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Date: November 4, 2021

To: Dr. Robert Hromas, Dean, Long School of Medicine  
Dr. Carlos Rosende, Executive Vice Dean for Clinical Affairs, Long School of Medicine

From: John Lazarine, Chief Audit Executive  
Internal Audit & Consulting

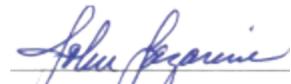
Subject: Audit Report – UHS Contract Revenue Compliance (21-03)

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As part of our FY 2021 Audit Plan, we recently completed the UHS Contract Revenue Compliance audit. Attached is the report detailing the results of this review. Management's Action Plans are included in the report.

We appreciate the cooperation and assistance we received from management and staff throughout the review.

Respectfully,



John Lazarine, CIA, CISA, CRISC  
Chief Audit Executive  
Internal Audit & Consulting Services

Distribution:

cc: Dr. William Henrich, President  
Andrea Marks, Senior Executive Vice President & Chief Operating Officer  
Ginny Gomez-Leon, Vice President & Chief Financial Officer  
Richard Nuttall, Vice Dean of Finance & Administration LSOM  
J. Michael Peppers, Chief Audit Executive, UT System

External Audit Committee Members:

Randy Cain  
Ed Garza  
Carol Severyn

## Executive Summary

### Objective and Scope

As part of our approved annual audit plan, we conducted an audit of the University Health System (UHS) Master Service Agreement<sup>1</sup> (MSA or contract). The objective of this audit was to evaluate the effectiveness of the payment collection process and controls to ensure payments received from UHS are aligned with the agreed upon contractual terms. The MSA contract covers medical professional services provided by UT Health San Antonio (UT Health SA) to UHS facilities. On a monthly basis, UHS paid UT Health SA approximately one-twelfth (\$12,380,973) of the value of the contract (\$148,571,686), for a one-year term (September 1, 2020 - August 31, 2021). If services by UT Health SA were not provided, as agreed upon in the contract, UHS reduced the monthly payment, which is referred to as an underpayment.

The scope of this audit was primarily focused on the underpayments to determine whether the cause was known to management or due to errors within the payment process. Our sample selection covered approximately \$1,137,634 of the total underpayments (\$4,509,932) for an 11-month period (September 2021 – July 2021). In addition, we also reviewed the internal controls related to the payment collection processes involving both UHS and UT Health SA. Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Government Auditing Standards*.

### Summary of Results

Overall, we determined there are opportunities to improve the contractual language in the terms and conditions within the MSA<sup>2</sup> agreement with UHS. We also determined that the underpayments occurred primarily due to known reduced shift coverages (i.e., vacant positions, vacations, and illnesses). However, not all underpayment values reviewed could be validated due to key calculation variables not clearly captured or provided within the contract. The FY 2021 contract stated that key calculation variables would be included within the subsections of the agreement but were not specified as referenced. Including and defining key calculation variables in the contract not only improves transparency between UT Health SA and UHS, but also helps ensure the completeness and accuracy of the billing and collections for services provided by UT Health SA. The information within the MSA should capture all the required variables such as shifts and/or hours required, as well as an agreed upon labor rate denoted by professional status (i.e., physician, medical assistant, or resident) that can be easily referenced should a discrepancy occur.

Additionally, we noted during FY 2021, UT Health SA did not invoice for medical professional services provided to UHS hospitals and medical centers until contract execution in January 2021<sup>3</sup>. Payments for this four-month period (September – December 2020) totaled \$48,992,612 and resulted in an estimated financial loss of \$15,000<sup>4</sup> of interest revenue. UT Health SA should utilize the holdover clause captured in the MSA and continue to invoice if a delay is expected between agreements when services are anticipated to continue. In addition, the contract should specify how a variance, should one occur during the holdover period due to the changes in labor rates and/or fees, will be paid or deducted under the new agreement.

<sup>1</sup> The Master Health Care Service Agreement and Master Health Care Emergency Services Agreement, collectively referred to as "MSA".

<sup>2</sup> The MSA contract is divided into 28 Specialty Sections that total approximately 159 subsections agreements. The subsections outline the professional activities to be performed, the number of FTE's if applicable, an overall value, and varying language as to coverage such as, "as needed" and "Monday through Friday", but no labor rates or required shift information (specified number of hours or shifts) are specified anywhere in the contract.

<sup>3</sup> The September 2020 payment was received in January 2021 and the October 2020 – January 2021 payments were received in February 2021.

<sup>4</sup> Interest revenue loss calculation is an estimate provided by Business Affairs.

Management has agreed to the results of this audit and have created management's action plans to correct the issues identified, detailed plans are attached. We would like to thank UT Health Physicians management and staff for the support and assistance provided during this audit.

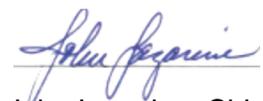
### Distribution

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#### Auditors:

Kimberly Weber, Audit Director, CIA, CFE, CRMA, CICA, CGAP, MPA  
Jeremy Sutton, Senior Auditor, CIA, CFE, CICA  
Molly O'Neal, Lead Auditor, CICA

Approved  
for  
Release



John Lazarine, Chief Audit Executive, Internal Audit & Consulting Services

## Summary of Results

### UHS Contract Revenue Compliance Audit

	Observation/Condition	Management's Response
<b>A</b>	<b>Need for Additional Contract Language and/or Clarity</b>	
<b>1</b>	<p><u>Validation of Underpayments / Supporting Documentation</u></p> <p>Through the course of our review, opportunities for improvement within the payment collection processes were identified. Specifically, we noted:</p> <ol style="list-style-type: none"> <li>1) Not all underpayment values could be validated due to key calculation variables not clearly captured or missing in the contract.</li> <li>2) Payment supporting documentation sent to UHS does not adequately support payment requests on a consistent basis.</li> </ol> <p>The contract states that UT Health SA will be paid a one-twelfth monthly installment as a retainer, provided the appropriate approved time sheets or activity reports could be produced to support the services rendered. If the appropriate level of services were not provided, UHS would deduct from the retainer the amount of the services not given.</p> <p>Currently the contract terms do not consistently support, nor offer sufficient guidance to support billing efforts, specifically the number of hours expected to be worked by specialty staff and the corresponding labor rates. Partial information, such as an overall value for a specified number of FTEs within some of the subsections is provided, but there should be a breakdown of the key billing variables, such as hours required to be worked, the number FTEs required, the Professional status of the FTEs (i.e., physician or resident) and corresponding labor rate, and the services to be provided. These key variables should be stated in a clear and concise manner for this information to be efficiently and effectively used for billing purposes. Additionally, it would also reduce the number of billing discrepancies and make the reconciliation process much more efficient, making the payment process more transparent for both UHS and UT Health SA. <i>Select examples of contract language can be viewed in Appendix A that illustrate some of the confusion when calculating monthly invoices.</i></p> <p>In addition, we noted varying types of time and/or activity sheets being utilized, which did not adequately support payment requests on a consistent basis. Inconsistent documentation and confusion on billing calculations are causing errors and unintended tension among those staff responsible for billing and payment of professional medical services provided under this contract.</p> <p>UT Health SA staff agreed with Audit's conclusion that due to a lack of clarity and/or key payment variables in the contract, there are consistent discrepancies for several of the specialties regarding how the invoices should be calculated. This has been a source of frustration for those involved in the process, as well as, creating additional work for both UT Health SA and UHS staff. UT Health SA staff agree that including rates and UHS requirements (i.e., number of shift and/or hours required by FTE) in the contract, would streamline the process and reduce discrepancies</p>	<p><b>Action Plan:</b> For the next MSA in 2023 we will create a task force from UTH and UHS to review and rewrite each exhibit/schedule consistent with what are the actual expectations and requirements, and determine a process to determine the payments. The Task Force will involve the UTH department chair/division chief of the clinical service as well as the UHS responsible party. This way we can draft language and terms to which all agree, and include the documentation required. In addition to simplifying the process, we should also attempt to standardize as much as possible. We will attempt to complete as much of this work as possible this year however given the size and scope of the services, we will not have time to complete everything.</p> <p><b>Owner:</b> Executive Vice Dean for Clinical Affairs and Vice Dean for Finance &amp; Administration, LSoM Implementation</p> <p><b>Date:</b> January 1, 2023; inaugurate Task Force in January 2022, with completion of re-drafting schedules by September 1, 2022.</p>

**Recommendation:**

Each subsection of the contract should include all relevant pay variables to ensure the payments received from UHS are aligned with the services provided by UT Health SA and terms and conditions as stated in the contract. Clearly defining variables for billing purposes within the contract will improve transparency for UT Health SA and UHS, as well as simplifying monitoring efforts for both parties.

1. Since the FY 2022 MSA contract is currently in its final stages of review, some contract terms may not be able to be updated to add the appropriate clarity. However, UT Health SA departments should streamline the billing and payment process for the portion in which they have control such as:
  - Utilizing the standardized form that captures hours worked by an employee as illustrated in the current MSA Agreement under Exhibit A.
  - Invoice UHS for the total amount of hours worked monthly versus the standard retainer to accurately reflect the services rendered for the payment period.
  - Ensure all standardized forms are signed by the appropriate personnel and sum to the invoice total sent to UHS for payment.
  
2. Due to the financial magnitude of this contract, the lack of clarity and guidance the current contract provides, and the long-standing partnership between UT Health San Antonio and UHS an overall assessment of the current contract deliverables is needed. We recommend updating, at a minimum, the subsection schedules to include all required deliverables such as:
  - Services to be performed
  - Number of FTEs desired
  - Hours/shifts to be worked
  - Key variables needed to clearly and effectively invoice UHS at an agreed upon rate.

Updating the schedules to include the additional information not only improves transparency between UT Health SA and UHS, but also helps ensure the completeness and accuracy of the billing and collections for services provided by UT Health SA making monitoring efforts for both parties more efficient.

**Risk Rating: High**

**2** Contract Value Discrepancy

The total value of the FY 2021 MSA contract of \$148,571,686, does not agree with the sum of subsection values (159 schedules) of \$148,555,579. Internal audit inquired with UT Health SA, specifically, UT Health Physicians (UTHP) Accounting management who noted the discrepancy of \$16,107 was determined to stem from subsection agreements from Emergency Medicine and Pedi Palliative Care. According to UTHP Accounting, a decision was made by both UT Health SA and UHS to leave the figures as is, since the master agreement portion

**Action Plan:** LSOM Contract Accounting will reconcile all exhibit totals prior to contract execution to ensure the sum of the exhibits agree with the MSA contract total.  
**Owner:** Vice Dean for Finance & Administration  
**Implementation Date:** Immediately

	<p>of the contract was completed, and the payments stem from the detailed exhibits (subsection agreements), so as not to delay the process any further.</p> <p><b>Recommendation:</b> Ensure all contract values are complete and accurate as to avoid unintentional loss of revenue and possible damage to the UT Health SA and UHS brand due to unnecessary errors noted within Institutional revenue contracts.</p> <p><b>Risk Rating: Low</b></p>	
3	<p><u>Delayed Payments/Loss of Interest Revenue</u></p> <p>UT Health SA did not invoice for medical professional services provided to UHS hospitals and medical centers for a four-month period (Sept – Dec 2020) totaling \$48,992,612 until January 2021 (Sept payment received) and February 2021 (Oct - Jan payments received) resulting in an estimated financial loss of \$15,000<sup>5</sup> in interest revenue. Although, UT Health SA manages a self-sustaining practice; state resources, primarily medical professional staff are being utilized.</p> <p>UT Health SA staff indicated that UHS was not invoiced since the new contract had not yet been signed. The FY 2020 MSA contract contained some language that would allow for the continuation of services and payments between agreements when services were expected to continue.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p style="text-align: center;"><b>ARTICLE 2 TERM</b></p> <p><b>2.1 Term.</b> The initial term of this Agreement shall be for a period of twelve (12) months commencing on the Effective Date and ending on August 31, 2020 (“Initial Term”), unless terminated earlier in accordance with the provisions of this Master Agreement. Should UHS desire to extend this Master Agreement beyond the Initial Term, UHS will provide UTHSCSA with an amended Master Agreement that will extend the term, and which, upon mutual agreement of the Parties, may modify, add or delete the services and/or metrics set forth in the exhibits attached hereto. Provided, however, if both parties desire to amend the Master Agreement but are unable to execute the amendment prior to the expiration of this Master Agreement, the parties, by mutual agreement, may continue to operate under this Master Agreement on a month-to-month basis for up to six months following the date this arrangement would have otherwise expired. During any such holdover period, the parties shall be subject to all of the terms and conditions of this Master Agreement.</p> </div> <p>The FY 2020 contract under Section 2.1 Term (see above) also has a holdover clause to continue payments on a month-to-month basis if both parties agree, but the FY 2020 rates would apply until a new agreement is signed. However, the FY 2021 contract states “<i>the Agreement shall be for a period of twelve (12) months commencing on the Effective Date and ending on August 31, 2021</i>”, which would indicate the FY 2021 contract rates could apply, which may add to confusion on the appropriate amount of the payments.</p> <p><b>Recommendation:</b> If a new agreement has not yet been executed, UT Health SA should utilize the month-to-month extension clause and invoice for all services rendered until a new agreement is signed and in place. In addition, we suggest incorporating language in the FY 2022 contract that would allow the adjustment for any</p>	<p><b>Action Plan:</b> <i>By means of the service continuation parameters of the prior year’s contract, the LSOM Contract Accounting will invoice for the services provided if future MSAs are not fully executed before the start of each contract year.</i></p> <p><b>Owner:</b> <i>Vice Dean for Finance &amp; Administration</i></p> <p><b>Implementation Date:</b> <i>Immediately</i></p>

<sup>5</sup> Business Affairs calculated the \$15,000 loss in estimated interest revenue due to the delay in invoicing for a four-month period.

variances, should one occur during the holdover period due to the changes in labor rates and/or fees under the new agreement.

***Risk Rating: Low***

### Summary of Risk Ratings

**Based on the results of this audit, there were no findings considered to be Priority to the Institution.** The UT System Internal Audit finding classification system includes Priority, High, Medium, or Low classifications. A Priority Finding is defined as an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole. Non-Priority Findings are ranked as High, Medium, or Low, with the level of significance based on an assessment of applicable risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated.



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Section 8.8 Adjustment of Compensation states how the retainer or monthly payment will be adjusted should UT Health SA fail to provide the appropriate services for any FTE in accordance with the Service Agreements, referring to the Service Exhibits for details.

**8.8 Adjustment of Compensation.** UNIVERSITY HEALTH will adjust the Retainer payment to UTHSCSA the following month (the “Reconciliation”) proportionate to any FTE of service: (i) not provided in accordance with the Service Exhibits; or (ii) for which no Activity Report was provided in accordance with Section 8.7. Activity Reports submitted after the eighth (8th) business day of the following month, but within thirty (30) days of the date such Activity Reports are due pursuant to Section 8.7, will be reconciled in the Retainer payment made two (2) months after the last day of the month in which the Services were rendered. Activity Reports submitted more than thirty (30) days after the date such Activity Reports are due pursuant to Section 8.7 will not be considered for payment. This Section shall survive termination or expiration of this Master Agreement.

4

The schedule listed below illustrates the information that according to Section 8.2, 8.7, and 8.8 of the contracts indicates the variables needed to appropriately invoice UHS for the number of hours worked by professional staff (i.e., physicians and residents).

<b>Exhibit A Schedule 13.1</b>	
<b>Name of Service/Specialty:</b>	Psychiatric Services-UH
<b>Number of Providers (FTEs):</b>	5.75 FTEs
<b>Location(s) of Services:</b>	University Hospital
<b>Hours/Days of Coverage:</b>	As required.
<b>Responsible Area Administrator:</b>	Sally Taylor, M.D.
<b>Contract Amount:</b>	\$1,640,000.00
<b>Description of Services/Special Terms and Conditions:</b>	
1.	Provide faculty Physicians and Clinical Psychologists for consultation, examination/evaluation and treatment of patients requiring inpatient, observation, emergency and consultative psychiatric services, as well as physician exams performed on weekends by residents.

*Auditor Observation: Critical items missing from the schedule include required number of hours and a labor rate for professional staff.*