

CASE STUDY

Sales & Use Tax Audit

“Medical University of South Carolina”

Region: Southwest

HQ: South Carolina

Employees: 8,048

Beds: 1,501

Patient Revenue: \$7.8 Billion

EHR: Epic

ERP: McKesson Pathways

GPO: Vizient

“SpendMend showed us things we never would have seen on our own. Not only does this impact our bottom line but it improves our processes as well.”

-Farrell Jensen, Treasury and Tax Management

Problem

South Carolina Code Section 12-36-2120(80) law allows a sales and use tax exemption “for certain injectable medications and injectable biologics.” Interestingly, this exemption is not standard, but rather dependent on “certain requirements” regarding state revenue growth.

In an effort to remain compliant with the law despite the vague phrasing, our client MUSC buys pharmaceuticals into either McKesson Taxed or Tax-Exempt accounts depending on its interpretation of the specific purchase and the statewide policy. Of course all exempt drugs should be purchased into Tax Exempt accounts and taxable drugs into Taxed accounts, but it is never that simple and our client and many other hospitals throughout South Carolina are inadvertently purchasing tax-exempt drugs into taxed accounts causing an overpayment of sales tax to McKesson. Likewise, they are also purchasing taxable drugs into tax-exempt accounts causing an underpayment of sales tax.

Solution

Leveraging a powerful proprietary method to separate pharmaceuticals into the correct exempt or non-exempt status, SpendMend analyzed pharmaceutical purchases for MUSC for the period 5/1/16 to 5/31/18 to determine both the amount of overpayment and the amounts underpaid in sales tax. In addition, SpendMend provided a prospectus on overpayments and the amounts underpaid through the remainder of CY 2019 as well.

Result

Net overpayments due to the misappropriation of exempt and non-exempt statuses for the reviewed period totaled approximately \$750K with at least that much more projected through trough CY 2019 for a total exposure of nearly \$1.5M which can all be recouped through a series of routine claim filings by SpendMend. This level of savings is material to the hospital and goes right back to our client's bottom line.