

AUDITOR'S REPORT

HARRIS HEALTH SYSTEM AMS INVOICE MONITORING AND RVU ANALYSIS FOLLOW-UP AS OF MARCH 31, 2013



January 29, 2015

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HARRIS COUNTY AUDITOR

January 29, 2015

Mr. George Masi
President and Chief Executive Officer
Harris Health System
2525 Holly Hall
Houston, Texas 77054

RE: Harris Health System Affiliated Medical Services (AMS) Invoice Monitoring and Relative Value Unit (RVU) Analysis Follow-up as of March 31, 2013

At the request of Harris Health System (Harris Health) Management, the Audit Services Department performed procedures relative to the Harris Health AMS Invoice Monitoring and RVU Analysis Follow-up engagement as of March 31, 2013. The objective of the engagement was to evaluate Management's progress implementing recommendations to improve critical controls identified and reported in the Auditor's Report for *Harris County Hospital District AMS Budget and RVU Analysis*, dated May 31, 2012 (AMS Engagement).

To improve clarity of work performed we have changed the name of this engagement from the original scope letter to Harris Health AMS Invoice Monitoring and RVU Analysis Follow-up.

We performed the following procedures:

- Reviewed the issues and recommendations identified in the AMS Engagement.
- Met with Harris Health Management to gain an understanding of recommendations implemented and the status of recommendations being implemented.

The engagement process included providing former President and Chief Executive Officer David Lopez with a combined engagement and scope letter and conducting conferences with Harris Health personnel. The purpose of the letters and conferences were to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The enclosed Auditor's Report presents the status of Management's progress implementing material recommendations identified during the AMS Engagement. Also presented are new significant issues identified during our procedures, recommendations developed in conjunction

Mr. George Masi
President and Chief Executive Officer

with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Barbara J. Schott
County Auditor

cc: Harris Health System Board of Managers
District Judges
County Judge Ed Emmett
Commissioners:
 R. Jack Cagle
 El Franco Lee
 Jack Morman
 Steve Radack
Devon Anderson
Vince Ryan
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TABLE OF CONTENTS

OVERVIEW4

RESULTS5

ISSUES AND RECOMMENDATIONS6

AMS Report - Professional Service Fee Collections6

Documenting Changes to the Agreement.....8

Reporting Errors to Senior Management11

Documenting Procedures.....14

Computing Incentive Pay15

OVERVIEW

At the request of Harris Health Management, Audit Services performed procedures to evaluate Management's progress implementing material recommendations in the Auditor's Report dated May 31, 2012, for the AMS Engagement.

The AMS Engagement was performed to investigate concerns expressed at the Harris County Commissioners Court meeting on April 13, 2010, regarding payments for physician faculty and other practitioner services that are provided to Harris Health patients by Baylor College of Medicine (Baylor) and The University of Texas Medical School at Houston (UT). The services are provided under the terms of a Professional Services Agreement (the Agreement) between AMS and Harris County Clinical Services Inc. (HCCS). The Agreement was effective July 1, 2008.

The Agreement established an Operations Committee which meets regularly and is composed of members appointed by Baylor, UT, and HCCS. The Operations Committee monitors payments of amounts due to AMS from HCCS, attempts to resolve outstanding issues related to invoices, and attempts to resolve outstanding issues related to HCCS support of services.

Payments for services are initiated when Baylor and UT submit separate detailed invoices on electronic spreadsheets to HCCS each month. The spreadsheets are concurrently sent to Harris Health to test for accuracy and compliance with the Agreement.

RESULTS

Based on procedures performed, the status of implementing material recommendations that were reported to you in the AMS Engagement is summarized on the schedule below. The issues and recommendations where the implementation status is green have been fully implemented. The issues and recommendations where the implementation status for the recommendations is yellow or left blank are discussed in greater detail in the Issues and Recommendations matrix.

AMS Engagement Recommendations	Implementation Status
Enforce the requirement that Baylor follow the spreadsheet invoice formats included in the Agreement's Business Rules.	Complete
Assess controls over preparation of invoices using electronic spreadsheets at Baylor and UT to determine whether adequate controls are present.	Complete
Consider whether RVUs included in computations of RVU incentive pay should be screened for medical necessity in conformity with Harris Health's accepted standards of care.	Complete
Require Baylor and UT to use the same survey data and consistently treat on-call pay when comparing their salaries to the Association of American Medical Colleges survey data.	Complete
Consider adjusting RVU incentive pay thresholds to ensure that incentive pay awarded is for productivity that exceeds an expected level.	Complete
Amend the provisions of the Agreement that link HCCS payments with professional fees collected by Baylor and UT.	In Process
New Issue Recommendations	Implementation Status
Obtain legal counsel review of documentation supporting changes to the Agreement to ensure legal requirements are satisfied.	
Provide Harris Health senior management with summary reporting of errors identified on invoices and how overpayments or underpayments were resolved.	
Formally document the monthly invoice review procedures and cross-train employees to perform the procedures.	
Review Clinical Pathology incentive pay computations to identify whether there are additional overpayments that need to be recovered.	

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>AMS Report - Professional Service Fee Collections</p>	<p>Harris Health Management informed us that all parties to the Agreement will not agree to amend the provisions that link HCCS payments with professional fees collected by Baylor and UT (i.e. Baylor and UT do not suffer a financial loss if the collection of their professional fees decreases).</p> <p>To maximize funding of AMS Services through professional fee collections, Provider Practices and Contracting Management, in conjunction with other Harris Health departments, are working with Baylor and UT to maintain and improve professional fee collections. In addition, a national healthcare consulting firm has advised Harris Health Management and AMS regarding</p>	<p>All parties to the Agreement will not agree to amend the provisions that link HCCS payments with professional fees collected by Baylor and UT. As a result, the amount of professional fees collected by Baylor and UT will continue to impact the amount HCCS pays AMS.</p>	<p>Provider Practices and Contracting Management, in conjunction with other Harris Health departments, should continue to work with Baylor and UT to maximize collection performance. In addition, internally produced reports that compare Baylor and UT collection metrics to nationally recognized benchmarks should be provided regularly to Harris Health Senior Management and presented for information purposes to the Joint Conference Committee of the Harris Health Board of Managers.</p>	<p>AMS continues to work collaboratively with Harris Health (HH) to improve the effectiveness of both the front end of the revenue cycle, controlled by HH, and the back end, controlled by AMS. Although HCCS remains contractually obligated to increase payments to AMS if collections decrease, HH continues, since December, 2012, to monitor detailed aspects of both schools' revenue cycles by reviewing reports provided monthly at HH-AMS Revenue Cycle and Practice Plan Reporting Team Meetings.</p> <p>Management plans to provide monthly key metrics, benchmarked against nationally recognized survey data through the University Healthcare Consortium</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>(Continued) AMS Report - Professional Service Fee Collections</p>	<p>alternative, mutually beneficial partnership structures to consider for future agreements.</p>			<p>(UHC). UHC is the largest and most recognized source of academic industry benchmarks whose membership includes 120 academic medical centers and 299 of their affiliated hospitals.</p> <p>Harris Health has recently joined UHC and is currently submitting hospital revenue data in anticipation of receiving reports in the near future. Additionally, AMS has offered to submit their revenue cycle data once HH finalizes arrangements with UHC to receive extra data, which will ultimately give us the ability to compare AMS professional fee collections to UHC benchmarks.</p> <p>Once UHC receives and accepts HH hospital revenue cycle data, comparisons to both industry and like-</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) AMS Report - Professional Service Fee Collections				hospital benchmarks will also become available.
Documenting Changes to the Agreement	During follow-up procedures, Audit Services identified two services lines (Clinical Pathology and Anesthesia) that were designated in the Agreement as non-RVU producing service lines, but invoiced as RVU producing service lines (i.e. eligible for RVU based incentive pay).	No written documentation could be provided for the change to Clinical Pathology, which increased payments to AMS over \$40,000 for the three months ended March 31, 2013. The Anesthesia change increased payments to AMS more than \$300,000 for the three months ended March 31, 2013, and was supported by a memorandum from the General Director of AMS to the HCCS attorney, and distributed to the Operations Committee. However, there was no evidence that legal counsel reviewed the memorandum to ensure it satisfied legal	Provider Practices and Contracting Management, in conjunction with the Operations Committee, should ensure legal requirements for changing the Agreement are satisfied by obtaining legal counsel review of documentation for past changes and for future changes to the Agreement.	The Clinical Pathology change noted occurred in July 2008, the first month of the Agreement. According to employees of Harris Health and AMS, who were involved with Agreement negotiations at the time, the Clinical Pathology change occurred after discovering that Clinical Pathology performed procedures that produced RVUs. Staffing plan RVU changes, on a smaller scale, have occasionally occurred. Recently, for example, Harris Health asked AMS to provide additional physicians in the Emergency Departments of our hospitals to provide timelier (MSE) medical screenings of

ISSUES AND RECOMMENDATIONS

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<p>(Continued) Documenting Changes to the Agreement</p>		<p>requirements for changing the Agreement.</p> <p>Not obtaining legal review of documentation for changes to the Agreement increases the risk that costs or losses will be incurred if there are future disputes about the changes for which documentation doesn't exist or is not legally enforceable.</p>		<p>patients. Since these screenings are not RVU producing, in fairness to our AMS partners, Management approved section-based funding for AMS physician providers not held accountable for RVUs while serving in ED triage roles.</p> <p>Currently, RVU and/or FTE changes to staffing plans, are included as part of the documentation supporting the annual negotiations for each one year extension to the Agreement, beginning every July 1, in compliance with Section 6 of the Agreement. Each of these new staffing plans includes details of RVU and/or FTE changes approved informally during the year. The staffing plans are formally approved by both parties, in writing, annually.</p> <p>HH Senior Management,</p>

ISSUES AND RECOMMENDATIONS

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<p>(Continued) Documenting Changes to the Agreement</p>				<p>AMS leadership, their respective counsel, and counsel for HCCS recently met and agreed that the approval process captioned above complies with the Agreement. The parties mutually consented to the changes made to the Agreement in regard to Anesthesia and Pathology, and mutually agreed that no overpayments occurred.</p> <p>Management plans to document and include any changes to the Agreement, not previously approved in writing, as additions to the next staffing plan to be formally approved through the annual contract extension process.</p> <p>Additionally, a standing item has been added to the agenda of the Operations Committee, for discussion of these types of changes to the</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Documenting Changes to the Agreement				staffing plans for AMS contracts.
Reporting Errors to Senior Management	The Provider Practices and Contracting Department and the Operations Analysis and Assurance Department review the monthly invoices and supporting electronic spreadsheets for accuracy and compliance with the Agreement. The spreadsheets include a significant amount of detail information and use computational formulas to compute amounts due to AMS. Errors are periodically identified and reported to Baylor or UT by the Provider Practices and Contracting Department for correction on future invoices.	Harris Health senior management is not provided with reports that summarize invoice errors identified or the resolution of overpayments or underpayments. As a result, Harris Health senior management may not receive information necessary to effectively monitor the invoice review process or identify and timely address needed improvements.	Provider Practices and Contracting Management, in conjunction with Operations Analysis and Assurance Management, should provide Harris Health senior management with summary reporting of invoice errors and the resolution of overpayments or underpayments.	Each month, notification is sent to HCCS, indicating the distribution of payment amounts for each school. As applicable, this payment notification includes: (1) a clearly marked statement making the payment "SUBJECT TO RECONCILIATION"; (2) the reason for subjecting the payment to reconciliation, and (3) any appropriate below-the-line adjustment to be reflected by the schools on next month's billing. These approval notifications have been historically made on behalf of the HH Executive Vice-president (EVP); assigned the responsibility for the AMS relationship in charge, previously the EVP/Clinical

ISSUES AND RECOMMENDATIONS

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<p>(Continued) Reporting Errors to Senior Management</p>				<p>Operations & CNE, and then the EVP-COO. Current notifications are made to the CEO.</p> <p>HCCS is notified via email and the CEO is copied.</p> <p>Payment adjustments, if applicable, are normally resolved by, and included on the next month's invoice. Occasionally, more time is needed for research or additional supporting data requests, so corrections must be delayed beyond the next month's billing cycle.</p> <p>Although efforts are made to clear issues as quickly as possible, all items are open until cleared. The Agreement contains no timing requirements or deadlines for clearing disputed items after which they are closed and cannot be adjudicated.</p>

ISSUES AND RECOMMENDATIONS

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(Continued) Reporting Errors to Senior Management				<p>In the interim, delays are noted on payments clearly marked as “SUBJECT TO RECONCILIATION” until adjustments are made and noted on future invoices, as each issue is cleared. This payment notification system, has been in place since the execution of the Agreement July, 2008.</p> <p>At the time of this initial report, both the Provider Practices and Contracting (PPC) and Operations Analysis and Assurance (OAA) departments reported to the same Executive, the EVP-COO, who was the Executive in charge of AMS, and was included in the monthly payment notification process captioned above.</p> <p>PPC will continue to collaborate and work closely</p>

ISSUES AND RECOMMENDATIONS

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(Continued) Reporting Errors to Senior Management				<p>with OAA and will respond to any Executive Management concern or directive regarding their not receiving information necessary to effectively monitor the invoice review process or identify and timely address needed improvements; of which, thus far, none have been given or received.</p> <p>Additionally, Management has added a standing item on the agenda of the AMS Operations Committee to review summary reports of invoice errors and the resolution of overpayments or underpayments. The Operations Committee members include Executive Management of both Harris Health and AMS, including the EVP responsible for AMS.</p>
Documenting Procedures		Monthly invoice review procedures performed by	Provider Practices and Contracting Management	The formal invoice review procedures were provided to

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Documenting Procedures		the Provider Practices and Contracting Director are not formally documented. In addition, employees are not cross-trained to perform the procedures. As a result, there is a risk that the Director's absence could impact the quality of the review and cause errors to be undetected.	should formally document monthly invoice review procedures. Also, employees should be cross-trained to ensure the procedures will continue during the Director's absence.	<p>the County Auditors in June, 2013.</p> <p>One employee, hired by the PPC in 2012, has previous experience preparing monthly invoices for AMS and current experience reviewing AMS monthly invoices.</p> <p>Another employee has been cross-trained since October, 2013 to perform the monthly invoice review, and has current experience reviewing AMS invoices.</p> <p>Additionally, PPC staff includes two CPAs, with audit experience with national CPA firms, who can assist, if necessary.</p>
Computing Incentive Pay		During the three months ended March 31, 2013, RVU based incentive pay computations for certain physician faculty or other practitioners in the Clinical	Provider Practices and Contracting Management, in conjunction with Operations Analysis and Assurance Management, should perform a review of	This change to the Agreement occurred when the Clinical Pathology services line was moved from section-based to RVU production, as noted in

ISSUES AND RECOMMENDATIONS

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(Continued) Computing Incentive Pay		Pathology services line included actual RVUs but not target RVUs. Including actual but not target RVUs results in overstating RVU based incentive pay and increase payments overpayments to AMS.	Clinical Pathology incentive pay computations to determine whether additional overpayments occurred. If additional overpayments occurred, the next invoice should be adjusted to recover any overpayments not already recovered.	Management's response to the County Auditor's Recommendation entitled "Documenting Changes to the Agreement." Management's plan for resolution of this County Audit recommendation is the same as noted above.