

The logo for UCIrvine, featuring the letters 'UCIRVINE' in a large, black, serif font. A vertical line is positioned to the right of the text, separating it from the 'INTERNAL AUDIT SERVICES' text.

INTERNAL
AUDIT SERVICES

Referral Laboratory
Internal Audit Report No. I2016-206
July 5, 2016

Prepared By

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

July 5, 2016

**EDWIN S. MONUKI, MD, PHD
WARREN L. BOSTICK CHAIR
DEPARTMENT OF PATHOLOGY & LABORATORY MEDICINE**

**Re: Referral Laboratory Audit
No. I2016-206**

Internal Audit Services has completed the review of the Referral Laboratory and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

A handwritten signature in black ink that reads "Mike Bathke".

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee

Leslie Caskey, Administrative Director, Interim, Pathology Administration
Nancy Clark, Associate Director, Pathology Administration
Tara Kasmarek, Chief Administrative Officer, Pathology
Kelly Neilson, Billing Manager, Pathology

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2015-2016 audit plan, Internal Audit Services (IAS) reviewed certain business operations within the UC Irvine Medical Center – Referral Laboratory (RL). Within the audit, a limited review was also performed of certain business processes within the UC Irvine Professional Billing Group (PGB) and (contractor) APS Medical Billing (APS). Many internal controls within the RL’s business operations appear to be functioning satisfactorily. However, certain internal controls could be further strengthened. The following concerns were noted.

Revenue Capture – Revenue is not always captured by APS from the RL’s billable laboratory orders. This observation is discussed in section V.1.

RL Accounts Receivable Managed by PBG – Large RL accounts receivable balances in excess of 180 days have not been collected by PBG. This observation is discussed in section V.2.

RL Accounts Receivable Managed by APS – A reconciliation of laboratory orders by the RL to APS billing records is not performed. This observation is discussed in section V.3.

RL Policies and Procedures – The RL has not documented policies and procedures for some of its key business operations. This observation is discussed in section V.4.

II. BACKGROUND

In December 2012, the UC Irvine Medical Center established a Laboratory Medicine Building. This innovative laboratory features expansive space equipped with the most advanced technology, lighting, communication infrastructure, security systems, and extensive ergonomic and traffic flow planning.

Accredited by the College of American Pathologists, the laboratory is home to more than 250 technical specialists and experts, including licensed clinical lab

scientists, pathologists, phlebotomists, blood donor recruiters and computer programmers and analysts.

The laboratory is also the first in the nation to offer a novel diagnostic test for the HER-2 gene present in breast cancer patients. It is also one of only a dozen or so labs in the country using microarray technology diagnostically to study gene expression in the development of disease. What's more, UC Irvine's Laboratory Medicine Building facilitates the use of state-of-the-art DNA sequencing platforms.

Over one million lab tests are processed every year in the laboratory. The laboratory also serves as a referral laboratory for skilled nursing facilities, state and county facilities, community clinics and hospitals, and clinical trial and research programs. Together, these outside providers represent about 23 percent of the laboratory's total volume.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to verify whether certain RL business operations and processes are functioning in accordance with University policy and good business practice. The audit scope included FY 2015-2016 business operations.

Audit objectives included a verification of internal controls pertaining to the following processes:

1. laboratory requisition retention;
2. laboratory order tracking and revenue capture;
3. contract/agreement management;
4. accounts receivable (A/R) management and monitoring;
5. A/R aging and collections;
6. RL policy and procedure documentation.

IV. CONCLUSION

Many internal controls within the RL's business operations appear to be functioning satisfactorily. However, concerns were noted with revenue capture, management of RL A/R by both APS and PBG, and documentation of RL policies and procedures.

Observation details were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Revenue Capture

Background

RL customers use laboratory requisitions to request specimen analyses. Requisitions are completed by customers and submitted to the RL with the laboratory specimens to be analyzed. At the RL, the requisitions are converted into laboratory orders that document specific specimen analyses to be completed by RL technicians. Laboratory order information (accession numbers/other information) is also sent to APS for billing and collection.

Observation

IAS reviewed RL laboratory order processes and APS customer billing processes to verify that internal controls are adequate to ensure proper revenue capture of billable laboratory orders. Laboratory orders from twenty-six patients were selected for review. All of the orders were processed on December 16, 2015. One accession number was sampled from each patient's laboratory orders. All billable Current Procedural Terminology (CPT) codes from the sampled accession numbers were reviewed for proper revenue capture. In total, seventy CPT codes were reviewed.

The review revealed that two patients each had one billable CPT code that was not billed by APS. Furthermore, it was determined that the two unbilled CPT

codes had been successfully transmitted by the RL to APS for billing. The billable CPT codes not billed by APS were as follows:

Category	Accession #	Patient Name	CPT Number	CPT Code
Physician Office	W25449	Patient "A"	82306	VITDD
Physician Office	W25005	Patient "B"	82306	VITDD

A failure to properly bill for Referral Laboratory services results in lost revenue.

Management Action Plan

Patients "A" & "B" were listed with a zero charge in APS's system and did not bill. The RL Fee Schedule lists a price of \$20.56 for each laboratory order. APS had not returned an explanation for the \$0.00.

Effective immediately, we will work with APS to determine why these Vitamin D tests priced at a zero charge and did not bill so we can correct the issue moving forward.

2. A/R Managed by PBG

Background

Prior to August 2015, RL billing, A/R and collection services were performed in-house by PBG and their third-party biller (contractor GGB). However, in August 2015, RL billing, A/R, and collection services were outsourced to APS. Currently, large A/R balances managed by PBG for the RL continue to exist, resulting from past PBG/GGB billing efforts.

Observation

IAS reviewed the methods by which PBG monitors and manages the RL's current A/R balances. Discussions were held with RL and PBG managements to review monitoring and management processes for A/R.

1. Currently, the collective outstanding A/R balances managed by PBG totals \$471,322.72 of which \$448,804.33 (95 percent) is 180 days and older.

2. PBG employees attempting to collect the outstanding debt are told by RL's clients that they are now working with the new vendor (APS). RL clients do not appear to be overly concerned with paying the outstanding A/R balances owed to PBG.
3. The RL continues to provide laboratory services to many clients that have outstanding A/R balances with PBG.

As outstanding A/R ages, the probability of full collection is reduced. PBG and RL managements should coordinate efforts to collect PBG's outstanding A/R balances.

Management Action Plan

Management agrees with the outstanding PBG A/R balances stated above.

We are also aware that PBG is not having much success with collecting the outstanding client A/R balances since the transition to the new billing contractor.

Management believes RL clients would like to have one point of contact and work with one total A/R balance due versus working with two separate contactors. It is also true that some current RL clients have outstanding A/R balances with both PBG and APS.

There are plans to merge the two A/Rs and for the Referral Lab to take over collections for all client A/R by August 31, 2016.

3. A/R Managed by APS

Background

In August 2015, the Referral Laboratory (RL) formed a contract with APS to perform all RL billing, A/R, and collection services for the RL.

Observation

IAS reviewed the methods by which the RL monitors APS billing and A/R processes. In addition, discussions were held with RL management to understand their monitoring processes.

The RL utilizes several monitoring methods. Aged A/R reports are provided monthly to the RL by APS; trend analysis is applied to detect unusual trends in billing and A/R data. In addition, financial reports provided by APS are reviewed by RL management to determine the reasonableness of financial activity and account balances. Furthermore, weekly conference calls are held between RL and APS managements to discuss current issues. Also, RL management performs monthly “spot audits” of APS billing accuracy; a small number of billable CPT codes are selected from RL laboratory order records and compared to APS billing records.

Currently however, there is not any reconciliation completed in which all APS billing records are reconciled to RL laboratory order records. The large number of daily transactions hinders the RL’s ability to perform manual reconciliations. However reconciliations performed through electronic file matching processes may be a possibility and would enable APS billing records to be fully reconciled to RL laboratory order records, which would assist RL management in determining the amount of lost revenue, if any.

Management Action Plan

When billing processes are outsourced to an outside billing company, the outside billing company becomes responsible for monitoring A/R balances. Portal access is provided by APS to allow the RL access to various “real-time” AR reports. End of month reporting packages include comprehensive accounting of receivables for monitoring and review by the Billing Manager and Billing Analysts.

However, at this time the RL does not have an electronic Clinical Laboratory billing reconciliation in place. At a high level, IT ensures a daily billing file is created and sent to APS for processing. In turn, APS verifies a daily file is received and processed for billing. The results of the billing file (number of accounts processed and dollars received) are published in the APS portal. The Billing Manager tracks the APS charge report for trends. Additionally, The IT

department is immediately notified of any file errors that might take place in the creation of the daily billing file. These errors are quickly rectified by IT and the billing file is re-created or transmitted as needed.

A total reconciliation of \$4,501,438 in A/R would require a huge expenditure of resources. UCI would need to provide billing files from August 1, 2015 to present; a delivery method would also need to be created to transmit that volume of data to APS. Once the data was received, APS would require dedicated IT resources to compare the UCI data to the charges currently in their system. The comparison process would be extremely complex due to the layers of complexity involved with the billing process. Some of the issues contributing to the complexity would be A/R balances that are dynamic and would be changing throughout the reconciliation process due to payment postings, and other adjustments made to the system. A complete reconciliation would also have to take into account custom programming in place for sliding scale charity write-offs performed before charges hit the A/R. Furthermore, customer service indigent request adjustments, other customer service issues, and lab errors handled verbally and manually would also have to be reviewed for August 1, 2015 to present in order to account for any credits that might have been issued by the RL.

Contractually, APS is not obligated to dedicate the resources required to perform such an audit. The volume of transactions, the size of the data files, and the dynamic nature of the daily A/R balances are a few of the larger issues that would make such a large reconciliation project problematic. Therefore, a total reconciliation of \$4,501,438 in receivables is not feasible from a logistical or resource allocation standpoint.

4. Policies and Procedures

Background

In a prior review of RL, management indicated plans to document policies and procedures (P&Ps) for many of their key business operations.

Observation

IAS reviewed the RL's current written policies and procedures. P&P has not been prepared for the following processes.

1. P&P for ensuring that all RL clients have a valid contract/agreement or letter of intent in place to receive referral services, before services are provided.
2. P&P for documenting management/monitoring procedures for A/R.
3. P&P for transferring direct-bill client and third-party A/R to bad debt.

Documented policies and procedures assists management in employee training efforts and helps to ensure consistency and continuity in business operations.

Management Action Plan

Management agrees the above stated policies and procedures currently do not exist for the RL. The above listed P&Ps will be written by December 31, 2016.