

# INTERNAL AUDIT REPORT

2013-05

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Community Health Services Division  
Billing and Collection Follow-up

Department of Health and Human Services

April 16, 2013

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# MUNICIPALITY OF ANCHORAGE



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*Mayor Dan Sullivan*

April 16, 2013

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2013-05; Community Health Services Division Billing and Collection Follow-up; Department of Health and Human Services**. A brief summary of the report is presented below.

In accordance with the 2012 Audit Plan, we have completed a follow-up audit of the Community Health Services Division Billing and Collection. The objective of this audit was to determine the effectiveness of corrective action taken by the Department of Health and Human Services on the deficiencies contained in Internal Audit Report 2011-13. Specifically, we reviewed billing and collection procedures, reviewed accounts receivable reports, and evaluated internal controls over client billing and payment collection during the year 2012.

Based on our observation, it is our opinion management action corrected the majority of the issues identified in Internal Audit Report 2011-13. Our follow-up audit revealed that action taken by Department of Health and Human Services personnel corrected three of the four deficiencies. However, unpaid client bills were still not being sent to collection agencies.

Management was responsive to the follow-up finding and recommendation.

Peter Raiskums, CIA, CFE  
Director, Internal Audit

April 16, 2013

**Internal Audit Report 2013-05**  
**Community Health Services Division Billing and Collection Follow-up**  
**Department of Health and Human Services**

**Introduction.** In 2011, we performed an audit of the billing and collection procedures at the Department of Health and Human Services (Department), Community Health Services Division\* (Division) and issued Internal Audit Report 2011-13 dated November 29, 2011. To assess the effectiveness of corrective actions, we were requested to perform a follow-up audit in 2012. This report contains the results of the follow-up audit.

The Division focuses on the health of the community and provides 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. Clients are charged for services by the various clinics. Charges may be discounted based on income and family size.

In 2012, the Division had 19,085 visits from 10,721 clients resulting in charges of \$2,065,219 adjusted to \$623,959 after applicable discounts were applied. Total program revenue collected in 2012 was \$389,555.

**Objective and Scope.** The objective of this audit was to conduct a follow-up audit to determine the effectiveness of corrective actions taken by the Department on the deficiencies contained in Internal Audit Report 2011-13. Specifically, we reviewed billing and collection procedures, reviewed accounts receivable reports, and evaluated internal controls over client billing and payment collection during the year 2012.

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\* Renamed Direct Services Division

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 January through February 2013. The audit was requested by the Administration and the Assembly.

**Overall Evaluation.** Management action corrected the majority of the issues identified in Internal Audit Report 2011-13. Our follow-up audit revealed that action taken by Department personnel corrected three of the four deficiencies. However, unpaid client bills were still not being sent to collection agencies.

## FINDINGS AND RECOMMENDATIONS

1. **Prior Audit Finding: Billing Procedures Need Improvement.** Accounts receivable older than six months for insurance companies doubled from \$20,631 in 2010 to \$42,072 in 2011.
  - a. **Corrective Action.** Our review of the accounts receivable report for insurance companies showed a reduction in the balance of receivables older than six months. Specifically, we found that accounts receivable over six months old for insurance companies decreased from \$42,072 in 2011 (48.44% of total account receivables) to \$25,150 (28.66% of total account receivables) in 2012 due to better use of staff time.
  - b. **Evaluation of Corrective Action.** Effective.
  - c. **Recommendation.** Not Required.
  - d. **Management Comments.** “We concur with Internal Audit’s finding of effective correction action and anticipate continued improvement in this area.”

2. **Prior Audit Finding: Collection Agency Not Used.** Delinquent accounts receivables were not sent to a collection agency.

a. **Corrective Action.** Although Department personnel considered the use of a collection agency as we recommended, use of a collection agency was not implemented for client accounts delinquent over 90 days. Our audit revealed the Division transferred \$117,498 in 2011 and \$107,840 in 2012, from accounts receivable to a suspense account where further collection efforts were not taken. As of December 31, 2012, the suspense account contained \$332,524. Sending delinquent accounts to a collection agency could generate additional revenue.

b. **Evaluation of Corrective Action.** Not effective.

c. **Recommendation.** To maximize revenue generated from services provided by Department clinics, the Department Director should require that unpaid client bills be referred to a collection agency.

d. **Management Comments.** “We concur with Internal Audit’s finding that the use of a collection agency has not been implemented. An internal policy decision was made by the Department that the use of a collection agency was not in line with the grant’s primary mission of serving low-income clients and best practices for the promotion of public health. There are a number of reasons for that policy decision including:

“• Grant requirements discourage creating a ‘financial barrier to services.’

“◦ Collection actions are typically negative experiences for those being collected upon and can create distrust between the client and the agency who referred their case for collections. This distrust may discourage clients from returning to DHHS for needed services.

- “◦ Clients may perceive that they cannot return to clinic for services because of an outstanding balance already sent to collections.
  - “• Potential increased cost of services for the collection fees by a 3<sup>rd</sup> party agency.
  - “• Collection work is currently done by AMEA positions.
- “The Department will further reduce delinquent client accounts and generate additional revenue by:
- “• Building upon changes made to internal collection measures since the last audit was conducted in 2011.
    - “◦ Accounts receivable balance as of March 31, 2013 **\$364,782** compared to an outstanding balance of **\$503,869** for the same reporting period in 2012
      - “■ This total includes private pay, public and private insurance
      - “■ This reduction of outstanding balances is a result of changes suggested during prior audits such as the establishment of policies requiring proof of income. This practice has increased general revenue collected at the time of service
      - “■ As of end of 1<sup>st</sup> Quarter, 2013 a total of \$136,254.35 collected ( 31% of annual goal of \$443,840)
  - “• Further strengthening accounting procedures (as was done with 3rd Party reimbursers such as Medicaid and Medicare) that enhance DHHS ability to collect from private pay clients
  - “• Increasing the number of established payment plans for clients unable to pay their full balance due at the time of service.
  - “• Increasing the number of payment plans converted to automatic credit/debit card payments
  - “• Adopting improved financial policies including:
    - “◦ Implementing written payment plan contracts

“° Providing all clients with a statement of Department financial practices as part of the check-in process

“• Filling a vacant Accounting Clerk II position to assist with collections.

“The billings and collections function of clinical services has been placed under the direct supervision of the Health Information Management (HIM) Program Manager. This team has a renewed focus on implementing a stronger business model approach to client collections that is also in line with DHHS’ primary goal to promote public health. The Department is confident, that with adequate time to implement the improvements outlined above, significant gains can be made in reducing delinquent accounts and generating additional revenue without negatively impacting our ability to provide services to low income individuals.”

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

3. **Prior Audit Finding: Lack of Segregation of Duties.** There was a lack of segregation of duties between billing, collecting, recording and depositing cash collected.

a. **Corrective Action.** Our audit revealed the Division had made improvement in the segregation of duties. Specifically, all mailed-in payments were logged by a Division staff member; another staff member recorded the payment to Insight and prepared cash receipt documents. The cash receipt documents were verified by both staff members and the payments and documents were then dropped into a safe to be deposited by another Division staff member. However, at the time of our audit, the Division’s Policies and Procedures (P&P) were not updated and approved to show the implementation of the segregation of duties. According to Division management staff, the P&P was in the process of being updated to reflect the implementation.

- b. **Evaluation of Corrective Action.** Effective.
  - c. **Recommendation.** Not required.
  - d. **Management Comments.** “We concur with Internal Audit’s finding of effective correction action. The recommended updates to P&P 00-8 have been fully incorporated into the current approved version of the document. ”
4. **Prior Audit Finding: Additional Policies and Procedures Needed.** The Division did not have a written P&P to verify a client’s income when determining charges for services.
- a. **Corrective Action.** The Division updated its P&P to verify a client’s income when determining charges for services. Specifically, the P&P allows a client 30 days to provide proof of income in order to receive the discount based on income and family size.
  - b. **Evaluation of Corrective Action.** Effective.
  - c. **Recommendation.** Not required.
  - d. **Management Comments.** “We concur with Internal Audit’s finding of effective correction action.”

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on February 27, 2013.

Audit Staff:  
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