

INTERNAL AUDIT REPORT

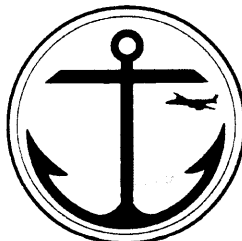
2010-08

Billings and Collections

Department of Health and Human Services

September 2, 2010

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Mayor Dan Sullivan

September 2, 2010


Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2010-08, Billings and Collections, Community Health Services Division, Department of Health and Human Services**, for your review. A brief summary of the report is presented below.

In accordance with the 2010 Audit Plan, we have completed an audit of billing and collection procedures by the Community Health Services Division, Department of Health and Human Services. The objective of this audit was to determine whether the Division's billing and collection procedures for accounts receivable were effective. Specifically, we reviewed the procedures and selected and reviewed aged accounts receivable to determine whether appropriate collection actions had been taken.

The Division's billing and collection procedures for accounts receivable could be improved. We found that the Division's current practice is to bill third party payers one time with no follow-up billing if full payment or response is not received. In addition, clients who had received services were not always billed and the Division did not send delinquent accounts receivable to a collection agency. Moreover, delinquent accounts receivable were not always transferred to a suspense account and the accounts receivable aging report contained both credit and debit entries, distorting the accounts receivable total. Furthermore, payment plans established between the Division and clients were not always monitored. Finally, controls over cash and accounts receivable were not properly segregated, the Division's Insight system, which is used to manage accounts receivable, was not authorized by the Chief Fiscal Officer, and the Division did not have a written policy and procedure to verify a client's income.

There were nine findings with recommendations in connection with this audit. Management comments were responsive to the audit findings and recommendations.


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Internal Audit Report 2010-08
Billings and Collections
Community Health Services Division
Department of Health and Human Services

Introduction. The Community Health Services Division (Division) is part of the Department of Health and Human Services (Department). The Division focuses on the health of the community, providing preventive health care services including immunizations, family planning services, testing and treatment of sexually transmitted infections, breast and cervical health screening, communicable disease investigations, and tuberculosis control. In 2009, the Division had 25,590 visits from 16,470 clients resulting in charges of \$2,262,370. Total program revenue collected in 2009 was \$451,858 because, in many cases, charges were discounted for clients based on income and family size. The programs were funded by federal grants totaling \$2,234,220. Program revenue was used to finance the non-federal share of the programs. Since 2004, the Division has used an automated client visit record system (Insight) to manage client medical and financial records.

Objective and Scope. The objective of this audit was to determine whether the Division's billing and collection procedures for its accounts receivable were effective. Specifically, we reviewed the billing and collection procedures and selected and reviewed aged accounts receivable to determine whether appropriate collection actions had been taken.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of May through July 2010. The audit was requested by the Administration.

Overall Evaluation. The Division's billing and collection procedures for accounts receivable could be improved. We found that the Division's current practice is to bill third party payers one time with no follow-up billing if full payment or response is not received. In addition, clients who had received services were not always billed and the Division did not send delinquent accounts receivable to a collection agency. Moreover, delinquent accounts receivable were not always transferred to a suspense account and the accounts receivable aging report contained both credit and debit entries, distorting the accounts receivable total. Furthermore, payment plans established between the Division and clients were not always monitored. Finally, controls over cash and accounts receivable were not properly segregated, the Division's Insight system, which is used to manage accounts receivable, was not authorized by the Chief Fiscal Officer, and the Division did not have a written policy and procedure (P&P) to verify a client's income.

FINDINGS AND RECOMMENDATIONS

1. Billing Procedures Need Improvement.

- a. Finding.** The Division's current practice is to bill third party payers one time with no follow-up billing if full payment or response is not received. In some cases, we found that initial billings were not even sent to the third party payers. As a result, billed charges were under collected. Without timely and consistent billing, payments for the services performed are lost. Third party payers included Medicare, Medicaid, insurance companies, private organizations, and Municipal Departments. Accounts

receivable to these organizations totaled \$335,107 for 2,075 clients and averaged \$161 for each visit. Our review of 18 delinquent accounts revealed a variety of problems as follows:

- ***Insurance Billings Not Pursued*** – At the time of our audit, billings to insurance carriers totaled \$104,660 for 342 clients, and \$20,631 (20%) of the charges were over 6 months old. For example, on April 5, 2007, a client received services totaling \$375.90. These charges were billed to an insurance company on May 22, 2007. As of June 15, 2010, billing records indicated that no response had been received from the insurance company and no further action had been taken since it was initially billed in 2007. According to Division staff, the insurance carrier may have responded, but incoming mail was frequently lost. The Division's P&P 05-1, *CHS Billing and Collection*, states that "Insurance carriers shall be billed monthly and outstanding claims over 60 days will be researched and rebilled if appropriate."
- ***Insurance Claims Not Always Filed Timely*** – Division staff did not always file insurance claims in a timely manner. For example, on March 2, 2009, a client received services totaling \$72.00. However, the charge was not billed to the insurance company until April 26, 2010.
- ***Medicare/Medicaid Billings Not Always Pursued*** – At the time of our audit, Medicare accounts receivable totaled \$12,058 for 333 clients, and \$10,193 (85%) of the charges were over 6 months old. In addition, Medicaid accounts receivable totaled \$213,938 for 1,362 clients, and \$91,926 (43%) of the charges were over 6 months old. In some cases, Division staff had taken no action on these claims. For example, on September 18, 2007, a client received \$106.50 in services. However, as of June 2010 Medicare had not been billed.

In another case, a client received \$157 in services on July 19, 2007. Once again, Medicare was not billed.

- ***Private Company and Municipal Agency Billings Not Always Pursued*** – At the time of our audit, billings to private companies and municipal agencies totaled \$4,451 for 38 clients, and \$960 (22%) of the charges were over 6 months old. In one case, on March 13, 2009, a client received services totaling \$151. These charges were billed to the client's employer on April 1, 2009. As of June 15, 2010, billing records indicated that no response had been received from the employer. In another case, on January 15, 2010, a client received a Hepatitis A and B vaccination. Charges were billed on April 1, 2010, to the client's employer, a Municipal Department. As of June 2010 the charges had not been paid, no follow-up bill had been sent, and the Department was not aware of the bill. This same client also received a booster vaccination on February 19, 2010. As of June 15, 2010, this charge had not been billed to the Municipal Department.

- b. **Recommendation.** The Director of Health and Human Services should ensure that third party payers are billed timely and consistently.
- c. **Management Comments.** Management stated, "In 2009 a new strategy was implemented due to budget cuts. This strategy included the elimination of a cashier/billing clerk position with those duties to be absorbed by office associates. As part of the plan, the office associate has, over the past few months, received extensive training on cashiering/billing. These new responsibilities required an approval and training process which took until summer 2010 to finalize. One of the unexpected repercussions of eliminating the clerk position has been the loss of follow-up on problem claims and other outstanding claims that are due to incomplete or missing

information. Community Health Services Division (CHSD) held a follow-up training with the office associates during the week of August 9th and reviewed correct data entry points that have been consistently missed over the past few months. CHSD will be holding a second training in the next couple of weeks to go over more data entry points – with the goal of reducing the overall number of problem claims. This should enable the billing clerk to file more insurance claims in a timely manner. CHSD is also implementing a new process which includes monthly support for the CHSD billing clerk, specifically to research and rebill monthly and outstanding claims over 60 days. The CHSD Division Manager will monitor this closely to ensure that third party payers are billed timely and consistently.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Individual Clients Haphazardly Billed.**

- a. **Finding.** Clients who had received services were not always billed. P&P 05-1 states that, “Client statements shall be reviewed, corrected if needed and mailed monthly.” However, our review revealed that some client statements were not mailed monthly. In one case, a client statement was sent in April 2009, May 2009, July 2009, October 2009, January 2010, and May 2010. As of June 2010 the bill remained unpaid and the charges had not been transferred to the suspense account. In another case, a client was never billed for services that were provided in February 2009. Division staff could not explain why a statement had not been mailed to the client.
- b. **Recommendation.** The Director of Health and Human Services should ensure that client statements are reviewed, corrected if needed and mailed monthly as required.

- c. **Management Comments.** Management stated, “Due to reduced staffing, the policy for monthly billing was changed to bi-monthly billing in 2009. With the implementation of proper data entry training for the office associates and the addition of monthly support for outstanding claims, the billing clerk should be able to resume monthly billing of clients. The CHSD Division Manager will work with the staff to ensure that client statements are reviewed, corrected if needed and mailed on a monthly basis.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Collection Agency Not Used.**

- a. **Finding.** The Division did not send delinquent accounts receivable to a collection agency. Based on a survey conducted by the Commercial Collection Agency Section of the Commercial Law League of America, the longer an account is outstanding, the less the probability of collection. For example, after three months, the probability of collecting on a delinquent account drops to about 72 percent. After six months, almost 44 percent of delinquent accounts will never be collected, and after one year the probability of collecting a delinquent account drops to about 29 percent. Of the \$501,354 of the Division’s accounts receivable, about \$221,529 were at least 6 months old.

**Community Health Services
 Accounts Receivable
 as of May 25, 2010**

<u>Aging</u>	<u>Amount</u>	<u>Accounts</u>	<u>Percent of Accounts</u>
Current	\$55,504	429	10%
31 – 60 days	50,241	377	8%
61 – 90 days	57,395	440	10%
91 – 120 days	54,039	430	9%
121 days – 180 days	62,646	561	12%
181 days – 365 days	136,235	1,349	29%
Over 365 days	<u>85,294</u>	<u>1,027</u>	<u>22%</u>
	<u>\$501,354</u>	<u>4,613</u>	<u>100%</u>

Source: Division query of Insight billing data.

- b. **Recommendation.** The Director of Health and Human Services should consider sending delinquent accounts to a collection agency.
- c. **Management Comments.** Management stated, “In the past, the department has considered sending clients with delinquent accounts to collections. However, the nature of the some of the services that CHSD provides is very sensitive in nature and could potentially place clients in harmful or difficult situations. It was strongly recommended by one of CHSD’s largest grant supporters that in order to maintain confidentiality and keep confidence in CHSD clients, that we not send client accounts to collection. The CHSD Division Manager and the DHHS Director will take another look at this and see if there are any services offered which do not place clients in jeopardy that can potentially be sent to collections.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Delinquent Accounts Not Always Transferred.**

- a. **Finding.** Delinquent accounts receivable were not always transferred to a suspense account. Policy and Procedure 05-1 states that “An AR24 report (Aged Accounts Receivables) will be reviewed monthly and any accounts that have not had activity in 12 months will be transferred to a suspense account.” Our review of selected accounts receivable over one year old revealed that many of the accounts had not had any activity during the last 12 months. As a result, receivable balances which contain uncollectible accounts do not present the true value of the receivables.
- b. **Recommendation.** The Director of Health and Human Services should ensure that the accounts receivable that have not had activity in 12 months will be properly transferred to a suspense account as required.
- c. **Management Comments.** Management stated, “The CHSD Division Manager is working with staff to bring all accounts receivable up-to-date by December 31, 2010. The CHSD Division Manager will work with staff to ensure that the accounts receivable that have not had activities in 12 months are properly transferred to a suspense account as required.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Aging Report Distorted.**

- a. **Finding.** The accounts receivable aging report contained both credit and debit entries, distorting the accounts receivable total. The aging schedule totaled \$488,482 with the credit entries and \$501,354 without the credit entries. The credit entries were the result of prepayments or overpayments.
- b. **Recommendation.** The Director of Health and Human Services should ensure that the accounts receivable aging report not include credit balances.
- c. **Management Comments.** Management stated, "The current aging report is a canned report that is part of the software program, Insights. CHSD staff will work with Insights to build an aging AR report that does not include accounts with credit balances. The CHSD Division Manager will ensure that until the report is built, that CHSD staff will subtract all credits from the aging AR report to give an accurate account receivable overview."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Payment Plans Not Monitored.**

- a. **Finding.** Payment plans established between the Division and clients were not always monitored. For example, in September 2008, a client agreed to pay \$10.00 each month for services that had been provided. However, as of June 2010, no payment had been made. There was no evidence Division staff had monitored the payment

plan or had tried to pursue payment by sending a reminder letter or calling the client. In addition, Division staff could not tell us how many client payment plans existed.

- b. **Recommendation.** The Director of Health and Human Services should ensure that accounts receivable set up with a payment plan be monitored so that all required payments are received in accordance with the plan.
- c. **Management Comments.** Management stated, “In the past, payment plans were set-up and monitored by the cashier position that was eliminated. The CHSD Division Manager will work with staff to have this responsibility reassigned to one of the office associates and will ensure that accounts receivable set up with a payment plan be monitored so that all required payments are received in accordance with the plan in the future.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Lack of Segregation of Duties.**

- a. **Finding.** There was a lack of segregation of duties regarding controls over cash and accounts receivable. Specifically, one Division staff performed most of the billing, collecting, recording, and depositing cash collected. Last year, the Division eliminated its cashiers’ position, leaving fewer Division staff to perform these duties and making it difficult to segregate duties. In addition, because the cashier position was eliminated, the Division was not able to accept payment from clients during the check-out process.

- b. **Recommendation.** To reduce the risk of error and/or fraud, key duties and responsibilities should be divided or segregated among different people. This should include separating the responsibility for authorizing transactions, processing and recording them, reviewing the transactions, and handling cash receipts. No one individual should control all key aspect of a transaction or event. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.
- c. **Management Comments.** Management stated, “Since the audit, the process has been put in place. Our office associates now conduct collections at the time of service, payments received are logged by a record clerk into a spreadsheet and then passed to the billing clerk to post, and the billing clerk complete the daily cash reports – which is reviewed and signed off by a manager.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

8. **Insight Billing System Not Approved.**

- a. **Finding.** We found no documentation showing that the Division’s Insight system, which is used to manage accounts receivable, was authorized for use. Policy and Procedure 24-21, *Customer Setup, Billing and Managing PeopleSoft Accounts Receivable*, states that PeopleSoft Accounts Receivable is the accounts receivable module of the Municipality’s general ledger. It further states that “No other billing system shall be used by a Municipal department for billing miscellaneous accounts receivable unless prior written authorization is obtained from the Chief Fiscal Officer and a copy of that authorization has been provided to the Controller and Treasurer.”

- b. **Recommendation.** The Director of Health and Human Services should obtain written authorization from the Chief Fiscal Officer to use the Insight system to manage accounts receivable.
- c. **Management Comments.** Management stated, “The CHSD Division Manager will work with staff immediately to request written authorization from the Chief Fiscal Officer to use the Division’s Insight system to manage accounts receivable.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

9. **Additional Policies and Procedures Needed.**

- a. **Finding.** The Division did not have a written P&P to verify a client’s income. Income verification is important since income level is used to determine the client’s fee based on the sliding fee scale. OPA Program Instruction 08-01, *Verification of Income for Title X Clients*, states that “Written policies should be developed by grantees regarding verifying family income within the Title X project.”
- b. **Recommendation.** The Division manager should develop written policies regarding family income verification and should ensure individual eligibility for a discount must be documented in the client’s financial record.
- c. **Management Comments.** Management stated, “The CHSD Division Manager will work with staff immediately to develop a detailed billing and collection P&P for verifying/collecting income information in clinic.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on July 14, 2010.

Audit Staff:
Scott Lee