

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO  
AUDIT AND ADVISORY SERVICES**

**Credit Balances Management  
Project #15-027**

**April 2015**

University of California  
San Francisco



**Audit & Advisory Services**

April 8, 2015

**Cliff Skinner**

Interim Executive Director of Revenue Cycle  
Medical Group Business Services

**SUBJECT: Credit Balances Management**

As a planned internal audit for Fiscal Year 2015, UCSF Audit and Advisory Services (“AAS”) conducted a review to assess the processes and controls over management of government payors credit balances at the Medical Center. Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our preliminary draft report was provided to management in March 2015. Management provided us with their final comments and responses to our findings and recommendations in April 2015. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. In accordance with the University of California audit policy, AAS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Irene McGlynn', is written over a light blue horizontal line.

Irene McGlynn  
Director  
UCSF Audit and Advisory Service

## EXECUTIVE SUMMARY

### I. BACKGROUND

As a planned audit for Fiscal Year 2015, Audit and Advisory Services (AAS) conducted a review to assess the processes and controls over the management of credit balances at the Medical Center. Specifically, the review focused on the processes and policies for managing government payors credit balances by Patient Financial Services (PFS), Medical Group Business Services (MGBS) and McKesson Business Performance Services (McKesson).

PFS and MGBS are part of the revenue cycle business units providing billing, collection and accounts receivable (A/R) management services. PFS is responsible for hospital billing while MGBS is responsible for professional fee billing for inpatient and outpatient services provided throughout the UCSF provider network. McKesson, a third party contractor, provides professional fee billing and collections operations for four UCSF departments: Anesthesia, Medicine, Pediatrics and the Proctor Foundation. APeX work queues are used for the management of credit balances and directing of work flow to the appropriate responsible parties.

Patient account credit balances may occur due to a variety of reasons including duplicate payments; overpayments; excess payments made due to failure in coordination of benefits between multiple insurance carriers; incorrect contractual agreement adjustments; or payments posted to charges that cannot be found due to voided or corrected charges. The mere fact that an account has a credit balance does not necessarily mean that an overpayment has been identified and a refund is payable.

UC Accounting Manual H-576-60 is the applicable University policy on management of hospital credit balances. The Social Security Act's Medicare and Medicaid Program Integrity Provisions requires that overpayment from government payors be reported and refunded by the later of the date which is 60 days after the date on which overpayment was identified; or the date any corresponding cost report is due, if applicable. The regulation does not clearly define what constitutes as "identified," however leading practice guidance has promulgated that "identified" would be considered at the point when sufficient research has been conducted and a determination made that an overpayment has occurred.

As of January 2015, there were \$20.1 million in hospital account credit balances, and \$11.9 million in professional fees. Of these, an estimated \$3.33 million in hospital and \$770,000 in professional fees were related to government payors: standard Medicare or Medi-Cal. Aging of the credit balances for government payors for hospital and professional accounts in selected work queues is shown in Appendix A. Accounts managed by McKesson had a total credit balance \$1.2 million with \$85,250 of that related to government payors.

### II. AUDIT PURPOSE AND SCOPE

The objectives of the review were to (1) Assess the adequacy of the internal controls over identifying, and establishing the validity of credit balances; (2) Evaluate the effectiveness of the credit balance management to determine processing of refunds is timely, appropriately reviewed and approved; and (3) Determine whether there is

compliance with Medicare and Medi-Cal program requirements for reporting and returning overpayments.

The scope of the audit was limited to the specific procedures related to insurance credit balances with a focus on government payors. The scope excluded patient self-pay credit balances.

To achieve our objectives, the following procedures were performed:

- Reviewed relevant University and departmental policies and Social Security Act 1128J.d: Medicare and Medicaid Program Integrity Provisions for requirements on reporting and returning overpayments;
- Interviewed key personnel in PFS, MGBS and McKesson to obtain an understanding of the processes for credit balance monitoring and refund processing, as well as the processes for ensuring compliance with Medicare and Medi-Cal regulations;
- Analyzed relevant credit balance work queues in APeX as of November 2014 and January 2015 to determine the aging of credit balances;
- Examined hospital and guarantor accounts in credit balances work queues for timeliness and reasonableness of resolution and the proper documentation and approval of refunds; and
- Reviewed the logic for directing accounts and transactions into the credit balance work queues was reviewed to verify that all credit balances were captured.

Work completed is not intended, nor can it be relied upon to identify all instances of potential irregularities, errors, and control weaknesses that may occur in areas not covered in this review. Fieldwork was completed in February 2015.

### III. SUMMARY

Based on work performed, overall internal controls for review and determination of the cause of credits and refunding of balances were in place and functioning appropriately. The review did not identify any instance of overpayments not being refunded within 60 days of identification.

PFS' and McKesson's processes for managing and monitoring credit balances to report and refund overpayments to Medicare within 60 days of identification were effective and appropriate. Further, the APeX system logic for directing items to the credit balance work queues appeared to be reasonable in assuring that credit balances were fully captured.

Opportunities for improvement in processes were identified to strengthen the monitoring and prioritization of credit balances to ensure that the accounts are reviewed more timely to identify whether an overpayment has occurred and needs refunding.

The specific observations from this review are listed below.

#### A. Medicare and Medi-Cal Compliance

- Monitoring procedures at MGBS were not adequate to ensure timely review of credit balances and identification of overpayments for government payors.
- PFS procedures for ensuring Medi-Cal credit balances are reviewed regularly could be improved.

B. Aging Reports & Monitoring

- MGBS does not have a reliable measure to age credit balances.
- The MGBS and PFS do not have a dashboard report of aged credit balances to monitor the progress of credit balances management.
- Professional Fee accounts with credit balances created by over posted payments were not being reviewed and resolved within a reasonable timeline.

C. Policies and Procedures

- Policies and procedures are not consistent with practices in place and among the billing offices regarding low value credit balances write-back thresholds.
- Policies and procedures could be enhanced to include and address regulatory requirements and UC accounting policies.

**IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCA)**

**A. Medicare and Medi-Cal Compliance**

No.	Observations	Risks/Effect	Recommendation	MCA
1	<p><b><i>Monitoring procedures at MGBS were not adequate to ensure timely review of credit balances and identification of overpayment for government payors.</i></b></p> <p>Interview with MGBS management highlighted that there was a lack of awareness that the Medicare/Medi-Cal overpayment provisions applied to professional fees, and therefore procedures and workflows had not been established for ensuring that review of credit balances for government payors were prioritized, overpayments identified and refunded within the 60 day timeframe. This is evident in the aged balances analysis shown in Appendix A, Chart 2 where approximately 2,000 government payor accounts with credit balances are over 12 months.</p> <p>The Social Security Act Section 1128J Medicare and Medicaid Program Integrity Provisions of the Affordable Care Act states that an overpayment must be reported and returned by the later of a) the date which is 60 days after the date on which the overpayment was identified; or b) the date any corresponding cost report is due, if applicable.</p>	<p>The Office of Inspector General (OIG) allows for “reasonable timeframe” to gather information to identify the precise overpayment amount as long as this is actively pursued. Lack of effective procedures for active review of credit balances and identification of overpayments may potentially cause non-compliance with Medicare and Medi-Cal Program requirements.</p>	<p>MGBS should create a new work queue solely for government payors refund requests, develop workflows, train staff and implement monitoring procedures to ensure that identified government payors overpayments are refunded within 60 days of identification.</p>	<p>Effective February 24, 2015, MGBS has implemented the following processes:</p> <ul style="list-style-type: none"> <li>a) Created a new work queue for government refund requests (#6164 MGBS Government Refund Request).</li> <li>b) Communicated to staff responsible for working over posted and undistributed work queues to direct all refund requests for government payors to the new MGBS Government Refund Request work queue.</li> <li>c) Implemented a process to regularly monitor the “Work Queue Entry Date” field for the Government Refund Request WQ to ensure that refunds</li> </ul>

No.	Observations	Risks/Effect	Recommendation	MCA
				to government payors are processed within 60 days of identification.
2	<p><b><i>PFS procedures for ensuring that Medi-Cal credit balances are reviewed regularly could be improved.</i></b></p> <p>While PFS processes and internal controls for managing and monitoring credit balances to report and refund overpayments to Medicare within 60 days of identification were in place and appropriate<sup>1</sup>, Medi-Cal accounts are not given the same level of priority.</p> <p>Six of ten samples of Medi-Cal and Medi-Cal Managed Care accounts with a credit balance ranging from \$264 - \$22,978 older than 60 days showed that these were not being actively worked.</p> <p>Currently, prioritization of Medi-Cal credit balance accounts is by the highest dollar amount for balances over \$5,000 and then on an oldest-first basis. PFS does not specifically prioritize Medi-Cal accounts with a credit balance to comply with the 60 day rule.</p>	<p>The Medi-Cal Program is the California's Medicaid program financed by both the State and Federal government and therefore is subject to the same overpayment refunding timeline requirements as Medicare programs.</p>	<p>PFS should assess and revise its prioritization of Medi-Cal credit balances to ensure that all Medi-Cal accounts are being worked actively.</p>	<p>By September 30, 2015, PFS will develop and implement an action plan for reassigning responsibility for working and clearing the Medi-Cal credit balances.</p>

<sup>1</sup> Each month, PFS generates a report showing all accounts with credit balances and with Medicare as primary or secondary payor and follows up on the status of the credit balance resolution. The identified overpayments are reported on a CMS-838 form on a quarterly basis.

**B. Aging Reports & Monitoring**

No.	Observations	Risks/Effect	Recommendation	MCA
1	<p><b>MGBS does not have a reliable measure to age credit balances.</b></p> <p>MGBS does not have a reliable metric within the credit balance work queues to measure how long a credit balance has existed, or the length of time since an overpayment was identified.</p> <p>Currently, the 'Post Date' field was being used to monitor the work queue, but it did not always accurately reflect how long the credit balance has existed in the guarantor account. Further, the 'Post Date' field did not show how long an identified overpayment has been in the refund request work queue before the refund was reviewed and processed.</p>	<p>A lack of an accurate metric hinders management's ability to effectively monitor and prioritize the credit balances and refunds.</p>	<p>MGBS should create a 'Work Queue Entry Date' field for the relevant credit balance and refund request work queues.</p>	<p>As of February 28, 2015, MGBS has created a 'Work Queue Entry Date' field column for the following relevant work queues:</p> <ul style="list-style-type: none"> <li>• 5853 Insurance Over-posted;</li> <li>• 3152 Insurance Undistributed;</li> <li>• 5878 Refund Requests; and</li> <li>• 6164 MGBS Government Refund Request.</li> </ul>
2.	<p><b>MGBS and PFS do not have a dashboard report of aged credit balances to monitor the progress of credit balances management.</b></p> <p>McKesson has created an internal credit balance aging report outside of APeX to monitor their credit balances. However, MGBS and PFS do not currently have a dashboard report of aged credit balances, although PFS utilizes the "Days in Work Queue" field to determine the age of the accounts and prioritizes their research accordingly.</p>	<p>The lack of effective monitoring reports limits management's ability to monitor the handling of credit balances.</p>	<p>MGBS and PFS should work with APeX Reporting team to develop a dashboard report to monitor the aging of credit balances in key work queues.</p>	<p>By April 30, 2015, MGBS and PFS will develop a monthly dashboard report to monitor the aging of credit balances in key work queues.</p>



No.	Observations	Risks/Effect	Recommendation	MCA
3.	<p><b>Professional Fee accounts with credit balances created by over posted payments were not being reviewed and resolved within a reasonable timeline.</b></p> <p>Review of relevant MGBS credit balance work queues showed a significant volume of “over-posted” transactions older than 6 months old that had not been reviewed and researched. As of January 22, 2015, there were approximately 7,600 “over-posted” transactions over 6 months, accounting for \$1.58 million in credit balances.</p> <p>The UC Accounting Manual requires that patient accounts with a credit balance be analyzed monthly (H-576-60, Part III).</p>	<p>Failure to resolve over-posted transactions in a timely manner may result in overpayments for government payers not being identified timely.</p>	<p>a) MGBS should develop a plan to review and resolve all contents of the project WQ 151, containing over-posted accounts older than August 1, 2014.</p> <p>b) MGBS should implement an on-going monitoring process for WQs 5853 and 3152 to ensure that the over-posted or undistributed balances are being researched and resolved within a reasonable amount of time.</p>	<p>a) By June 30, 2015, MGBS will review and resolve all contents of WQ 151: Insurance Over-posted Older than 8/1/2014.</p> <p>b) As of March 6, 2015, MGBS has implemented a monitoring process for WQs 5853 and 3152 to ensure that the over-posted or undistributed balances are being researched and resolved within one day of entry in the work queues.</p>

**C. Policies and Procedures**

No.	Observations	Risks/Effect	Recommendations	MCA
1	<p><b>a) Policies and procedures are not consistent among the billing offices regarding low value refund write-back thresholds.</b></p> <p>The write-back thresholds for low value refunds for commercial payor overpayments were inconsistently applied between the three billing services.</p> <p>PFS maintains a \$10 threshold for refunds for commercial payors; while McKesson used a \$5 limit; and MGBS currently</p>	<p>Inconsistencies in policy among the billing services and failure to address UC and regulatory requirements may lead to a lack of guidance and best practices and create confusion.</p>	<p>a) PFS and MGBS should revise their documented policies and procedures to establish a consistent refund threshold by payer type and to include provisions to be in line with the UC Accounting Manual and regulatory requirements including the Affordable Care Act.</p>	<p>By September 30, 2015, PFS and MGBS will:</p> <p>a) Revise their documented policies and procedures to establish a consistent refund threshold by payer type and to include provisions to be in line with the UC Accounting Manual and Regulatory requirements</p>

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	<p>processes all refunds regardless of the dollar amount, although its policy states \$50 minimum.</p> <p>While the UC Accounting Manual does not specify a threshold for commercial payor refunds, it states that patient refunds under \$25 should not be refunded unless requested by payor. As a minimum the same threshold level should be applied for refunding commercial payors.</p> <p><b>b) Policies and procedures could be enhanced to include and address regulatory requirements and UC accounting policies.</b></p> <p>Some areas within the departmental policies and procedures could be enhanced to include language surrounding the following requirements:</p> <ul style="list-style-type: none"> <li>• Medicare and Medi-Cal 60 day rule for processing refunds per the Affordable Care Act;</li> <li>• Research and verification process for refunds per the UC Accounting Manual; and</li> <li>• Analysis requirements of accounts showing credit balances to be performed on a regular (monthly) basis (MGBS).</li> </ul>		<p>b) The drafted policies should be reviewed by Campus Legal Affairs and Clinical Compliance Office before finalization.</p> <p>c) Once policies have been finalized, it should be communicated to UCSF staff and McKesson.</p>	<p>b) Finalize the policies following a review by Campus Legal Affairs and Clinical Compliance Office.</p> <p>c) Communicate the policies to MGBS and PFS staff and to McKesson.</p>

**APPENDIX A – Aging Analysis of Credit Balances for Selected Work Queues**

Audit and Advisory Services performed an aging analysis for PFS and MGBS credit balance work queues relevant to the review for accounts where the primary payor listed was either Medicare or Medi-Cal.

PFS work queues were aged on the ‘days in work queue’ metric, while MGBS work queues were aged on the ‘post date’ of the transaction that triggered the credit balance.

