



January 19, 2016

Dr. Kirk A. Calhoun, M.D.  
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Dr. Calhoun:

We have completed an audit of Healthcare Delivery Partnerships, Affiliations and Grants Revenue. The objective of this audit was to determine whether processes and controls are implemented for evaluating and managing healthcare delivery partnerships, affiliations and grants to ensure these business activities are adequately planned, properly approved, and effectively monitored.

This audit was conducted in accordance with guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,

A handwritten signature in cursive script that reads "Kris I. Kavasch".

Kris I. Kavasch  
Associate Vice President, Chief Audit Executive

Enclosure

cc:

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# **Healthcare Delivery Partnerships, Affiliations and Grants Revenue Audit**

**January 19, 2016**

**UT HEALTH NORTHEAST  
OFFICE OF INTERNAL AUDIT  
11937 US HIGHWAY 271  
TYLER, TX 75708**

**UT Health Northeast  
Healthcare Delivery Partnerships, Affiliations, and Grants Revenue Audit  
Fiscal Year 2016**

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**Audit Report**

***Executive Summary***

The objective of this audit was to determine whether processes and controls are implemented for evaluating and managing healthcare delivery partnerships, affiliations and grants to ensure these business activities are adequately planned, properly approved, and effectively monitored. Based upon the work performed, processes and controls are not in place for consistently and effectively evaluating and managing these business activities.

UT Health Northeast has policies and procedures in place with adequate guidance in the areas of:

- Contract processing, legal review, and approvals required to execute agreements
- Delegations of signature authority for contracts and agreements

However, the institution does not have defined, consistent processes in place to address:

- Financial and operational business planning prior to entering into business relationships
- Endorsement and approval of business relationships prior to pursuing a business opportunity
- Responsibility for implementing initial aspects of business relationships to help ensure their success
- Expectations for monitoring the arrangements to determine whether the relationships continue to meet the institution's needs

UT Health Northeast should implement policies, procedures and a defined structure that address these areas to improve governance over evaluating and managing healthcare delivery partnerships, affiliations, and grants.

***Background***

This risk-based audit focused on non-traditional patient revenue streams which are generated by UT Health Northeast's partnerships and affiliations with other healthcare providers, facilities, or State entities and the institution's participation in sponsored clinical research studies or preventative healthcare grants. The audit addressed governance processes and controls in place for planning, approving, and managing these business relationships.

***Audit Objective***

The objective of this audit was to determine whether processes and controls are implemented for evaluating and managing healthcare delivery partnerships, affiliations and grants to ensure these business activities are adequately planned, properly approved, and effectively monitored.

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***Audit Scope, Methodology and Results***

The scope of this audit included partnerships and affiliations between UT Health Northeast and other providers, State entities, and sponsors for the provision of healthcare during fiscal years 2015 – 2016.

We began by reviewing UT System and UT Health Northeast policies and procedures to identify applicable guidance. We found that the institution has policies in place with adequate guidance in the processing of contracts, legal review and approvals required. However, the institution does not have defined, consistent policies or procedures for addressing financial and operational business planning and approvals that should take place before entering into business relationships or monitoring expectations that may result from formal agreements or contracts. Although UT Health Northeast has identified delegated signature authorities for contracts and agreements, there is no defined structure in place for formally approving these business relationships or documenting this approval prior to contract development. Responsibilities for implementation of the arrangements and expectations for management of the business relationships have not been formally defined.

Since there were no formal UT Health Northeast policies and procedures identified to guide decisions for entering into and managing partnerships and affiliations, we consulted with senior leaders and reviewed suggested best practices to develop key elements considered important to support sound decision making throughout the processes for business relationships. These key elements were considered when reviewing available documentation. Key elements include:

- A business plan, which includes, at least:
  - Goals that are in alignment with institutional goals and plans.
  - Justification for the proposed business relationship.
  - Detailed budget delineating realistic and supportable revenue expectations and complete costs for entering into and maintaining the arrangement.
  - Identification of any expected budget deficits resulting from the arrangement along with proposed funding source for deficits.
  - Details about how the affiliation may affect other operations within the institution (eg. personnel, space, costs).
  - Independent financial and operational review of the business plan by designated qualified responsible parties.
  - Documented review and approval of the business plan by the Senior Leader promoting the business relationship, the UT Health Northeast President and majority vote of Executive Cabinet.
  - A billing plan including details of the responsible parties, billing structure, timeline for implementation, and approvals required.
  - A monitoring plan to identify the responsible parties, financial and operational analyses required, frequency of monitoring and reporting requirements for operational and financial achievements.
  - Detailed requirements for review and approval for renewals.

The issue identified was assigned a risk ranking under guidelines established by The University of Texas System. According to the University of Texas System, a priority finding is defined as “an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a

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strategic or important operational objective of a UT institution or the UT System as a whole. Standard factors for determining a priority finding were established in three categories: namely, Organizational Controls, Quantitative Risks, and Qualitative Risks”. For each issue, the risk factor probability was ranked as either priority for reporting to the UT System Board of Regent’s Audit, Compliance and Management Review Committee or high, medium or low for institutional reporting only.

We judgmentally selected a sample of nine agreements from the institution’s contract database and reviewed emerging population health initiatives to identify the processes and documentation standards that are generally deployed across the institution when business relationships are initially approved or renewed. Included in the sample were physician services contracts where UT Health Northeast providers perform services for other facilities and State entities, physician services contracts where providers from other facilities provide services to UT Health Northeast patients, preventative healthcare services provided as part of a grant, sponsored clinical research studies, grants, and population health initiatives. We interviewed departmental management and senior leaders who are considered to be organizationally and operationally responsible for these business relationships and reviewed all documentation made available to Audit.

For the majority of business relationships and areas of responsibility reviewed:

- Defined processes are not in place for preparing business plans or for performing financial and operational analyses to justify approval of new and continuing business relationships. Documentation is not available to determine whether financial and operational analyses were adequately performed prior to making decisions to enter into or continue the business relationships.
- Documentation is not available to determine which member or members of the senior leadership team approved or endorsed the business relationships prior to or during development of the agreement. UT Health Northeast follows UT System Delegation of Authority rules for approving contracts and agreements. Leaders who sign the contracts based upon their delegated authority are not always the same authorities who informally endorse or approve the business relationships.
- Financial budgetary deficits expected to result from the business relationships, when they exist, are not adequately identified, documented, and made transparent to key leaders involved in making business decisions for the institution or the authority that approves the contract or agreement.
- Processes are not in place for identifying alternate funding sources for any expected or projected budgetary deficiencies identified resulting from the business relationships. These undocumented deficits generally either increase write-offs or expenses, adversely affecting the institution’s overall profit margin.
- Limited documentation is available to demonstrate expectations for and results of ongoing monitoring of the business relationship or that detailed financial and operational analyses are consistently performed after implementation or prior to renewing the agreements.
- Processes are not consistently in place for identifying individuals responsible for initiating and implementing the billing process, properly detailing complete billing procedures, and updating and testing systems before the contract relationship begins. This is especially evident for

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agreements that have a fee-for-service component involving data compiled from the patient financial system to support separate invoicing.

- Grants and sponsored clinical research functions have better defined policies, processes, approval requirements, and document retention than the other types of business relationships reviewed. However, sponsored clinical research and grants budgets, unless required by the sponsor or granting source, generally do not fully document the complete financial and operational institutional resources required during the course of the agreement, although this is important information needed for making decisions to enter into or continue business relationships.
- UT Health Northeast operates within a de-centralized contract management framework where departmental employees who often have limited contract knowledge or experience take on much of the responsibility for preparation of contracts and agreements and subsequent renewals.

**Recommendation:** The Executive Vice President, Chief Operating Officer should implement policies, procedures and a defined structure for UT Health Northeast leaders to propose new business strategies for the institution and for the executive leadership team to approve or decline these strategies based upon complete and accurate information with sufficient documentation to support sound decision making throughout the process.

Reference Exhibit A for a Sample Structure for Business Proposals. Additionally, senior leadership should consider taking advantage of the structure already developed for the newly initiated construction project evaluation program and adapt and modify portions of the business plan, project decision model, and pro forma templates currently designed to assess construction projects.

**Issue Ranking:** High

**Management's Response:** The Executive Vice President, Chief Operating Officer concurs with the issues reported and will develop a plan for resolving these issues.

**Implementation Date:** Action Plan - March 1, 2016

### ***Conclusion***

Based upon the work performed, processes and controls are not in place for consistently and effectively evaluating and managing healthcare delivery partnerships, affiliations and grants to ensure these business activities are adequately planned, properly approved, and effectively monitored.



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Kris I. Kasasch, Associate Vice President, Chief Audit Executive

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**Exhibit A: Sample Structure for Business Proposals**

