

MEMORANDUM

TO: Danny O. Jacobs, MD, MPH, FACS
Executive Vice President & Provost, Dean of Medicine

FROM: Kimberly K. Hagara, CPA, CIA, CISA, CRMA
Vice President, Audit Services



DATE: November 5, 2015

SUBJECT: Graduate Medical Education Program Audit
Engagement Number 2015-012a

Attached is the final audit report regarding the Graduate Medical Education Program audit. This audit will be presented at the next Institutional Audit Committee meeting.

Additionally, please find attached Audit Services audit recommendation follow up policy. Each of the recommendations is classified by type and risk level at the end of its identifying number. As you will note in the policy, the classification of the recommendation determines the frequency of our follow up. All follow up results are reported quarterly to the Institutional Audit Committee.

Thank you for your cooperation and assistance during the course of this review. If you have any questions or comments regarding the audit or the follow-up process, please feel free to contact me at (409) 747-3277.

c: Donna K. Sollenberger
Thomas A. Blackwell, MD



The University of Texas Medical Branch
Audit Services

Audit Report

Graduate Medical Education Program Audit

Engagement Number 2015-102a

November 2015

The University of Texas Medical Branch
Audit Services
301 University Boulevard, Suite 4.100
Galveston, Texas 77555-0150

Graduate Medical Education Program Audit Engagement Number: 2015-012a

Background

The University of Texas Medical Branch (UTMB Health) is a sponsoring institution for Graduate Medical Education (GME), educating physicians since 1892. UTMB Health is committed to supporting GME by providing the necessary educational, financial, and human resources to ensure compliance with prevailing training and educational standards. UTMB Health offers 25 residency and 33 subspecialty fellowship programs. All residency programs meet the accreditation standards of the Accreditation Council for Graduate Medical Education (ACGME) and the American Board of Medical Specialties.

In addition to the accredited programs, several departments offer subspecialty fellowships in areas not requiring accreditation, although these areas are approved by the Texas Medical Board (TMB) for issuance of physician-in-training permits to individuals not yet permanently licensed in Texas. The individual program directors and the respective departments conduct the recruiting, training, evaluating, and managing of the specific programs. The GME Committee and the Associate Dean for GME provide general oversight and monitoring of all these programs including regular internal reviews.

The UTMB Health residency program's clinical experience primarily occurs in the UTMB Hospitals and Clinics, including the UTMB-TDCJ Hospital at Galveston (UTMB Health System). Additional clinical experience occurs at affiliated teaching hospitals including the Shriners Burn Hospital in Galveston and Driscoll Children's Hospital in Corpus Christi, Texas.

The Centers for Medicare and Medicaid Services (CMS) provide a majority of the GME funding to the UTMB Health System through Direct GME Payments (DGME) and the Indirect Medical Education (IME) Payments. Additionally, UTMB's services contract with Texas Department of Criminal Justice follows a similar Cost Reporting methodology that provides DGME payments. Funding from these two sources represented 92% of the Fiscal Year (FY) 2014 GME revenue. Expenditures for the GME program are allocated between UTMB's Health System and School of Medicine based on the nature of the expenditure. See Appendix A for the Revenue and Expense Summary prepared by the Office of Graduate Medical Education.

Audit Objective, Scope of Work and Methodology

The primary audit objective was to review the financial and operational activities related to the GME Program, including potential benchmarking with similar institutions. The audit scope focused fiscal years 2014 and 2015, and our methodology included a review of the GME institutional handbook, interviews with key personnel, data analysis, process review, limited transaction testing, and benchmarking.

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The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors.

Audit Results

Institutional GME Program

Governance

Audit Services interviews with GME Program Office, Provost Office, and Health System Financial leadership indicated there appears to be adequate oversight of the GME Program. Additionally, we noted the GME committee, executive committee, and six standing committees appear appropriately engaged in the decision making processes supporting the GME Program and its related activities.

Revenue and Expense Summary

UTMB Health's GME Program is fairly unique as both the School of Medicine (SOM) and the primary teaching hospital are within one organization rather than linked through an affiliation agreement. As a result, UTMB Health has the ability to compare GME revenue received by the Health System to organizational expenses incurred by either the Health System or SOM when assessing the program's general financial performance. However, it should be noted this is not a complete assessment of the program's overall financial performance or contribution to the organization. Tangible, though not easily financially quantifiable, benefits are experienced as a result of the services performed by residents in potential increased physician productivity and reduced hospital medical support staff.

The GME Program Office, along with the Provost Office and Health System Financial leadership developed a financial summary, located at Appendix A, illustrating the division of GME revenue and expenses between the SOM and the Health System. As part of an internal agreement between the Health System and SOM, the Health System provided funding of approximately \$19.7 million in FY 2014 in support of the GME Program; however, this funding does not fully cover the expenses incurred by the SOM. The Health System provides similar support on an ongoing, annual basis. Audit Services discussions with the GME Program Office, Provost Office and Health System Financial leadership indicated that although direct program revenue is readily quantifiable, different approaches or assumptions were considered related to the faculty, program directors/coordinators, and indirect medical education expenses. Ultimately, it was agreed to use a hybrid approach for expenses of both actual and estimates.

Audit Services review and validation of the reported revenues included tying the information to the applicable certified cost report; recalculating the received State

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Appropriations; and, reviewing the GME contract information reported through Grants and Contracts Accounting, noting the financial summary was materially accurate.

Audit Services review and validation of the reported expenses was based on the methodology used.

- Expenses reported at actual, including Resident Salaries/Benefits, GME Administrative, and Resident Malpractice. Audit Services tied these amounts to either the FY14 CMS Cost Report or UTMB PeopleSoft FMS and performed limited transaction testing without exception.
- Expenses reported using estimates, including Core Faculty, Program Directors, Program Coordinators, Resident Maintenance & Operations (M&O) and Indirect Medical Education. Audit Services reviewed the methodologies used and recalculated the estimates. Additionally, to validate the assumptions in the estimates related to Core Faculty, Program Directors, and Program Coordinators, which the GME Office based on a standardized ACGME staffing model, Audit Services performed limited testing of individuals fulfilling these responsibilities. We compared the model effort assumption to the faculty member's Memorandum of Appointment (MOA) and quarterly time studies prepared for the CMS Cost Report calculation, noting a general lack of alignment. However, we noted, in aggregate, the amount reported on the certified CMS Cost Report based on all faculty time studies significantly exceeded the estimated amount used in the summary. Audit Services recalculated the estimates used for Resident M&O, based on an amount per resident, and Indirect Medical Education, based on 50% of CMS Indirect Medical Education revenue, without exception.

Based on Audit Services interviews and review of expenses assumptions, in our opinion, there is an opportunity to improve the financial summary to more completely incorporate the known and reported expenses. As a result, we developed a pro forma revenue and expense summary, located at Appendix B, that we believe more completely incorporates the known and reported expenses. The primary change occurred in the calculation of Indirect Medical Education. Audit Services calculated this to be the difference between the faculty and coordinator's expenses using the ACGME staffing model and the actual faculty expenditures based on time studies. Audit Services considered the program as a whole and did not allocate the expenses between the SOM and Health System. Additionally, we did not attempt to quantify the potential impact of increased faculty productivity or potential reduced cost of supporting medical staff in our estimates.

Recommendation 2015-012a-01-R-M:

The GME Office, Provost Office, and Health System Financial leadership should consider revising the assumptions used to prepare the revenue and expense summary to more closely align with actual expenditures and the amounts reported on the CMS Cost Report.

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Management's Response:

The GME Office will engage in ongoing discussions with Provost Office and Health System Financial leadership to track actual expenditures.

Implementation Date: 10/28/2015

GME Program Office OperationsOrganizational and Monitoring Activities

The GME Committee and the Associate Dean for GME are responsible for general oversight and monitoring of all GME programs. Oversight and monitoring activities include regular reviews of house staff/resident activities, business processes, and established program controls.

The Administrative Director of GME reviews various monitoring reports capturing costs, product line analysis, productivity, operational budgeting, and capital budgeting. Additionally, the Director meets regularly basis with the Associate Dean for GME and Program Office staff to discuss budgetary variances and to ensure monitoring reports align with current operational and financial activities

Based on our interviews with key personnel, it appears there is an appropriate level of oversight of the GME program and its related elements.

Departmental Account Reconciliations

Departmental account reconciliations are a detective control that helps ensure financial records are accurate and complete. UTMB Health's *Financial Controls, Monthly Review and Reconciliation Policy* states department management should ensure financial activity is reconciled on a monthly basis. Audit Services interviews with key administrative personnel and review of related documentation indicated the department performs account reconciliations as required and appropriately maintains documentation to support the reconciliations; however, there is an opportunity to enhance the documentation by having the monthly reconciliations reconciled and balanced to Hyperion, the institution's financial reporting system.

Recommendation 2015-012a-02-R-L:

The Associate Dean for GME should ensure the monthly reconciliations are reconciled to Hyperion to ensure the actual financial information accurately reflects the department's activity.

Management's Response:

The Institutional Coordinator and Administrative Director will prepare and ensure reconciliations are reconciled in Hyperion and will be reviewed and confirmed by the Associate Dean for GME.

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Implementation Date: Immediately

Departmental Expenditures

Signature Authority

Audit Services review of departmental expenditure approval profiles in PeopleSoft indicated the profiles are current and accurately reflect the approval authority limits for authorized departmental personnel.

Expenditure Testing

UTMB Health's Institutional Handbook of Operating Procedures (IHOP) Policy 4.4.2 *Official Function Expenditures* and the institution's Accounts Payable Guide provide guidance and documentation requirements for reimbursement or payment of non-payroll expenditures. Audit Services tested 10 non-payroll expenditures or proper approval; adequate supporting documentation; mathematical accuracy; adequate and appropriate business purpose; and, appropriate segregation of duties. No exceptions were noted.

Benchmarking

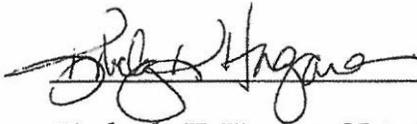
Audit Services reviewed available information from the University Hospital Consortium (UHC), MD Anderson Cancer Center, UT Health, UT Southwestern/Parkland Memorial Hospital, and Houston Methodist Hospital related to GME program structures and initiatives. Overall, UTMB Health's GME program structure and initiatives appear to be consistent with the information obtained from the peer institutions. Additionally, Audit Services noted based on available UHC data, overall GME related funding appears to be within a reasonable median/midpoint range.

Conclusion

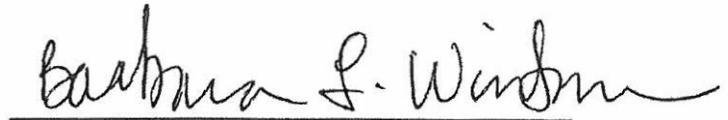
Audit Services performed an audit of UTMB Health's Graduate Medical Education Program. Based on the audit work performed, it appears the institution has established an adequate program with an appropriate governance structure; institutional and departmental monitoring and measurement of GME related revenue and expenditures; and benchmarking. Additionally, it appears the GME Office provides sufficient monitoring and oversight. Opportunities for enhancement were noted related to monthly departmental reconciliations, the capture and reporting of Physician Salary/Benefits, and the correlation of physician time studies and MOAs with the ACGME staffing model.

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We greatly appreciate the assistance provided by Office of the Provost, Health System Financial leadership, and the GME Office staff and hope that the information presented in our report is beneficial.



Kimberly K. Hagara, CPA, CIA, CISA,
CRMA
Vice President, Audit Services



Barbara L. Winburn, RHIA, CIA, CRMA
Senior Audit Services Manager

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Appendix A Office of Graduate Medical Education Graduate Medical Education Revenue and Expense Summary FY14

GME Revenue	Hospital	SOM	Total UTMB
Medicare			
Direct Medical Education	8,538,947.00		8,538,947.00
Indirect Medical Education	18,624,373.00		18,624,373.00
Medicaid Direct Medical Education	16,373,706.00		16,373,706.00
Correctional Managed Care Direct Medical Education	16,405,910.00		16,405,910.00
*State Appropriations	1,344,493.50	1,344,493.50	2,688,987.00
**GME Contracts with Other Providers and Grants	1,212,728.75	1,212,728.75	2,425,457.50
Total Revenue	62,500,158.25	2,557,222.25	65,057,380.50
GME Expenses			
Residents Salaries/Benefits	30,547,046.00	6,582,718.00	37,129,764.00
***Core Faculty /570 HS (143 x 270k x.25)		9,652,500.00	9,652,500.00
****Program Directors (30 x 340k x .5)		5,100,000.00	5,100,000.00
****Program Directors (12 x 300k x .25)		900,000.00	900,000.00
Program Coordinators (37 x sal/benefits 66,836k)		2,472,932.00	2,472,932.00
Resident M&O		2,280,000.00	2,280,000.00
GME Administration Resident	1,122,263.70		1,122,263.70
Malpractice		734,120.00	734,120.00
Indirect Medical Education	9,312,186.50		9,312,186.50
Total Expenses	40,981,496.20	27,722,270.00	68,703,766.20
Revenue Less Expenses	21,518,662.05	(25,165,047.75)	(3,646,385.70)
<i>NOTE -Total GME Revenue -Based on 549 House Staff that are in an ACGME Accredited Program as of 09/01/2013 (FY14)</i>			
<i>NOTE -Total GME Expenses -Based on 570 -549 House Staff that are in an ACGME Accredited Program and 21 House Staff that are in an unaccredited/Board Approved Program as of 09/01/2013 (FY14)</i>			
<i>*Based on FY14 State Appropriations per Capita Funding \$4,717.52@ 570 Residents</i>			
<i>**Data Based on 2014 Income Report from Grants and Contracts</i>			
<i>***Core faculty calculation based on 570 residents. Total number of residents is divided by four to obtain faculty number. A standard ACGME assumption is one core faculty for four residents. A core faculty typically spends about 25% time on resident related issues. The above calculation assumed average salary/benefits for a core faculty to be 270K.</i>			
<i>****Program Director calculation based on total number of residents in training program. If greater than 15 residents in program a 50% time allotment is required, if less than 15 residents a 25% time allotment is required. The calculation assumed an average salary/benefits of a Program Director (if greater than 15 residents) to be 340k or (if less than 15 residents) 300k.</i>			

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Appendix B

**Audit Services
UTMB GME Pro Forma**

Revenue		
Medicare		
Medicare - DME	\$	8,538,947
Medicare - IME		18,624,373
Medicaid DME		16,373,706
Correctional Managed Care DME		16,405,910
State Appropriations		2,688,987
GME Contracts with Other Providers & Grants		2,425,458
Total Revenue	\$	65,057,381
Expenses		
Resident Salaries/Benefits	\$	37,129,764
Physician Salaries/Benefits		18,125,432
Resident M&O		2,280,000
GME Administration		1,122,264
Resident Malpractice		734,120
Indirect Medical Education		12,525,767
Total Expenses	\$	71,917,347
Revenue Less Expenses	\$	(6,859,966)

Assumptions:

Actual Revenue

Actual Expenditures

- Resident Salaries/Benefits
- GME Administration
- Resident Malpractice

Estimated Expenditures

- Physician Salaries/Benefits (based on Office of GME model)
- Resident M&O (based on Office of GME model)
- Indirect IME (difference between Office of GME model and CMS Cost Report Timestudies)