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DUNCAN CAMPBELL
Chief Executive Officer
UCSD Medical Group
8201

TAMMY GAINES
Revenue Cycle Administrator
UCSD Medical Group
8201

Subject:*Medical Group Credit Balance Management
Audit & Management Advisory Services (AMAS) Project 2013-33*

The final audit report for *Medical Group Credit Balance Management*, Audit Report 2013-33, is attached. We would like to thank all Medical Group personnel for their cooperation and assistance during the review.

Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the corrective actions. At that time, we may need to perform additional audit procedures to validate that actions have been taken prior to closing the audit findings

UC wide policy requires that all draft audit reports, both printed and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel, or destroy them at this time.

David Meier
Assistant Vice Chancellor
Audit & Management Advisory Services

Attachment

cc: D. Brenner
 T. Fragoso
 G. Matthews
 T. McAfee
 B. Smith
 S. Vacca

UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Medical Group Credit Balance Management January 2013

Performed By:

Nai Hwang, Auditor
Terri Buchanan, Manager

Approved By:

David Meier, Assistant Vice Chancellor

Project Number: 2013-33

*Medical Group Credit Balance Management
Audit & Management Advisory Services Project #2013-33*

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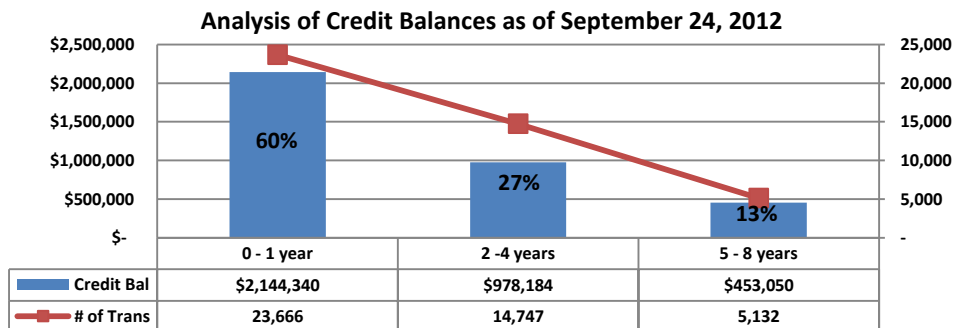
Executive Summary

Audit & Management Advisory Services (AMAS) has completed a review of UCSD Medical Group credit balance management practices in accordance with the Fiscal Year 2012-13 audit plan.

The UCSD Medical Group (Medical Group) is a multi-specialty physician practice comprised of approximately 700 School of Medicine (SOM) faculty members who provide clinical care services in UC San Diego Health System facilities and affiliated community locations. Medical Group Business Services (MGBS) provides professional fee billing, collection and accounts receivable (A/R) management services. At the time of audit fieldwork, MGBS also had staff assigned to two functional units that performed specialized services, including the Revenue Recovery & Credit Balances team who were assigned to work claim appeals, and credit balance analysis, resolution, and monitoring.

The objectives of our review were to evaluate the effectiveness of the MGBS credit balance management process controls, and determine the level of compliance with applicable UC and UC San Diego policies. We performed policy reviews, interviews and data analyses to achieve the project objectives.

The following graphic provides a high level summary of the distribution of credit balances as of September 24, 2012:



Based on our review procedures, we concluded that credit balance management processes needed improvement to ensure that credit balances are prioritized and reviewed using an efficient, consistent methodology; and that refunds are processed in accordance with policy requirements.

We identified opportunities to reduce the total credit balances by focusing efforts of specific credit balance types; eliminating redundant processes; and updating the tools and procedures used to assess and remediate credit balances. Medical Group management agreed with the audit findings and will implement the corrective actions described in the report.

I. Background

Audit & Management Advisory Services (AMAS) has completed a review of UCSD Medical Group credit balance management practices in accordance with the Fiscal Year 2012-13 audit plan. This report summarizes the results of our review.

The UCSD Medical Group (Medical Group) is a multi-specialty physician practice comprised of approximately 700 School of Medicine (SOM) faculty members who provide clinical care services in UC San Diego Health System facilities and affiliated community location. Medical Group Business Services (MGBS) provides professional fee billing, collection and accounts receivable (A/R) management services. At the time of audit fieldwork, MGBS also had staff assigned to two functional units that performed specialized services:

- **Revenue Recovery & Credit Balances:** Claim appeals, and credit balance analysis, resolution, and monitoring; and
- **Cash Control:** Cashiering, cash posting, fund transfers, and financial reporting.

The SOM Controller was responsible for compiling and reporting Medical Group financial results, inclusive of Medical Group operations and A/R data from outside billing groups. The Medical Group also maintained a Cognos database of GE-IDX system data to facilitate A/R reporting to SOM Departments via standard queries.

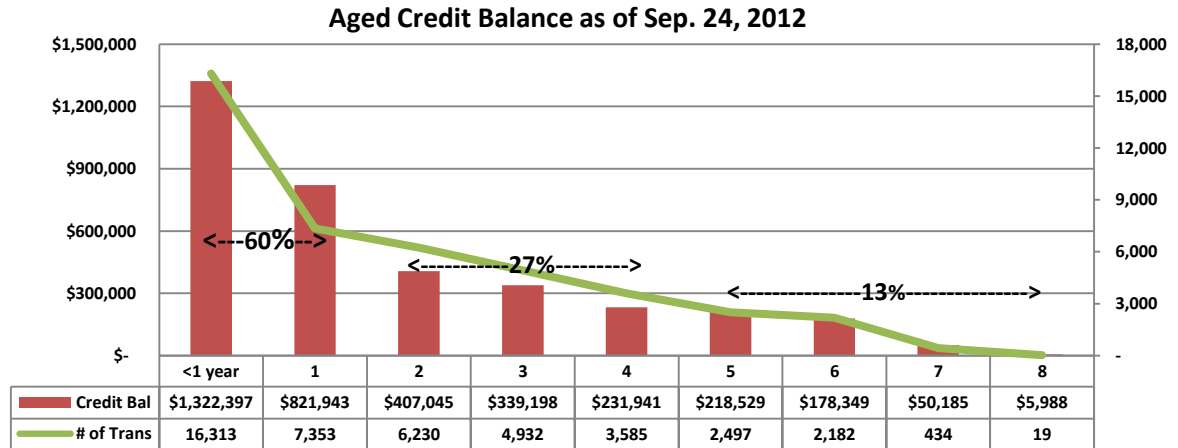
Credit Balances

Patient account credit balances occur due to duplicate payments, overpayments, excess payments made by multiple insurance carriers, and/or incorrect charge adjustments. In addition, payments may be received by MGBS that should have been sent to another provider, or do not include the detailed information needed to apply them to a specific patient account. These “unidentified and undistributed” payments are held in suspense until additional research can be completed.

Historically, the Medical Group has not achieved a timely resolution of aged credit balances. As a result, a number of credits have been retained in A/R for more than two years. Reviews performed by AMAS in 1999, 2003, and 2008 identified some credit balances over 10 years old. A UC San Diego policy and procedure titled *Disposition of Unidentified Credit Balances* was finalized in 2010 and adopted by MGBS. This policy provides guidance for resolving credit balances and handling unclaimed overpayments. The graphical analysis in the following table identified 43,545 outstanding credits with a total dollar value of \$3,575,575 as of September 24, 2012¹.

¹ As of December 9, 2012 the number of credits increased to 44,603 with a total dollar value of \$3,846,454.

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II. Audit Objectives, Scope, and Procedures


The objectives of our review were to evaluate the effectiveness of the MGBS credit balance management process controls, and determine the level of compliance with applicable UC and UC San Diego policies.


We performed the following audit procedures to achieve the project objectives:


- Reviewed UCOP Accounting Manual Medical Center, H-576-60, *Patient Account Receivables*, and C-173-78, *Unclaimed & Uncashed Checks*;
- Reviewed the *Local Policy on Disposition of Unidentified Credit Balances* policy by General Accounting Office, 2010;
- Reviewed UCSD Medical Group Policies and Procedures related to Revenue Recovery and Credit Balance (dated January 1, 2009) and associated desk procedures;
- Interviewed the Medical Group Operations Manager and staff;
- Assessed credit balance monitoring processes;
- Examined credit balance refund documentation, filing systems, and approval processes; and
- Performed an analytical review of credit balances as of July 17, 2012 and Sep. 24, 2012, and obtained updated credit balance statistics as of December 9, 2012.

Finding Risk Assessment

The following risk indicators were added to each observation to identify the level of risk we have associated with each audit finding.

 *Some procedures to address the compliance area are in place, however process weakness may be present, or process improvement may currently be underway. There also may be inconsistent validation/monitoring of the process.*

 *Significant weaknesses in procedures and/or monitoring and validation of activities exist.*

 *Procedures are not in place to address the compliance area, or they are not sufficient. There may be no monitoring or validation of the activity.*

III. Conclusions

Based on our review procedures, we concluded that credit balance management processes needed improvement to ensure that credit balances are prioritized and reviewed using an efficient, consistent methodology; and that refunds are processed in accordance with policy requirements.

We identified opportunities to reduce the total credit balances by focusing efforts on specific credit balance types; eliminating redundant processes; and updating the tools and procedures used to assess and remediate credit balances. These issues are discussed in the remainder of this report.

IV. Observations and Management Corrective Actions

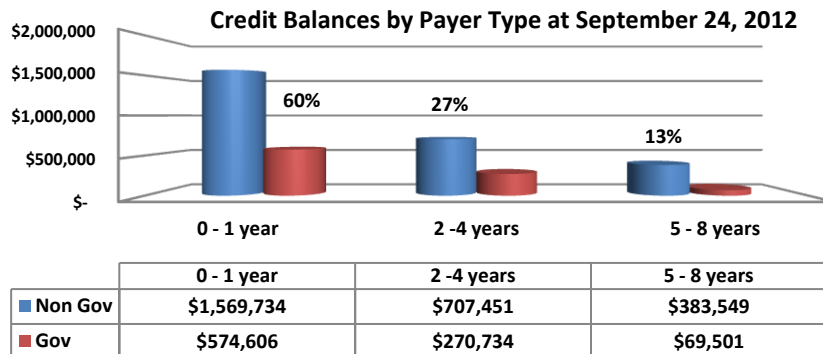
A. Compliance with Policies and Procedures

Selected credit balance procedures needed improvement to reduce compliance risk.

Overpayments from Government Payers 

The UC Accounting Manual: Medical Center, H-576-60, Part III; states in part: “if the refund is to Medicare, the refund must be made within 60 days of the credit balance appearing on the account.” When assessing compliance with this policy, we conservatively included the unresolved credit balances for all government payers.

We performed an analytical review of credit balance data as of September 24, 2012, which identified that credits totaling \$914,841 (26%) were associated with government payers that included Medicare, Medi-cal, Champus, and County Medical Services (CMS). Of that population, 4,994 transactions, totaling \$340,235 (10%) were over two years old.



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Because government payers may identify duplicate or incorrect payments and retract them from future remittances, we considered balances greater than two years old to be higher risk in the event of an external audit. A detailed breakdown of activity associated with government payers is provided in the table below.

<i>Payer Type / Aging</i>	<i>0 - 1 Year</i>	<i>2 - 4 Years</i>	<i>5 - 8 Years</i>	<i>Total Dollar Value</i>	<i>0-1 Year</i>	<i>2 - 4 Years</i>	<i>5 - 8 Years</i>	<i>Total Transactions</i>
CHAMPUS	\$24,485	\$25,044	\$8,967	\$58,496	474	596	159	1,229
COUNTY MEDICAL SERVICES	33,599	20,783	10,385	64,767	197	189	83	469
MEDI-CAL	118,871	110,892	16,417	246,181	1,370	2,013	240	3,623
MEDICARE	397,651	114,014	33,731	545,397	534	1,397	317	2,248
Subtotal - Gov Payers	\$574,606	\$270,734	\$69,501	\$914,841	2,575	4,195	799	7,569
Other	1,569,734	707,451	383,549	2,660,734	21,091	10,552	4,333	35,976
Total Credit Balances	\$2,144,340	\$978,185	\$453,050	\$3,575,575	23,666	14,747	5,132	43,545
Gov Payers %	27%	28%	15%	26%				
Non Gov Payers %	73%	72%	85%	74%				


In 2010, MGBS adopted the Local Policy on Disposition of Unidentified Credit Balances. Consistent with UC Accounting Manual C173-78, this policy requires that moderate follow-up efforts be made to remediate credit balances above \$100 and less than \$1,000. Credit balances requiring refunds to government payers should be approved after confirming that the credit balance was created by an overpayment. To assist with prioritizing credit balance remediation for these payers, the following table segregates the credits from five to eight years old by dollar amount.

Credit Balances Five to Eight Years Old as of September 24, 2012							
Balance Range / Payer	Government	Non-Government	Total Amount	Government	Non-Government	Total Transactions	Follow-up Efforts Required (C173-78)
>\$1,000		\$5,408	\$5,408		4	4	Maximum effort (a)
>\$100 & <=\$1,000	\$49,245	274,658	323,903	229	1,201	1,430	Moderate effort (b)
<= \$100	20,256	103,483	123,739	570	3,128	3,698	Minimal efforts to contact (as time permits)
Total	\$69,501	\$383,549	\$453,050	799	4,333	5,132	

- (a) Telephone calls or letters to last the known residence or office, consultation with the originating department, consulting directories, etc.
- (b) At least one attempt to contact the payee.

Management Corrective Action:

MGBS management will prioritize the analysis of credit balances associated with government payers that are over five years old, and perform the appropriate level of due diligence prior to issuing refunds or adjusting those balances to comply with applicable policies. Similar follow-up procedures and due diligence will also be performed for the credit balances between two to four years old.

Periodic Credit Balance Monitoring and Refund Approvals 

The UCOP Accounting Manual: Medical Center, H-576-60, Part III; requires that patient accounts with a credit balance be analyzed monthly, and all refunds should be approved by a supervisor. We noted during our review of refund documents that a supervisor approval was not available for selected refunds. In addition, a report summarizing the status of credit balances, and actions taken were not compiled and reviewed by management monthly, or on another time table established by management.

Management Corrective Actions:

MGBS management will:

1. Summarize monthly credit balance remediation activities for management review.
2. Publish credit balance review and approval processes in the desk procedures for Revenue Recovery and Credit Balances unit staff.

B. Credit Balance Review Process

The credit balance review process lacked clarity and was inefficient.

Credit Balance Transaction Review 

Two MGBS staff members were assigned to the Revenue Recovery & Credit Balances unit², and had the task of researching credit balances to determine what type of entry created the credit, and to identify the patient or entity to which a refund was due. Research procedures completed by the staff included reviews of the A/R account balances, inquiries to Medical Center Patient Financial Services (PFS), and analyses of related payment documents.

Staff prioritized their workload based on the dollar value of each credit, and the payer type was not considered. Large dollar credits were worked first, and smaller credits were evaluated as time and resources permitted. We identified the following credit balance review workflow:

- Every Monday, a 32-column excel file that included all credit balances was downloaded and divided between the two staff based on the total number of credits.
- Staff manually manipulated the excel file to create a 15 column review worksheet.

² Cash posting personnel also completed limited research of credit balances that result as payments were posted to identify and remediate credit balances early in the process.

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- The weekly review worksheet was then sorted and separated between the new credit balance additions and any credits that were included on the prior week reports. Color codes were added to the worksheet to note review status. Color coded credit balance transactions were copied from the prior week review worksheet to the current week review worksheet.
- All data downloads and review worksheets were stored on a shared (network) drive.

We noted that a pay code field was not included in the download file though inclusion would expedite the review process by allowing a sort to quickly identify possible causes for credits during a particular time period. In addition, the data download process required extensive manual manipulation such as trimming, copying, pasting, and sorting, could be simplified by designing a new automated workload report to directly daily account review efforts.

Management Corrective Action:

MGBS management will design a credit balance work queue report from GE-IDX based on credit dollar value, payer and age to assist with workload prioritization, and ensure compliance with applicable policies.

Pay Code System Changes




In June 2012, a new pay code “812” was initiated and used to process co-payments entered into the new On-Line Front Desk Credit Card payment screen. After implementation, Revenue Recovery & Credit Balances unit staff found that once this pay code was applied, payment transactions could not be moved from one invoice to another. As a result, payments and charges with the 812 pay code were not automatically matched and offset, which left credit balances and unpaid charges on patient accounts.

Because the weekly credit balance data download file did not include pay code information, staff had to perform additional research to identify this type of exception on an average of 200 to 500 transactions per week. Correction required that additional transactions be manually created to offset charges and payments. Due to the large volume of low dollar value 812 transactions, manual adjustments were not always completed timely. As a result, patients contacted the Help Desk when they received incorrect statements. Help Desk staff forward a summary of these calls to MGBS for remediation.

Management Corrective Action:

MGBS management has worked with Medical Group IS to re-design the processes for applying this new pay code function to minimize its impact to staff workloads.

C. Opportunities to Remediate Unique Credit Balances

Duplicate Medicare Payments 

In June 2010, Medicare charges of approximately \$53,000 were billed and paid twice, creating erroneous credit balances on some patient accounts. Within a two week timeframe, Medicare held back the duplicate payment from a payment for unrelated claims without providing full patient information. In March and April 2011 some, but not all credits associated with this overpayment were reversed using a Medicare payer adjustment code. Revenue Recovery & Credit Balances unit staff suggested to AMAS that the remediation of remaining erroneous credits could be facilitated by identifying two payments with exactly the same patient name and amount within that two week timeframe; and offsetting the two transactions.

Management Corrective Action:

MGBS management will adjust the remaining credits. The process suggested by the staff will be used to make the corrections if reasonable.

Incentive Payment Distributions 

We identified the following five incentive payments that had been allocated to the unidentified payment accounts titled *Medicare* and *Other Sponsors* in 2011 and 2012.

<i>Account Name</i>	<i>Category</i>	<i>Invoice Date</i>	<i>Credit Balance</i>	<i>Age in Days (as of 9/24/2012)</i>
Medicare, Unidentified	Medicare	7/29/2011	\$198,590	423
Medicare, Unidentified	Medicare	7/29/2011	111,697	423
Incentive, PCIP	Medicare	2/17/2012	41,006	220
Subtotal (> 200 days)			\$351,293	
Incentive, PCIP	Other Sponsors	7/16/2012	67,086	70
Incentive, EHR	Other Sponsors	7/27/2012	36,000	59
Subtotal - Other			\$103,086	
Total Credit Balance Related to Incentive Payments			\$454,380	

These payments are typically allocated to SOM departments or divisions on a quarterly basis. Management stated that they were posted to GE-IDX (using the accounts referenced in the table) to maintain the level of detail needed to transfer the payments to the correct department or division. However, because incentive payments are not re-posted to patient accounts, management stated that that process was not optimal, and they are working with the Controller's office to identify a more effective procedure.

Management Corrective Actions:

MGBS management will:

1. Identify an alternative method for capturing incentive payments in the financial system.

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2. Continue to distribute incentive payments to Departments/Divisions on a quarterly basis.

D. Unclaimed Checks 

Unclaimed checks were not transferred to a clearing account or a special liability account in accordance with UC policy.

UC Accounting Manual C173-78 specifies that unclaimed credits should be transferred to the outstanding check account at least annually, and that if not claimed within four years, these balances should be reclaimed by MGBS³. Per the UC San Diego Local Policy on Disposition of Unidentified Credit Balances, all unclaimed checks of \$100 or less may be reclaimed by the Medical Group after one year; and larger balances moved to the clearing account may be reclaimed by the Medical Group after four years.

AMAS noted that the UCSD General Accounting Office sent periodic emails to MGBS to advise them when refund checks were cancelled or unclaimed. However, due to competing work priorities, Revenue Recovery & Credit Balances unit staff did not record these unclaimed refunds in a clearing account to be held and released in accordance with policy. In 2012, the transactions in three such lists are summarized in the table below.

<i>Check Issued Period</i>	<i>Total Check Amount</i>	<i># of Cancelled Check</i>	<i>Check Cancel Date – Check Payment Date</i>
Jan - June 2011	\$ 45,031	437	231 - 288 days
July - Oct 2011	39,486	603	210 - 243 days
Nov 2011	19,498	303	205 - 230 days
Total Amount	\$ 104,014	1,343	

The associated unclaimed payment transactions have been classified by dollar value below.

<i>Balance Range</i>	<i>Amount</i>	<i># of Trans</i>	<i>Process</i>
<= \$100	\$ 35,640	1,080	Reclaim
> \$100	68,374	263	Transfer to a clearing or special liability account
Total	\$ 104,014	1,343	

Management Corrective Action:

MGBS management will re-evaluate and revise the process for re-posting unclaimed checks to a clearing account or a special liability account until they qualify to be reclaimed.

³ Regardless of whether balances were held and reclaimed according to policy, the University generally honors old checks presented for payment.