of Site Visit*, U.S. Center for Disease Control and Prevention, February 4, 2010.
- Annual delinquent obligations reports prepared by the Department for the Office of the Attorney General of Texas, as of August 31, 2008, and as of August 31, 2009.
- Department policies and procedures related to the laboratories' operations.
- Requisition and order forms for laboratory consumables.
- Logs for the inspections of the Austin Laboratory's hazardous materials building.
- *State Agency Internal Audit Forum External Quality Assurance Review Report*, Department of State Health Services Office of Internal Audit, November 8, 2007.

Procedures and tests conducted included the following:

- Conducted walk-throughs of the Austin Laboratory, the South Texas Laboratory, and the Women's Health Laboratory.
- Analyzed testing data for the South Texas Laboratory.
- Compared the information in the Austin Laboratory's testing data to the Department's laboratory billing application.

- Reviewed the Department's cost allocation methodology and documentation.
- Reviewed the Department's fee revision and fee setting documentation.
- Compared the Department's laboratories' revenues to expenditures.
- Reviewed transmittal and notice of approval of state plan material from the U.S. Centers for Medicaid and Medicare Services and the Health and Human Services Commission.
- Reviewed testing and billing documentation related to newborn screenings.
- Analyzed the Department's uncollected billings aging reports for its laboratories.
- Reviewed the Department's procedures for handling delinquent accounts.
- Traced a sample of payments received for laboratory services to the cash receipts and billing applications.
- Reviewed documentation related to compliance with laboratory-related riders in the General Appropriations Act.
- Performed inventory counts at the Austin Laboratory, the Women's Health Laboratory, and the South Texas Laboratory.
- Tested the Department's hazardous materials inspection records.
- Tested general laboratory supply reconciliations.
- Reviewed the Department's annual financial report for fiscal year 2009.
- Reviewed documentation related to the Department's continuity of operations plan.
- Reviewed access controls to the laboratories' information management applications used to track inventory, billing, and laboratory tests.

Criteria used included the following:

- Texas Administrative Code, Title 1, Section 354.1003(a)(3).
- Texas Health and Safety Code, Section 12.032(c) (Fees for Public Health Services).
- Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

- Comptroller of Public Accounts' Accounting Policy Statement 027.
- Texas Administrative Code, Title I, Chapter 202 (Security Standards for State Agencies).
- The General Appropriations Act (80th Legislature).
- The General Appropriations Act (81st Legislature).
- Department policies and procedures.
- The laboratories' *Standard Operating Procedures*.

Project Information

Audit fieldwork was conducted from April 2010 through June 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Kathy Aven, CIA, CFE (Project Manager)
- Kristyn Scoggins, CGAP (Assistant Project Manager)
- Nick Ballard, MBA, CIDA
- Ben Carter
- Priscilla Garza
- Rachel Goldman
- Adam M. Wright, CIA, CFE, CGAP
- Leslie Ashton, CPA (Quality Control Reviewer)
- Angelica Ramirez, CPA (Audit Manager)

Background Information on the Department's Public Health Laboratories

The Department of State Health Services (Department) has primary oversight for three public health laboratories: the Austin Laboratory in Austin, the Women's Health Laboratory in San Antonio, and the South Texas Laboratory in Harlingen (see Figure 1).

Figure 1



Source: Map created by the State Auditor's Office.

Tables 2 through 4 show the laboratories' total revenues and expenditures, number of specimens processed, and the most common types of tests processed at each laboratory.

Table 2

Revenues and Expenditures for the Department's Public Health Laboratories Fiscal Year 2009 and September through May of Fiscal Year 2010			
Fiscal Year	Revenues	Expenditures	Difference Between Revenues and Expenditures ^a
Fiscal Year 2009	\$37,725,179	\$39,243,940	\$(1,518,761)
September through May of Fiscal Year 2010	\$36,059,122	\$21,123,722	\$14,935,399
^a Totals may not sum precisely due to rounding.			

Sources: Uniform Statewide Accounting System and Health and Human Services Administrative System. The total revenue amount includes both general appropriations and collected revenue.

Table 3

Number of Submitted Specimens Processed Fiscal Years 2008 and 2009		
Laboratory	Fiscal Year 2008	Fiscal Year 2009
Austin Laboratory	1,709,020	1,839,366
Women's Health Laboratory in San Antonio	367,668	362,876
South Texas Laboratory in Harlingen	104,662	95,341
Totals	2,181,350	2,297,583

Source: Department of State Health Services.

Table 4

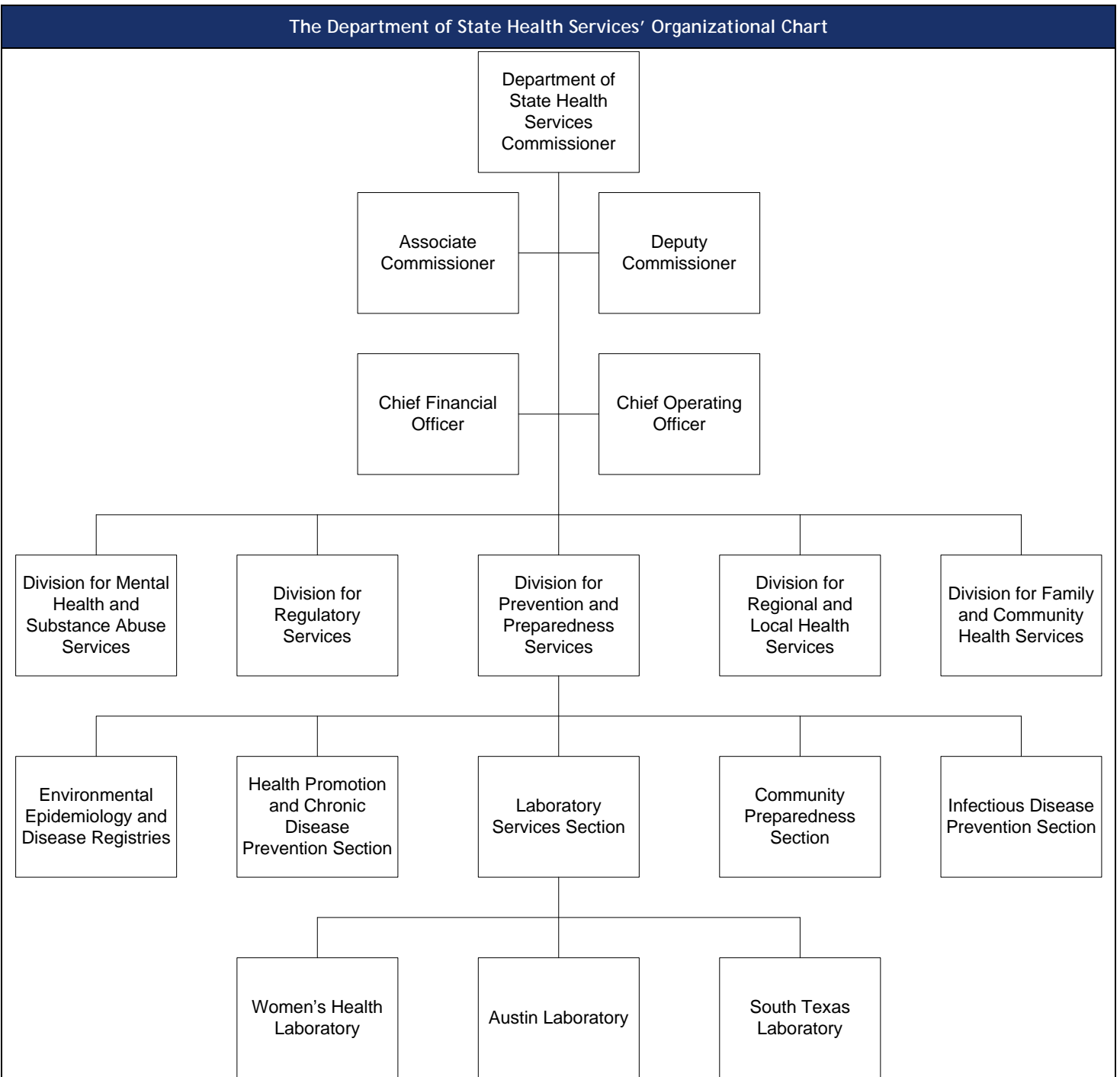
Common Tests Performed by Each Laboratory		
Austin Laboratory	Women's Health Laboratory in San Antonio	South Texas Laboratory in Harlingen
<ul style="list-style-type: none"> ▪ Newborn screenings ▪ Lead tests ▪ Human immunodeficiency virus (HIV) ▪ Rabies tests 	<ul style="list-style-type: none"> ▪ Pap smears ▪ Hepatitis tests ▪ Tuberculosis tests ▪ Gonorrhea tests 	<ul style="list-style-type: none"> ▪ Water tests ▪ Clinical chemistry tests ▪ Hematology tests ▪ Tuberculosis tests

Source: Department of State Health Services.

Organizational Chart

As Figure 2 shows, the Division for Prevention and Preparedness Services has primary oversight for the Department of State Health Services' laboratories.

Figure 2



Source: Department of State Health Services.

General Appropriation Act Riders Related to the Department of State Health Services' Public Health Laboratories

Riders from the General Appropriations Act (80th Legislature) Pertaining to the Department of State Health Services' Laboratories

Rider 20. Laboratory Funding.

- a. All receipts generated by the Department of State Health Services (DSHS) from laboratory fees during the 2008-09 biennium and deposited in General Revenue-Dedicated Account No. 524 under Revenue Object 3561 are hereby appropriated to the DSHS for transfer to the Texas Public Finance Authority for the payment of debt services on the project revenue bonds.
- b. Appropriations made out of the General Revenue Fund to DSHS in Goal E, Indirect Administration, may be transferred for bond debt service payments only if laboratory fees generated by the laboratory during the biennium are insufficient to support the bond debt service, subject to prior approval of the Governor and the Legislative Budget Board and if no funds appropriated to DSHS by this Act have been transferred into Goal E, Indirect Administration.
- c. Included in the appropriations made above in Strategy A.4.1, Laboratory Services, is \$10,919,442 in fiscal year 2008 and \$10,919,442 in fiscal year 2009 from General Revenue-Dedicated Account No. 524. These amounts include an unexpended balance of \$3,800,000 from the 2006-07 biennium.

Rider 63. Appropriation: Contingent Revenue.

The Department of State Health Services (DSHS) is appropriated for the purposes identified below any additional revenue generated by DSHS above the amounts identified in fiscal year 2008 or fiscal year 2009 in the Comptroller of Public Account's Biennial Revenue Estimate (BRE) for each of the accounts or revenue objects identified below. An appropriation from an account or revenue object shall be made available to the department once the amount in the BRE for the account or revenue object for the given fiscal year has been exceeded. An appropriation is limited to revenue generated in fiscal year 2008 or fiscal year 2009 and does not include any balances that have accrued in the account or revenue object code.

- a. Account No. 341, Food and Drug Retail Fees, for restaurant inspections.
- b. Account No. 524, Public Health Services Fee, excluding any amounts deposited into Revenue Object 3561, which are statutorily dedicated for laboratory debt service. Any additional revenues are appropriated for laboratory operations.

c. Revenue Object 3175, Account No. 5017, Asbestos Removal Licensure, for asbestos inspections and regulatory activities.

d. Account No. 5021, Certification of Mammography Systems, contingent upon the department being authorized by the Food and Drug Administration (FDA) to be a certifying body for the purpose of certification of mammography facilities. The department shall provide documentation to the Comptroller of Public Accounts of the FDA authorization.

e. Revenue Objects 3616, 3560, and 3562 in the General Revenue Fund for the purpose of regulating health professionals.

f. Account No. 5024, Food and Drug Registration Fees, for food and drug inspections.

g. Account No. 5022, Oyster Sales, for oyster plant inspections.

h. Revenue Object 3589 in the General Revenue Fund for Radiation Control regulatory activities.

i. Revenue Objects 3123, 3141, 3175, 3555, and 3573 in the General Revenue Fund for environmental regulation.

j. Account No. 19, Vital Statistics, for processing birth and death certificates and other vital records.

k. Account No. 512, Bureau of Emergency Management, for licensing Emergency Medical Services personnel and providers.

Riders from the General Appropriations Act (81st Legislature) Pertaining to the Department of State Health Services' Laboratories

Rider 17. Laboratory Funding.

a. All receipts generated by the Department of State Health Services (DSHS) from laboratory fees during the 2010-11 biennium and deposited in General Revenue-Dedicated Account No. 524 under Revenue Object 3561 are hereby appropriated to the DSHS for transfer to the Texas Public Finance Authority for the payment of debt services on the project revenue bonds.

b. Appropriations made out of the General Revenue Fund to DSHS in Goal E, Indirect Administration, may be transferred for bond debt service payments only if laboratory fees generated by the laboratory during the biennium are insufficient to support the bond debt service, subject to prior approval of the Governor and the Legislative Budget Board and if no

funds appropriated to DSHS by this Act have been transferred into Goal E, Indirect Administration.

c. Included in the appropriations made above in Strategy A.4.1, Laboratory Services, is \$13,757,453 in fiscal year 2010 and \$14,957,453 in fiscal year 2011 from General Revenue-Dedicated Account No. 524. These amounts include an unexpended balance of \$0 from the 2008-09 biennium.

Rider 59. Appropriation: Contingent Revenue.

The Department of State Health Services (DSHS) is appropriated for the purposes identified below any additional revenue generated by DSHS above the amounts identified in fiscal year 2010 or fiscal year 2011 in the Comptroller of Public Account's Biennial Revenue Estimate (BRE) for each of the accounts or revenue objects identified below. An appropriation from an account or revenue object shall be made available to the department once the amount in the BRE for the account or revenue object for the given fiscal year has been exceeded. An appropriation is limited to revenue generated in fiscal year 2010 or fiscal year 2011 and does not include any balances that have accrued in the account or revenue object code.

- a. Account No. 341, Food and Drug Retail Fees, for restaurant inspections.
- b. Account No. 524, Public Health Services Fee, excluding any amounts deposited into Revenue Object 3561, which are statutorily dedicated for laboratory debt service. Any additional revenues are appropriated for laboratory operations.
- c. Revenue Object 3175, Account No. 5017, Asbestos Removal Licensure, for asbestos inspections and regulatory activities.
- d. Account No. 5021, Certification of Mammography Systems, for the purpose of certification of mammography facilities.
- e. Revenue Objects 3616, 3560, and 3562 in the General Revenue Fund for the purpose of regulating health professionals.
- f. Account No. 5024, Food and Drug Registration Fees, for food and drug inspections.
- g. Account No. 5022, Oyster Sales, for oyster plant inspections.
- h. Revenue Object 3589 in the General Revenue Fund for Radiation Control regulatory activities.
- i. Revenue Objects 3123, 3141, 3175, 3555, and 3573 in the General Revenue Fund for environmental regulation.

j. Account No. 19, Vital Statistics, for processing birth and death certificates and other vital records.

k. Account No. 512, Bureau of Emergency Management, for licensing Emergency Medical Services personnel and providers.

Rider 89. Limitation: Expenditure and Transfer of Additional Public Health Medicaid Reimbursements.

a. Appropriations. Included in the amounts appropriated above for the Department of State Health Services are the following amounts of Public Health Medicaid Reimbursements (Account 709):

(1) Strategy A.2.1, Immunize Children and Adults in Texas: \$341,686 in each fiscal year;

(2) Strategy A.4.1, Laboratory Services: \$13,020,618 in each fiscal year;

(3) Strategy B.1.2, Women and Children's Health Services: \$37,706 in each fiscal year;

(4) Strategy C.1.3, Mental Health State Hospitals: \$35,247,627 in fiscal year 2010 and \$35,681,547 in fiscal year 2011. Funding represents all additional Account 709 revenue anticipated to be available in the 2010-11 biennium (\$70,929,174) based on the agency's estimate; the additional revenue is associated with an anticipated increase in laboratory fee revenue due to a rate change to align with Medicare rates; and

(5) Strategy E.1.1, Central Administration: \$672,285 in each fiscal year.

b. Limitation on Use of Public Health Medicaid Reimbursements (Account 709).

(1) In the event that Public Health Medicaid Reimbursement revenues exceed the amounts noted above, the department may spend the Public Health Medicaid Reimbursement funds thereby made available only to the extent authorized in writing by the Legislative Budget Board and the Governor.

(2) Notwithstanding any other provisions contained in this Act, transfers of Public Health Medicaid Reimbursement revenues shall be made only to the extent authorized in writing by the Legislative Budget Board and the Governor.

c. Request for Approval to use Additional Public Health Medicaid Reimbursements Funds. To request approval pursuant to section (b-1)

above, the department shall submit a written request to the Legislative Budget Board and the Governor. At the same time, the agency shall provide a copy of the request to the Comptroller of Public Accounts. The request shall include the following information:

- (1) the reason for and the amount of Public Health Medicaid Reimbursement revenue that exceeds the amounts noted in section (a) above, and whether this additional revenue will continue in future years;
- (2) a detailed explanation of the purpose(s) of the expenditure and whether the expenditure will be one-time or ongoing;
- (3) the name of the strategy or strategies affected by the expenditure and the FTEs for each strategy by fiscal year;
- (4) the impact of the expenditure on performance levels and, where relevant, a comparison to targets included in this Act for the affected strategy or strategies; and
- (5) the impact of the expenditure on the capital budget.

d. Requests to Transfer Additional Public Health Medicaid Reimbursements Funds. To request a transfer pursuant to section (b-2) above, DSHS shall submit a written request to the Legislative Budget Board and the Governor. At the same time, the agency shall provide a copy of the request to the Comptroller of Public Accounts. The request shall include the following information:

- (1) a detailed explanation of the purpose(s) of the transfer and whether the expenditure will be one-time or ongoing;
- (2) the name of the originating and receiving strategies and the method of financing and FTEs for each strategy by fiscal year;
- (3) an estimate of performance levels and, where relevant, a comparison to targets included in this Act for both the originating and the receiving strategies; and
- (4) the capital budget impact.

Additional information requested by the Legislative Budget Board or the Governor should be provided in a timely manner. The request and information provided subsequently shall be prepared in a format specified by the Legislative Budget Board.

The Comptroller of Public Accounts shall not allow the expenditure or transfer of funds authorized by any of the above subsections if the Legislative

Budget Board provides notification to the Comptroller of Public Accounts that the requirements of this provision have not been satisfied.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Rene Oliveira, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Health and Human Services Commission

Mr. Thomas Suehs, Executive Commissioner

Department of State Health Services

Dr. David L. Lakey, Commissioner



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