



# CITY OF SAN ANTONIO

P.O. Box 839966  
SAN ANTONIO TEXAS 78283-3966

August 20, 2013

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Councilman, District 8

**SUBJECT: Audit Report of the San Antonio Metropolitan Health District – Lab Operations**

Mayor and Council Members:

We are pleased to send you the final report of the SAMHD – Lab Operations. This audit began in December 2012 and concluded with an exit meeting with department management in June 2013. Management's verbatim response is included in Appendix B of the report. The SAMHD management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor  
City of San Antonio

Distribution:

Sheryl L. Sculley, City Manager

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Ben Gorzell, Chief Financial Officer

Dr. Thomas Schlenker, Director, San Antonio Metropolitan Health District

Michael D. Bernard, City Attorney

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Stephen S. Penley, Audit Committee Member

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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Audit of the San Antonio Metropolitan Health District - Lab Operations

Project No. AU13-008

August 20, 2013

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted an audit of the San Antonio Metropolitan Health District's (SAMHD) Lab Operations. The audit objective, conclusions, and recommendations follow:

### **Are the laboratories operating in compliance with appropriate rules and regulations?**

We determined that the laboratories (labs) are in compliance with State and Federal regulations for the lab functions to include: Water Bacteriology, Milk and Dairy, Immunology, Microbiology, and Syphilis Serology.

They have been audited by their respective regulating agencies and received positive evaluations for the recent audits conducted. Additionally, the Labs have internal controls in place to ensure timely receipt and appropriate processing and reporting of test samples. They also have effective controls in place to ensure compliance with safety standards for internal handling and disposing of medical waste and are effectively training personnel as required by the State.

However, we noted several areas from an administrative perspective where improvement is needed:

- SAMHD Fiscal Division and Clinics are not accurately managing revenue collected for lab services. Specifically, their cash handling procedures are not in compliance with the City's Administrative Directive 8.1 *Cash Handling*.
- Billing for Medicaid/Medicare eligible services is not performed accurately, timely or in a consistent manner.
- The lab does not have a reconciliation process in place to ensure the accuracy of the lab tests submitted for billing. Consequently, we identified inaccurate counts of lab samples in the monthly invoices submitted to the grantor.
- The lab is inaccurately performing its inventory of consumables<sup>1</sup>. Inaccurate counts, prices, and the inclusion of non-consumables were identified in the support documentation for the physical counts reviewed.
- For the period tested, we noted that the Lab purchased more than \$3,000 from multiple individual vendors without a contract as required by City AD 1.6 *Purchasing*.

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<sup>1</sup> Consumables are products that are regularly purchased by the Lab, i.e., test kits, chemicals and gloves.

- The LAB-DAQ system currently used to document lab tests is not secure. Weak security access controls over the lab's current information management system were identified. Additionally, they do not have an electronic backup system.

We recommend that the Director of SAMHD should:

- Implement end of day procedures for safeguarding cash and establish internal controls to comply with AD 8.1 *Cash Handling*.
- Establish and implement a process to ensure Medicaid/Medicare eligible services are billed accurately and within the required timeframe. Rejected claims should be corrected and resubmitted timely.
- Establish and implement a process to review lab sample counts for accuracy before sending to the Fiscal Division for billing.
- Establish a standard process for conducting inventories and work with the Fiscal Division to update the list of lab consumables to ensure that the inventory value is accurately reported at the end of each year.
- Ensure contracts are created for vendors that they anticipate purchasing goods/services totaling \$3,000 or more as required by AD 1.6 *Purchasing*.
- Strengthen security and access controls for the information management system and ensure compliance with the City's administrative directives established by the Information Technology Services Department.

The SAMHD Management's verbatim response is in **Appendix B** on page 10.

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## Background

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San Antonio Metropolitan Health District (SAMHD) is the single public agency charged by State Law, City Code, and County Resolution with the responsibility for public health programs in San Antonio and the unincorporated areas of Bexar County. The SAMHD's mission is to provide leadership and services for San Antonio and Bexar County to prevent illness and injury, promote healthy behaviors, and protect against health hazards. The Laboratories Services Branch (Lab) is a section under the Environmental Safety Division within SAMHD.

The Lab of the SAMHD provides analytical support for various public health programs in the greater San Antonio metro area. The lab is a conglomeration of 10 testing areas that may serve different functions for a variety of customers and regulatory agencies in a 29 county region and beyond. The areas are divided into five sections, including consumer microbiology and testing, infectious disease surveillance, bioterrorism/influence operations (BSL-3 lab), rabies analysis, and food surveillance. The Lab is funded through the General Fund and grant awards.

Revenue for lab services is not collected at the laboratories. The Fiscal Division of the SAMHD collects payments for drinking water lab tests, submits grant reimbursement requests, and submits Medicaid claims for lab services. Additionally, the Sexually Transmitted Disease (STD) and Chest clinics collect cash and credit card payments for lab services, count and balance the daily transactions, and prepare the daily deposit.

## Audit Scope and Methodology

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The audit scope was fiscal year 2012 through March 2013. The scope included review of State and Federal rules, City Administrative Directives, Departmental policies/procedures, Medical Waste Disposal agreement, and Internal Controls relating to General Fund and grant funded lab functions<sup>2</sup>, lab accreditations/certifications and fiscal activities.

We verified that the lab functions received positive evaluations as a result of regulatory audits and that they were current with required accreditations and certifications. We also reviewed regulations related to mandatory training for each lab area. We ensured that employees received the appropriate training as required by Occupational Safety and Health Administration (OSHA), Health Insurance Portability and Accountability Act (HIPAA), Department of State Human Services Infection Control, and National Environmental Laboratory

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<sup>2</sup> Lab functions reviewed included: Water Bacteriology, Milk/Dairy, Immunology (T-Spot, HIV, and Gen-Prove), Microbiology, and Syphilis Serology.

Accreditation Program (NELAP). Furthermore, we reviewed regulations related to the handling of medical waste internally and compared them to current lab's policies and procedures, current practices, and tracking logs to determine that the lab is keeping track and disposing of medical waste in compliance with state regulations.

We reviewed the department's policies and procedures for daily collections for services rendered, Medicaid billing, and grant reimbursement requests. We also reviewed Medicaid instructions and approved rates and compared them to the lab's current fee schedules.

We judgmentally selected 10 out of 116 revenue entries in SAP from the general ledger account "Water Bacteriology Testing" for FY2012, reviewed corresponding support documentation, and recalculated grant totals to determine if revenue entries matched support documentation. We also judgmentally selected and tested three monthly invoices from FY2012 from their four lab grants (three cost reimbursement grants and one fee for service grant) to determine if cost reimbursement requests (billing) were performed accurately and according to grant contract terms.

Furthermore, we judgmentally selected and obtained all invoices issued during the months of October thru December, 2011 and January, February and November, 2012. We reviewed invoices and corresponding support documentation for Medicaid and Medicare eligible patients to determine if these have been billed accurately and timely according to Medicaid billing instructions.

We reviewed the physical inventory of lab consumables conducted for the 1st quarter for FY2013 and judgmentally selected 14 out of 362 items in the inventory sheets of lab consumables to determine its accuracy. We also reviewed purchase orders processed during FY2012 and FY2013 (in total we reviewed 858 purchase orders) to determine compliance with City's AD 1.6 *Purchasing*.

We interviewed the system administrator of the LAB-DAQ system to determine compliance with applicable ITSD administrative directives relating to user security, user access, and backup controls for the system.

In addition, we discussed the process for disposal of medical waste with the lab manager. In order to gain a thorough understanding of the potential risks involved and to ensure that the City is properly protected against damages that could take place during the course of waste being transported, we contacted the City's Office of Risk Management and reviewed the medical waste disposal services agreement.

We relied on computer-processed data in SAP to obtain the population of lab's revenues and expenses. Our reliance was based on performing direct tests on

the data rather than evaluating the system's general and application controls. Our direct testing included review of revenue and expenses. We do not believe that the absence of testing general and application controls of the SAP system had an effect on the results of our audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Results and Recommendations

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### A. Revenue collected for lab services

The SAMHD Fiscal Division and Clinics are not accurately managing revenue collected for lab services. Segregation of duties and cash handling controls are not adequate. Consequently, the department is not in compliance with the City's Administrative Directive 8.1 Cash Handling. We noted the following for the multiple locations responsible for collecting fees for lab services:

- The cash drawer used as a means to safeguard cash collections is not counted and balanced before another person takes possession at the end of the day.
- A single employee is responsible for performing all cash handling functions for patient services (i.e. daily collections, accounting, and reporting of fees collected).

The lack of internal controls and oversight stated above can create an environment that contributes to misappropriation of funds.

### Recommendation

The Director should implement end of day procedures for safeguarding cash and establish internal controls to comply with City's AD 8.1 *Cash Handling*.

### B. Billing for Medicaid/Medicare eligible services

Billing for Medicaid/Medicare eligible services is not performed accurately. A standard process does not exist for the identification and submission of Medicaid/Medicare eligible services. Fiscal staff was not able to provide us with support for billing of Medicaid claims. Claims are not being reconciled and there is no support/summary of claims submitted or collections received to ensure that we are collecting the appropriate amounts. We also noted the following:

#### Medicare:

The division is not submitting claims for Medicare services that may be eligible for reimbursement. At the time of our test work, management was not sure if they are a qualified Medicare provider and had not made inquiries to find out.

#### Medicaid:

- The STD Clinic is not consistently submitting claims for lab services to Medicaid eligible patients.

- In several instances, Texas Medicaid & Healthcare Partnership's (TMHP) rejected claims due to miscoding (i.e. incorrect provider type). In addition, the SAMHD Director has not received his Medicaid National Provider Identifier (NPI). Consequently, claims submitted under his name are being rejected. Medicaid allows a time frame to appeal denied claims. However there was no evidence that the division appealed the claims that were denied.

The following table lists the amount of eligible services that were either not billed or were billed incorrectly (for the sample tested) and never resubmitted to the Medicare/Medicaid office:

STD Clinic				
Time Period	Lab Services Provided to Medicaid/Medicare Eligible Patients <sup>3</sup>	Total invoices	Total Amount Requested	Total Amount Received
Oct. 2011	\$2,066.69	33	\$ 0.00	\$ 0.00
Nov. 2011	2,065.61	33	76.00	62.74
Dec. 2011	2,589.84	45	959.00	789.38
Jan. 2012	3,410.09	59	1,267.00	1,059.41
Feb. 2012	2,390.04	35	791.00	214.53
Nov. 2012	3,090.20	51	0.00	0.00
Total	\$15,612.47	256	\$ 3,093.00	\$ 2,126.06

Chest Clinic				
Time Period	Lab Services Provided to Medicaid/Medicare Eligible Patients	Total invoices	Total Amount Requested	Total Amount Received
Feb. 2012	\$ 559.66	6	\$ 563.57	\$ 16.21
Nov. 2012	462.80	8	0.00	0.00
Total	\$ 1022.46	14	\$ 563.57	\$ 16.21

**Recommendation**

The Department Director should establish and implement a process to ensure Medicaid/Medicare eligible services are billed accurately and within the required time frame. Rejected claims should be corrected and resubmitted timely.

**C. Billing for Lab Tests**

The lab does not have a review process in place to ensure the accuracy of invoices submitted for grant billing. They do not have a formal process in place to review their count of total lab tests conducted before sending to Fiscal for final billing. In addition, a reconciliation does not exist to ensure the total number of

<sup>3</sup> These amounts only include lab fees from invoices marked with Medicaid/Medicare information that were provided by the department. Auditors noted other clinic fees but did not include them since they are out of the audit scope.

lab tests billed agree with the total number of lab tests conducted from the lab's manual logs.

As a result of inaccurate counts of lab tests conducted, billed amounts are inaccurate and revenue generated from lab tests is misstated.

### **Recommendation**

The Director should establish and implement a process to review lab sample counts for accuracy before sending to the Fiscal Division for billing.

## **D. Physical Inventories of consumables**

There were items listed on the inventory tracking sheet for consumables that staff did not recognize. We identified inaccurate counts, incorrect prices, incorrect fiscal information, and non-consumable items listed on the tracking sheet.

In addition, allotted test kits were not included or adjusted during the inventory physical counts. Consequently, they were not listed on the tracking sheet.

Inaccurate tracking of inventory can result in misstatement of the lab's inventory value.

### **Recommendation**

The Director should establish a standard process for conducting inventories and work with the Fiscal Division to update the list of lab consumables to ensure that the inventory value is accurately reported at the end of each year.

## **E. Lab Purchases**

The Lab is not complying with the City's Purchasing Policies. We obtained and reviewed all purchase orders processed during FY2012 and FY2013 and determined that the Lab purchased more than \$3,000 from several vendors with no contract during FY2012 and FY2013 (current fiscal year as of March 21, 2013).

Without a contract in place the department is in violation of AD 1.6 which states that departments that anticipate purchasing more than \$3,000 from one vendor should create a contract with the assistance of the Department of Purchasing. In addition, the department could be foregoing efficiencies in the procurement process and potential volume discounts.

The following table lists the number of different vendors used to purchase recurring items totaling \$3000 or more.

		Fiscal Year 2012		Oct thru March Fiscal Year 2013	
Vendor Number	Purchase Description	Number of Purchases	Amount	Number of Purchases	Amount
1000090	Chemicals, Medical and Drugs	9	22,424.41	4	6,000.95
1000636	Chemicals, Medical and Drugs	5	3,531.98	2	3,527.50
1011496	Chemicals, Medical and Drugs	4	5,863.61	2	5,511.47
1011958	Chemicals, Medical and Drugs	18	5,954.91	16	7,081.40
1014090	Chemicals, Medical and Drugs	6	4,666.49	3	2,409.85*
1035511	Chemicals, Medical and Drugs	3	5,457.82	2	2,979.91*

\*These have not met threshold as of March 31, 2013.

**Recommendation**

The Director should ensure contracts are created for vendors that they anticipate purchasing goods/services totaling \$3,000 or more as required by AD 1.6 *Purchasing*.

**F. Lab’s Information Management system**

The Lab is not complying with the City’s system security and information management policies. The Lab’s system (LAB-DAQ) is not in compliance with ITSD administrative directives for Passwords, Security, and User Account Management<sup>4</sup>. Specifically, we noted:

Security and Passwords:

- Passwords are established by only using a 4 digit combination.
- Passwords do not have a set expiration period.
- System administrators share the user ID and password to access the server.

<sup>4</sup> City’s Administrative Directives: 7.6 Security and Passwords, 7.8E User Account Management, 7.8D Account Access Management, and 7.8.1 Information Security Program

- An information security plan has not been established.

User Account Management:

- User accounts are not suspended or locked for periods of inactivity.
- User accounts and responsibilities are not periodically reviewed.

Without the effective system controls identified in the City's administrative directives, users can obtain unauthorized or inappropriate access to the application and data.

System Backup:

- The server's backup drive is not operating properly; therefore, the Lab cannot perform electronic backups.
- Hard copy backups are not filed in secure filing cabinets.

In the event of an emergency or disaster, the Lab's vital records may be destroyed. Consequently, damaged records on the system would not be recoverable, since the Lab cannot archive their data electronically. Additionally, unsecure access to patient records jeopardizes the confidentiality and integrity of highly sensitive data.

**Recommendation**

The Director should strengthen security and access controls for the information management system and ensure compliance with the City's administrative directives implemented by the Information Technology Services Department.

## **Appendix A – Staff Acknowledgement**

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Sandy Paiz, CFE, Audit Manager  
Claudia Peña, CFE, Auditor in Charge  
Christopher Moreno, MPA, Auditor  
Christina Liguori, Auditor

## Appendix B – Management Response



# CITY OF SAN ANTONIO

P.O. Box 839966  
SAN ANTONIO TEXAS 78283-3966

Month 07, 2013

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor  
San Antonio, Texas

RE: Management’s Corrective Action Plan for Audit of the San Antonio Metropolitan Health District – Lab Operations

San Antonio Metropolitan Health District has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person’s Name/Title	Completion Date
1	<p><b>Revenue collected for lab services</b></p> <p>The Director should implement end of day procedures for safeguarding cash and establish internal controls to comply with City's AD 8.1 <i>Cash Handling</i>.</p>	4	Accept	Julie Sandoval, Department Fiscal Administrator	08/16/2013

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b><u>Action plan:</u></b></p> <p>Metro Health Fiscal Operations Division is currently revising the departmental Cash Handling policy for distribution to all cash handling operations for proper safeguarding of cash and to ensure proper internal controls and oversight are in place. Training for all cash handlers will be conducted and a signed acknowledgement form will be kept on file. To improve end of day procedures the Fiscal Operations Division will conduct unannounced cash handling audits on a quarterly basis to ensure staff is complying with the City's AD 8.1 Cash Handling</p>				
2	<p><b>Billing for Medicaid/Medicare eligible services</b></p> <p>The Department Director should establish and implement a process to ensure Medicaid/Medicare eligible services are billed accurately and within the required time frame. Rejected claims should be corrected and resubmitted timely.</p>	5	Accept	Julie Sandoval, Department Fiscal Administrator	08/30/2013
	<p><b><u>Action plan:</u></b></p> <p>Metro Health Fiscal Operations Division is currently reviewing a draft Medicaid Billing Standard Operating Procedure to ensure that Medicaid eligible services are billed accurately and within the required timeframe. A reconciliation process will be included in the Standard Operating Procedure to ensure all superbills are submitted to the Fiscal Operations Division by the registration staff assigned at each clinic as well as ensure that any rejected claims are corrected and resubmitted for reimbursement.</p>				
3	<p><b>Billing for Lab Tests</b></p> <p>The Director should establish and implement a process to review lab sample counts for accuracy before sending to the Fiscal Division for billing</p>	6	Accept	Mark Wade, Laboratory Manager	06/30/2013

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b>                      A peer review process was put into place in which one Technologist tabulates the Milk and Dairy test counts and a second technologist also tabulates the test counts. Any differences in counts are resolved with both Technologists agreement on the tabulation reported. Final tabulations are sent to the Fiscal Operations Division for processing.</p>				
4	<p><b>Physical Inventories of consumables</b></p> <p>The Director should establish a standard process for conducting inventories and work with the Fiscal Division to update the list of lab consumables to ensure that the inventory value is accurately reported at the end of each year.</p>	6	Accept	Mark Wade, Laboratory Manager	06/30/2013
	<p><b>Action plan:</b>                      Inventory sheets were created for each program area in the laboratory and are separated by "Consumable" and "Durable" items. Inventory sheets are given to the program leads in each area on a monthly basis and tabulated. The sheets are returned to the laboratory supply custodian and consolidated. Only "consumable" inventories are reported to Fiscal on a quarterly basis. Per our Consumables Inventory Policy; a Senior Accountant will perform random audits to ensure that the reported information is complete and accurate.</p>				
5	<p><b>Lab Purchases</b></p> <p>The Director should ensure contracts are created for vendors that they anticipate purchasing goods/services totaling \$3,000 or more as required by AD 1.6 <i>Purchasing</i>.</p>	7	Accept	Mark Wade, Laboratory Manager; Norbert Dziuk, Purchasing	10/31/2013

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b>                      The Health Department, in conjunction with the Purchasing Division, will conduct an analysis of laboratory supply requirements to identify opportunities to establish annual supply contracts where appropriate.</p> <p>Additionally, as part of the reorganization of the Purchasing Division, a Financial Analyst position was created to conduct on-going analysis of the City's non-contract purchases. The focus of the analysis is to evaluate purchases and strategically create new annual contracts which offer the greatest savings to the City. The Purchasing Division will prioritize the creation of new contracts based upon the dollar value of the associated non-contract spend.</p> <p>The City awarded a contract to Bio-Rad (vendor number 1000090) on June 20, 2013 for the purchase of Human Immune Virus laboratory tests and supplies which consists of 23 line items. This vendor accounted for 47% of the expenditures in FY 12 and 22% in FY13 based upon the expenditures identified in the audit report.</p> <p>Finally, the Purchasing Division is currently reviewing Administrative Directive 1.6 for possible updates based upon the implementation of the SAePS and the reorganization of the Purchasing Division. These updates will provide guidance for the development of contracts and when new annual contracts should be created.</p>				
6	<p><b>Lab's Information Management system</b></p> <p>The Director should strengthen security and access controls for the information management system and ensure compliance with the City's administrative directives implemented by the Information Technology Services Department.</p>	8	Accept	Mark Wade, Laboratory Manager	09/30/2013

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b></p> <p>The new laboratory information management system (StarLIMS by Abbott) is in the final phase of implementation and commencing certification (CLIA and NELAP). Once certified, the legacy system, LABDAQ, will be decommissioned. As part of the project implementation, role based provisioning procedures have been established and will be reviewed prior to the project close-out.</p> <p>StarLIMS has been implemented within the secure data center (SDC) with stringent access controls, system monitoring and back-ups performed on a regular schedule. A Service Level Agreement with both the vendor and ITSD will be enforced with the new system.</p>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



\_\_\_\_\_  
 Dr. Thomas Schlenker  
 Director  
 San Antonio Metropolitan Health District

7-31-13  
 \_\_\_\_\_  
 Date



\_\_\_\_\_  
 Gloria Hurtado  
 Assistant City Manager  
 City Manager's Office

7/30/2013  
 \_\_\_\_\_  
 Date