UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES

Hospital Billing Receivable – Charity Care Review
Project #17-048

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University of California
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UCSF
Audit and Advisory Services

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SUBJECT: Hospital Billing Receivable – Charity Care Review

As a planned internal audit for fiscal year 2017, Audit and Advisory Services ("A&AS") conducted a review of Hospital Billing Receivable - Charity Care. 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 review was completed in April 2017 and the preliminary draft report was provided to department management in May 2017. Management provided us with their final comments and responses to our observations in June 2017. 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, A&AS 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,

Irene McGlynn

Irene McGlynn
Director
UCSF Audit and Advisory Services

EXECUTIVE SUMMARY

I. BACKGROUND

At fiscal year-end 2016, UCSF Health provided a total of approximately $33.6 million[1] in charity care, which includes $32.4 million in HB charges and $1.2 million in PB charges.

UCSF Health charity care policy distinguishes between bad debt and charity care[2]; a bad debt hospital account results from services rendered to a patient who, following a reasonable collection effort, is determined by Patient Financial Services (PFS) or collection agency to be able but unwilling to pay all or part of the bill, whereas a charity care patient is a financially eligible self-pay patient or a low-income patient with high medical cost who is unable to pay their bill. A hospital account charge can go through both classifications before being resolved; it can be delinquent and thus be included in bad debt and sent to the collection agency for further assessment as to whether the patient qualifies for charity care or whether collection efforts should continue.

Patients can be identified for financial assistance at any of the following times: (1) registration, (2) admission, (3) during the billing of services, and (4) collection of account receivable. A patient will generally begin the process by filling out a charity care application to be considered for financial assistance.[3] PFS reviews all charity care applications for accuracy and completeness by examining supporting documentation such as: recent pay stubs, latest income tax return, asset/bank statements, and any applicable documentation to support recent changes to income such as a divorce settlement, etc. PFS then uses that information to determine the discount percentage based on income and family size.[4]

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the effectiveness of processes and internal controls for receivable write-offs. After analyzing write-offs from the Avoidable Write-Off (AWO) report and data from the PwC review, it was determined that the highest impact area for review on Hospital Billing would be Charity adjustments (including those adjustments for Medi-Cal non-payments). The review covered HB receivables (technical charges such as: (1) supplies used on the patient, (2) administered medications, (3) surgical procedures, (4) exams, (5) laboratory tests, and (6) room and board charges

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[1] The $33.6 million in charity care does not include Children Hospital and Research Center of Oakland.

[2] Charity care is that portion of patient care services provided by a hospital for which a third-party payer is not responsible and a patient has the inability to pay. Charity care may include unpaid coinsurance, deductibles, and non-covered services if the patient meets the hospital's charity care eligibility criteria; but may not include bad debts or contractual adjustments.

[3] There are exceptions in the charity care process that allows a patient to qualify for a discount without filling out an application. Examples of those exceptions are: (1) when an account has gone to pre-collection prior to bad debt and the collection agency does further research on the patient's current income and family size and deemed them to qualify based on the Charity Care Guidelines, or (2) when a patient qualifies for Medi-Cal/Medicaid coverage but does not receive coverage for all services or for the entire stay.

[4] PFS uses financial assistance guidelines based on 350% Federal Poverty Guideline Income for the applicable year, and full charity at ≤ 200% of Federal Poverty Guidelines.

accrued during a patient's hospital encounter). The Professional Billing[5] (PB) receivable portion of charity care was not included in this review. A&AS selected a sample of twenty hospital account records that included Medi-Cal patients, commercial patients with high medical cost (i.e., high deductible) and the uninsured/self-pay patients.

Procedures performed as part of the review included: (1) obtaining and reviewing applicable guidelines, policies and procedures for charity care; (2) interviewing key personnel within PFS, Accounting, and APeX IT Support and conducting walkthroughs of relevant processes; (3) documenting and assessing the charity care approval process and write-offs; (4) reviewing a sample of charity care applications and supporting documents for completeness, accuracy and adherence to guidelines and policy; (5) \validating the financial discount applied to the HB accounts; and (6) examining the recording of charity write-offs and bad debt in the general ledger for accuracy and completeness.

III. SUMMARY

Based on work performed, charity care appears to be provided appropriately and controls are in place to review appropriateness of charity adjustments. All samples reviewed went through the appropriate review and approval process and were appropriate charity care cases.

Opportunities for improvement exist in the area of ensuring consistency of information recorded on charity care between systems and reports. Specific observations from the review are below.

1. Charity care classification is not always being correctly processed in APeX.
2. Payments received from the California Healthcare for Indigent Program (CHIP) were not reflected in charity care reporting.

Further detail on the specific observations can be found in the below section on Observations and Management Corrective Action Plans.

[5] Professional billing receivable include any charges that are accrued while a patient is receiving care in an ambulatory or clinic setting. This includes service provided to patients while at the clinic and any charges for a doctor's or specialist's time in caring for the patient during a hospital visit.

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

No.	Observation	Risk/Effect	Recommendation	MCA
1.	***Charity care is not always being correctly classified in the General Ledger.*** Instances were noted that, when adjustments were made in APeX to apply charity care to qualified patients whose accounts were previously recorded as delinquent/bad debt or had been assigned to pre-collection review, those adjustments remained classified as bad debt in the General Ledger (GL). In order to capture all charity care expenses, including those in the GL bad debt cost center, Accounting performs a manual reconciliation at the end of each fiscal year to produce the amount for the charity care footnote disclosure.[6] As a consequence of the manual procedure: • Additional labor was required to add the amounts that had been booked to bad debt to charity care; for example, at FY 16 year-end, $1,449,735 of charity care had been booked to bad debt • Errors and omissions may occur, such as $57,935 that was in the GL bad debt cost but not included in the reconciliation and therefore the charity care footnote disclosure Additionally, charity care provided to Langley Porter Psychiatric Hospital and Clinics' (LPPH&C) patients is not included in either the GL charity care cost center or bad debt cost center and is therefore not included in the reconciliation for the charity care footnote disclosure; for example at FY 16 year-end, $79,067 of charity care had been provided to LPPH&C patients.	The General Ledger may not have a complete and accurate recording of charity care provided, and manual reconciliation efforts are required by Accounting at fiscal year-end for the financial statement footnote disclosure.	PFS should review the current billing and write-off procedures and update it to reflect APeX's requirements for correct adjustment/recording of HB charity care. PFS should then communicate and train billing analysts on the new procedure. When Accounting does the year-end reconciliation for charity care, any inaccurate posting should be corrected in the General Ledger.	PFS will have their billing analysts make manual corrections to address the issue, and will work with APeX IT to explore the possibility of a system fix. **Responsible Party:** Director, PFS **Implementation Date:** August 31, 2017

[6] Note, this revised balance was only captured for footnote and disclosure purposes and not correction to the General Ledger.

No.	Observation	Risk/Effect	Recommendation	MCA
	The net impact on the financial statement is zero since Charity Care and Bad Debt are both expense accounts.			
2.	***Payments received from the California Healthcare for Indigent Program (CHIP) were not reflected in charity care reporting.*** A payment of $55,208 was received from the CHIP Hospital Program but not allocated/applied against the charity care program to reflect the reimbursement received for services rendered either in the footnote to the FY 16 audited annual financial statements or in the Office of Statewide Health Planning and Development (OSHPD) filing. The CHIP Hospital Program distributes funds to six hospitals in San Francisco, including UCSF, for reimbursement of uncompensated health care provided to indigent patients based on each hospital's share of uncompensated care costs. OSHPD states that "the County Indigent Programs (CIP) payer category… was established with the passage of California's Tobacco Tax legislation, and includes those indigent patients who are the responsibility of a county. Prior to this legislation, these indigent patients were classified as Other payers and uncollectible amounts were reported as Charity – Other. These write-offs now appear as CIP Contractual Adjustments."	By not taking the CHIP payment into account, UCSF may be overstating charity care in the annual OSHPD reporting and the annual financial statement footnote disclosure.	Accounting should collaborate with the Department of Reimbursement Services to determine how payments received from the CHIP should be accounted for in the annual calculation of charity care for financial statement disclosures purposes and OSHPD reporting.	Accounting will consult with PwC to determine the appropriate method of recording the CHIP payments. **Responsible Party:** Director, Accounting **Implementation Date:** July 31, 2017.