
We have completed our audit of the Practice Acquisition Process. This audit was performed at the request of the UTHealth Audit Committee and was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

BACKGROUND

Approximately 1,400 clinical providers certified in more than 80 medical specialties and subspecialties provide services in UT Physicians (UTP) clinics, with over 558,000 patient visits.

In Fiscal Year (FY) 2011, The University of Texas Health Science Center at Houston (UTHealth) and UTP began acquiring privately-owned medical practices. Practice acquisition refers to the purchase of an existing physician practice, generally including advanced care practitioners, office staff, equipment and assumption of office space lease obligation. The clinicians in these practices generally have a high percentage of their effort devoted to clinical activity. For the period beginning with FY 2011 and running through May of FY 2015, approximately 5% of clinical faculty was hired through practice acquisitions. The majority of faculty hired is from internal training programs, other academic health centers, or existing external private practices.

UTHealth ended FY 2015 with 16 consecutive years of positive margins. This has been due primarily to growth of the clinical practice fueled by the Texas 1115 Medicaid Transformation waiver funding. In earlier years this funding was known as Upper Payment Limit. Under the current methodology, waiver funding is known as Uncompensated Care (UC), Delivery System Reform Incentive Payment (DSRIP), or Network Access Improvement Program (NAIP).

OBJECTIVE

The objective of this audit was to determine whether the practice acquisition process includes adequate controls to ensure the smooth transition of business processes and appropriate computer system integration and security.

SCOPE AND METHODOLOGY

The practice acquisition process is complex and involves coordination between a large number of functions within UTHealth and UTP. We performed a review to identify how well the process is working and to assess the maturation of the process over time. Our scope covered practices with go-live dates from the time period of July 2013 through February 2015. For the purpose of this audit, go-live is defined as being when all major acquisition work has been completed, and staff and providers are brought on-board and trained. At this point, the practice has become part of the Medical School department.
Sample Size and Methodology
A&AS obtained the spreadsheet used by the UTP Project Management office to track all practice acquisitions, as well as several other projects that are similar in nature but not considered true acquisitions. Our population was all practice acquisitions with a go-live date between June 2013 and February 2015. We worked with the UTP Project Management office and identified eight practices acquired by UTHealth and UTP during the period within our scope. In order to gain an understanding of the process and evaluate changes in the process over time, we judgmentally selected three acquisitions with go-live dates of July 2013, August 2014, and February 2015.

Source of Acquisition
In many cases, the decision to acquire a practice is made jointly with our main hospital partner. This is necessary since our hospital partner often agrees to provide either financial support or guarantees.

Financial support comes in the form of a set amount of money provided for the acquired practice, but is capped at a certain level. For practices with a guarantee, we receive payments from our partner to cover operating losses of the acquired practice. In some cases, a practice acquisition is conducted in conjunction with a Delivery System Reform Incentive Payment (DSRIP) or Network Access Improvement Program (NAIP) project.

AUDIT RESULTS

Pro Forma
Development of a thorough, well-developed pro forma is essential to making an informed decision about the feasibility of acquiring a practice. A pro forma is created to forecast future revenues and expenditures for each new clinic. In order to begin creating the pro forma, UTP requests two years' of financial data. In cases where the clinic cannot provide all the data requested, UTP develops the pro forma with the best information available and makes assumptions for improved collections or contract rates.

A pro forma can be developed by a number of different groups, including an external consulting firm, internally by UTP management, by the Medical School department, or any combination of the three.

Each of the pro forma in our sample of three practice acquisitions was developed by a different combination of parties:
- By the external consultant, UTP management, and the Medical School department
- Primarily by the Medical School department along with UTP management
- Primarily by UTP management with some input from the Medical School department

Because of the variability in the process, including differences in what area develops and provides input, the accuracy and reliability of any given pro forma can be uncertain.

Recommendation #1:
We recommend that a standardized pro forma process be developed and implemented. The process should include a more formal methodology to be followed in creating pro forma financial models to ensure their consistency, completeness, and accuracy. Additionally, a formal review
and approval component of such models should be developed. Finally, a periodic retrospective review of the entire pro forma financial modeling process should occur, with particular attention to correction and improvement of the assumptions underlying these models, with particular attention to pre- and post- acquisition cost structurers, practice payor mixes, changes in physician productivity and the like.

**Management’s Response:** We agree with the recommendation. UT Physicians will develop and implement detailed policies and procedures to be followed when creating pro forma financial models including a formal review and approval component. The process will also include a retrospective review of the pro forma including details of how the review will be performed including a reporting component.

**Responsible Party:** Andrew R. Casas  
**Implementation Date:** February 1, 2016

**Project Management**
Each Monday, a teleconference is held to discuss, at a high level, the status of all projects that are currently underway. The projects discussed include practice acquisitions, those performed as part of DSRIP and NAIP funding, as well as other internally-funded expansion or renovation projects. These discussions are open to all departments that wish to attend. The initial discussions concerning a practice acquisition must be held confidential and, as a result, the teleconference is when some departments first become aware that a practice will be acquired.

To ensure a smooth acquisition, each department needs to complete their responsibilities in a timely fashion. We inquired with the UTP Practice Acquisition Project Management team concerning whether any project management tools are used. We were advised that Trello, a free online tool for managing projects, was being utilized. For the three completed acquisitions in our sample, we found the tool was not consistently used.

There are two distinct phases to UTP’s current practice acquisition model. The first is the acquisition phase, which is overseen by the UTP Project Management office and covers activities through go-live. Specific departments such as Treasury Services, Information Technology (IT), and Human Resources (HR) also interact with the newly-acquired practice during this phase. The second is the after go-live phase, which involves several additional departments such as Capital Asset Management; Safety, Health, Environment, and Risk Management (SHERM); and Purchasing.

Once acquired, new practices are directed to the Medical School department that corresponds to the practice’s specialty for resolution of issues that occur after go-live. The transition from the acquisition phase to the after go-live phase is not clearly communicated to the involved parties.

**Recommendation #2:**
We recommend that UTP develop, document, and implement procedures detailing the process when a practice becomes part of a Medical School department. Included in the procedures should be an information sheet provided to the clinic listing contact personnel within the
department and a list of all departments from UTHealth who will be visiting the practice to provide services within the first 90 days of operation.

**Management's Response:** We agree with the recommendation. UT Physicians, in conjunction with UTHealth, will develop a project management procedure document that details the responsibilities of each department. A component of this process will be the development of an information sheet that will be provided to each acquired practice. This sheet will inform acquired practices of the various departments that will need to perform work in their area, and will include a list of contact personnel and their respective department functions.

**Responsible Party:** Andrew R. Casas  
**Implementation Date:** February 1, 2016

**Financial Disclosure/Conflict of Interest**  
Financial disclosures were obtained and reviewed for each of the 11 providers acquired with the three practices in our sample. Three of the providers disclosed outside activities that necessitated additional review by Institutional Compliance, Legal Affairs, and the President's Office. Following analysis and consultation with the hiring department, the disclosed activities were determined not to be conflicts. The Pre-Employment Financial Disclosure process has been refined since the acquisitions began and appears to be functioning as intended.

**Legal Review**  
UTHealth has a procedure that covers who has the authority to execute contracts and make purchases on the behalf of the institution. In conjunction with the procedure, a delegation of authority matrix has been developed to identify who may obligate the institution and, where appropriate, lists restrictions on that authority. A listing of who has the authority to execute contracts and make purchases on behalf of UT does not exist.

We performed a review to ensure UT and UTHealth include legal counsel during critical points in negotiations to safeguard the interests of the institution. UT funding is provided to the Office of Legal Affairs (OLA) to provide legal support.

We found asset purchases were supported by an independent appraisal and the purchase contracts were reviewed by outside legal counsel. For clinic leases, we were advised OLA reviews each lease; however, the OLA stated they did not review any of the lease agreements from our sample.

In one of the agreements for a lease of space, the property was owned by a close relative of the primary signer of UT contracts. This conflict of interest was disclosed early in the negotiation process. Because of this, the lease was signed by a member of the practice plan who does not normally sign contracts on behalf of UT. The lease agreement was reviewed by outside counsel, but lease terms were not supported by a fair market analysis. Because of these issues, it is our opinion that the agreement cannot be represented as being conducted at arms-length.

Overall, there is not a sufficient governance structure around the review and authorization of contracts within UT.
Recommendation #3:
We recommend UTP develop, implement, and disseminate a matrix or other appropriate document that identifies who has been delegated the authority to execute contracts on behalf of UTP, as well as list any restrictions.

Management's Response: We Agree with the recommendation. A matrix similar to the UTHealth "Delegation of Authority Matrix for The University of Texas Health Science Center at Houston" will be created.

Responsible Party: Andrew R. Casas
Implementation Date: February 1, 2016

Offer Letter and Job Posting
Highly-compensated individuals are defined by the Board of Regents' (BOR) Rules and Regulations as those with annual salaries of $500,000 or above, excluding key executives. UTHealth is responsible for providing documentation to the Executive Vice Chancellor confirming the compensation was established in accordance with the Systemwide policy regarding highly compensated personnel. Salaries offered to the providers in our sample appear to follow UTHealth, UT System, and BOR guidelines.

For classified staff, a blanket job posting is created internally. The existing staff at the acquired practice must then apply to the blanket posting. The applications are copied from the original posting to job specific postings once HR reviews the application and matches the current staff's positions to salaries and positions within UTHealth. The original position is then closed. The HR office has hired a liaison who meets with the staff to explain the process, as well as coordinate UTHealth benefits and a new hire orientation.

IT Controls
Enterprise IT is involved early in the acquisition process. Prior to the final decision to purchase the practice, IT performs a visual inspection of the clinic to develop an estimate of the costs associated with bringing the clinic up to the IT standards of UTHealth.

Once the decision is made to acquire the practice, a more detailed review is performed. The second review includes performing a detailed inventory of all information technology assets in the clinic. This inventory is used to create a "seating chart" detailing all of the devices needed for each location within the clinic. The seating chart lists computers, printers, scanners, credit card terminals, phone lines, medical devices, and any other IT or telecomm equipment. It is then used to order new equipment, encrypt devices remaining at the location, ensure equipment is installed in the correct locations at go-live, and facilitate communication with the acquired clinic about their needs and the proposed locations.

Medical School Information Technology (MSIT) removes the purchased (clinic) computers, wipes and destroys the old hard drives, and installs new computers with UTHealth security software and protocols already in place. Clinical Technology is responsible for reviewing the medical device inventory at the new clinics and ensuring the devices adhere to encryption and security protocols.
Approximately one month after the clinic go-live, Capital Asset Management visits the clinic to tag all equipment. This visit also represents a final opportunity to inventory clinical IT assets and identify whether any unauthorized changes have been made by the clinics that need to be addressed.

Since August 2012, the IT Security team began accompanying IT on their walkthroughs of the clinic in order to identify any potential IT security gaps. IT Security completes a security gap analysis, ranking each potential security risk as high, medium, or low. As of January 2015, any risk ranked as high or medium requires a mitigation plan. The assessment is sent to MSIT, the UTP Project Management team, and other stakeholders for that particular acquisition. It is the responsibility of MSIT to work with the departments to address the mitigation activities.

Recently, an Enterprise IT Project Manager has been hired to help facilitate improved communications between the various departments within IT that are involved at various stages throughout the process. Overall, we noted the IT portion of the practice acquisition process has improved over time.

Safety, Health, Environment, and Risk Management
For each clinic, there are a significant number of requirements that must be completed before, during, and after a clinic begins operations under the name of UTP or UTHealth. SHERM has developed a facility assessment tool to assist in the process. At the time of our audit, SHERM used the assessment tool at four clinics. None of the clinics in our sample were reviewed using the current assessment tool; however, an earlier version of the tool was completed in all three cases.

Some of the multiple items SHERM is responsible for include:
- Ensuring required provider and staff vaccinations and health testing have been obtained and are up to date
- Medical waste disposal
- Ensuring radiation, diagnostic testing, and laboratory contracts are switched over as required
- Ensuring infection protection procedures are in place
- Determining whether the building meets minimum fire safety requirements
- Providing training to employees about proper procedures, including educating them on UTHealth and UTP policies within their scope of responsibility.

Many of these requirements are governed by state and/or federal government regulations and, if not followed, UTHealth could be fined.

Overall, we noted the SHERM portion of the practice acquisition process is well documented and has improved over time.

Pharmacy Controls
Many clinics maintain an inventory of sample drugs that are provided to patients. We inquired as to whether any department was responsible for determining whether pharmacy controls were established in newly-acquired practices. Physical security of any medication kept in the clinic is addressed as part of the assessment conducted by SHERM after go-live. According to the reports
provided to us, all three practices in our sample had adequate controls in place at the time of their review.

Billing Compliance
The Medical School Healthcare Billing Compliance office is brought into the acquisition process after go-live. The coding of charges for the acquired providers is reviewed in the same fashion as non-acquired clinics and any issues identified are mitigated if necessary. We confirmed the review of coding occurred for each of the acquired providers.

Transition to UTHealth Billing and Medical Record Systems
Most UTHealth and UTP clinics use the General Electric Centricity Business (GECB) medical billing system software for appointment scheduling, charge entry, billing and recording payments. Allscripts software is the most commonly used electronic health record (EHR).

Since UTHealth has physicians in over 80 medical specialties and subspecialties who provide wide coverage over the greater Houston area, it is not uncommon for other medical billing system software and EHRs to be used. These cases must be approved, at which point IT develops an interface so UTP and UTHealth can still access and review the records.

At the time of our review, all three practices in our sample were using GECB exclusively. All three practices also use Allscripts, with the exception of one location of a multi-location practice. That location operates inside a hospital partner who uses Care4 as their medical billing software.

Establishment of Bank Accounts and Cash Controls
UTHealth Treasury Services (Treasury Services) is responsible for documenting delivery of any cash funds required in the newly acquired clinic for daily operations. A member of Treasury Services delivers the petty cash and/or change fund directly to the cash custodian and instructs the custodian on the proper UTHealth cash handling policies and procedures. The custodian then signs a custody form, which is kept on file in Treasury Services. The form was present for all three acquisitions in our sample.

Random cash audits are conducted by both Treasury Services and UTP Finance to ensure adequate cash controls are maintained. UTP is responsible for training the clinic staff and ensuring mitigation plans (resulting from these audits) are completed. Communication between UTP and Treasury Services, coordination of the cash audit activity, audit results, and the resulting mitigation plans have improved throughout the course of our audit.

We inquired as to the ownership of bank accounts at new clinics. New practices retain their old bank accounts; however, all institutional funds should go through institutional bank accounts. Use of GECB or billing tracked through the interface should allow adequate controls to ensure no other account was used; however, testing of this functionality was outside the scope of this audit.

We also inquired about the use of credit card machines. Treasury Services orders new credit card terminals required at each clinic and has the new terminals delivered to the UTP Project Management team. IT then installs the terminals at go-live.
Purchasing
Clinic staff responsible for ordering supplies is required to attend training on the use of PeopleSoft FMS, UTHealth's financial software program. Once the staff has been granted access to FMS, they receive specific training from Procurement Services. Purchasing activities are governed by systemic controls built into the FMS purchasing process, which are enforced throughout the institution.

CONCLUSION

Overall, the practice acquisition process has improved over time; however, there are still opportunities to enhance some components of the process. The institution has reacted quickly to attract, recruit, and acquire the best talent and locations available. While we understand the need for some flexibility in negotiating these deals, care should be taken to ensure the satisfaction of the new providers, their staff, and the receiving departments. A well communicated and formal on-boarding process will help to achieve that goal. As a large and rapidly growing institution, standards should be set to identify who has been delegated the authority to execute contracts on behalf of UTP, as well as any restrictions. In addition, the process for developing, reviewing and approving acquisition financial pro forma warrants improvement. Further, select departments should be included earlier in the process to ensure that the institution has the most current and accurate data available when making the decision to acquire a practice.

We would like to thank the individual managers throughout the institution who assisted us during our review.

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