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Date: April 15, 2022

To: Dr. Robert Hromas, Dean, Long School of Medicine  
Dr. Robert Leverence, Interim Executive Director of UT Health Physicians

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

Subject: Audit Report – UHS Annual Operating Agreement Compliance Review (22-04)

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As part of our FY 2022 Audit Plan, we recently completed the UHS Annual Operating Agreement Compliance Review. 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  
Robert Martin, Director of Finance & Administration, Long School of Medicine  
J. Michael Peppers, Chief Audit Executive, UT System

External Audit Committee Members:

Randy Cain  
Ed Garza  
Carol Severyn

**Audit Report (22-04)**  
**UHS Annual Operating Agreement Compliance Review**  
**April 11, 2022**

**Executive Summary**

**Objective and Scope**

As part of the approved annual Internal Audit plan, an audit of the University Health System (UHS) Annual Operating (AOA) Agreement<sup>1</sup> (contract) was completed. 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 rates. The contract covers administrative, technical, supervisory, and clinical services provided by UT Health San Antonio, specifically the Long School of Medicine (LSOM) to UHS facilities.

The scope of this audit was primarily focused on the terms and conditions noted in the contract as it pertains to the invoicing process within LSOM operations. A sample of 195 invoices, totaling \$4,873,638 over a 20-month period (January 2020 – August 2021) was selected to determine if payments received from UHS are aligned with the agreed upon contractual rates. In addition, we also reviewed the internal controls related to the payment collection processes involving both UHS and LSOM. The 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 the contract terms do not offer sufficient guidance to support billing efforts, specifically the number of hours expected to be worked by specialty staff along with corresponding labor rates. As a result, we were unable to validate 181 (93%) of the 195 invoices reviewed due to the lack of clarity within the current contract's terms and conditions. Partial information, such as the services to be provided and the number of required FTEs, is specified but lack a breakdown of the key billing variables, such as hours required to be worked and clarity of the professional status of FTEs (i.e., physician or resident) and labor rates. These variables should be clearly defined/stated to help ensure this information can be effectively used for billing purposes. Additionally, it would reduce the number of billing discrepancies making the reconciliation process more efficient and improve the transparency of the payment process for both UHS and the LSOM.

We also noted the LSOM invoiced UHS monthly for one-twentieth of the service line amount instead of by the professional services rendered as stated in the contract. From our sample selection, we noted that 71 (36%) of the 195 invoices reviewed were not paid in full resulting in \$273,971 in underpayments. Upon further review, we determined the underpayments to be justified since they were due primarily to a variance between the monthly amount invoiced by the LSOM and actual hours worked. The LSOM's current billing practices creates unnecessary underpayments and represents a control weakness as the Institution is reliant on UHS to calculate the actual invoice amount from the documentation provided to them. Moreover, underpayments only address hours not worked for various reasons such as vacancies and does not consider hours worked over the expected monthly total (not defined in the contract) required by UHS.

The LSOM management has agreed to the results of this audit and have created management action plans to correct the issues identified; detailed plans are attached. We would like to thank the LSOM management and staff for the support and assistance provided during this audit.

<sup>1</sup> The Annual Operating Agreement is comprised of two separate contracts: The Annual Operating Agreement for Medical Directorship Services and the Annual Operating Agreement for General Services and are collectively referred to as "AOA".

**Distribution**

Dr. William Henrich, President  
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J. Michael Peppers, Chief Audit Executive, UT System

Auditors:

Kimberly Weber, Audit Director, CIA, CFE, CRMA, CICA, CGAP, MPA  
Jeremy Sutton, Senior Auditor, CIA, CFE, CICA  
Carol Salassa, Lead Auditor, CPA, CIA, CFE

Approved  
for  
Release



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

## Summary of Results

### UHS Annual Operating Agreement Compliance Review

	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 Payments / 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 payment values could be validated due to key calculation variables not clearly captured or missing in the contract.</li> <li>2) UHS is invoiced monthly for one-twentieth of the service line amount instead of by the professional services rendered during the prior month as stated in the contract.</li> </ol> <p>We determined the contract terms do not offer sufficient guidance to support billing efforts, specifically the number of hours expected to be worked by specialty staff along with corresponding labor rates. As a result, we were unable to validate 181 (93%) of the 195 invoices<sup>2</sup> reviewed due to the lack of clarity within the current contract's terms and conditions. Partial information, such as the services to be provided and the number of required FTEs, is specified but lack a breakdown of the key billing variables, such as hours required to be worked and clarity of the professional status of FTEs (i.e., physician or resident) and labor rates. These variables should be clearly defined/stated to help ensure this information can be effectively used for billing purposes. Additionally, it would reduce the number of billing discrepancies making the reconciliation process more efficient and improve the transparency of the payment process for both UHS and the LSOM.</p> <p>On a monthly basis, the LSOM invoiced UHS approximately one-twentieth (\$1,493,991) of the value of the contract (\$29,879,810)<sup>3</sup>, for a twenty-month term (January 1, 2020 - August 31, 2021). If services by the LSOM were not provided, as agreed upon in the contract, UHS reduced the monthly payment, which is referred to as an underpayment. From our sample selection, we noted that 71 (36%) of the 195 invoices reviewed were not paid in full resulting in \$273,971 in underpayments. Upon further review, we determined the underpayments to be justified since they were due primarily to a variance between the monthly amount invoiced by the LSOM and actual hours worked. The LSOM's current billing practices creates unnecessary underpayments and represents a control weakness as the Institution is reliant on UHS to calculate the actual invoice amount from the documentation provided to them. In addition, underpayments only address hours not worked for various reasons such as vacancies and does not consider hours worked over the expected monthly total (not defined in the contract) required by UHS.</p> <p>The LSOM staff agreed with Internal Audit's conclusions that there are consistent discrepancies for several of the specialties regarding how deductions should be</p>	<p><b>Action Plan:</b>  The current billing practice ensures that we can more closely align accruals with actual cash flow and allows for time to properly reconcile amounts after receipt. It has been contractually agreed to by both UT and UH leadership and provides predictability in financial prosecution of the contract for both sides of the partnership.</p> <p>For the next AOA, we will create a task force from UTH and UHS to review each exhibit/schedule consistent with what are the actual expectations and requirements, and determine a simplified process for payments related to the work accomplished. 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. We are dedicated to working with our UH partners to clarify the specifics for all schedules within the AOA as they relate to measurable payment terms and units of service. The approach to this will mimic that which has been previously pledged for the MSA and will be worked on concurrently with the MSA review effort.</p>

<sup>2</sup> Testing sample selection consisted of 195 invoices from a total of 1,139 invoices that were randomly selected on a statistical basis totaling \$4,873,638 over a 20-month period (January 2020 – August 2021).

<sup>3</sup> The total amended contract amount for the Annual Operating Agreement for Medical Director Services is \$12,200,003. The total amended contract amount for the Annual Operating Agreement for General Services is \$17,679,807 for a combined total of \$29,879,810.

calculated, which creates extra work and unnecessary strain, due to the lack of clarity in the contract, for both LSOM and UHS staff.

**Recommendation:**

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

1. The AOA contract will not be up for renewal until August 31, 2023; therefore, the contract terms may not be able to be updated until the next contract in which to add the appropriate clarity. Upon renewal, LSOM departments should streamline the billing and payment process for the portion in which they have control such as:
  - Invoice UHS for the total amount of hours worked monthly versus the standard one-twentieth amount 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 significance of this contract, the lack of clarity and guidance in the current contract, and the long-standing partnership between UT Health San Antonio and UHS, an overall assessment of the 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 contract to include the additional information not only improves transparency between UT Health San Antonio and UHS, but also helps ensure the completeness and accuracy of the billing and collections for services provided by the LSOM making monitoring efforts for both parties more efficient.

**Risk Rating: Medium**

**Owner:**  
Executive Vice  
Dean for Clinical Affairs  
and Vice Dean for Finance  
& Administration, LSOM

**Implementation Date:**  
Schedule reviews will be initiated in May 2022, with the goal of completing the review process by January 1, 2023. The current AOA contract runs January 1, 2022 through August 31, 2023. The projected review timeline should allow for plenty of time to implement the necessary and desired contractual changes.

**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.