UNIVERSITY OF CALIFORNIA, IRVINE
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES

REFERRAL LABORATORY
Report No. I2013-204

March 7, 2013

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March 7, 2013

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Re: Referral Laboratory
Report No. I2013-204

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.

Mike Bathke

Mike Bathke
Interim Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
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I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2012-2013 audit plan, Internal Audit Services (IAS) reviewed operational, financial and compliance activities, and other business operations of the Referral Laboratory (Lab) of the University of California (UC), Irvine, Medical Center (Medical Center). In conjunction with the IAS review, the Compliance and Privacy (Compliance) Office is performing a detailed billing and coding review of the Lab and will issue a separate report with their observations.

Based on the IAS audit work performed, we concluded that internal controls and processes in Lab accounts receivable (A/R) monitoring and payment collections, contract administration, billing, and documentation tracking need improvement. Specifically, the following issues were noted.

Lab Requisition Tracking – Currently, there is no way of ensuring that the requisitions for all orders are accounted for, which presents a high risk of non-compliance. IAS noted that approximately 284 requisitions for services provided from January 2012 through October 2012 could not be located. Details are discussed in section V.1.

Lab Order Management – IAS noted that in November 2012, 59 Lab orders valued at approximately $2,700 were not captured for billing. Details are discussed in section V.2.

Contract Monitoring – Contracts/Agreements were not being monitored, resulting in the provision of services for 54 clients that did not have valid contracts/agreements and five clients with expired contracts that still have outstanding A/R balances. Details are discussed in section V.3.

A/R System Data – Lab management is unable to rely on the A/R data in the vendor-provided systems used for invoice creation and maintaining payment information. As a result, significant amount of time is spent on manual processes for reviewing and correcting data to ensure accurate billing and payment collections. Details are discussed in section V.4.

A/R Monitoring – A/R aging reports were not being reviewed on a periodic basis because the required aging reports requested from the A/R system contactor were not being provided. Additionally, documented procedures did not exist for the A/R monitoring process. Details are discussed in section V.4.

Direct-Bill Bad Debt Write-off Procedures – The department responsible for billing and collections currently does not have documented procedures that address the handling of direct-bill client (direct-bill) accounts that are transferred to bad debt.

Formalizing these procedures would be beneficial to billing staff by providing guidance to ensure write-offs are performed in accordance with University policy. Details are discussed in section V.5.

II. BACKGROUND

The Lab, within UC Irvine Pathology Services, was established in 1979 in conjunction with the Medical Center and the UC Irvine School of Medicine (SOM). It was designed as an outreach program, providing full clinical and anatomic pathology services to the surrounding community with an emphasis on specialized testing and diagnostic procedures. As of September 2012, the Lab served approximately 300 clients comprised of hospital laboratories, state and county clinics, health care agencies and private organizations located primarily in Southern California.

In August 2011, the Lab's billing and collections responsibilities were transferred from the Department of Pathology to the UC Irvine Physician's Billing Group (PBG). Additionally, in October 2012, the Department hired a new Lab Manager. Both PBG and the Lab Manager performed preliminary reviews of the Lab's operations and billing/collection functions, respectively, and identified many operational deficiencies and opportunities to streamline processes and improve operations.

III. SCOPE AND OBJECTIVES

The scope of the review involved certain Lab operations, financial and compliance activities from July 2011 to present. The purpose of the review was to assess internal controls and evaluate business operations, specifically in the areas of service agreement/contract administration and compliance, billing and A/R collections, and Lab rate determination.

The objectives of our review were as follows:

1. Determine if Lab clients have valid contracts/agreements to receive services;

2. Determine if Lab clients are billed accurately and timely;

3. Determine if A/R and payment collection processes are operating effectively;

4. Verify that the lab rates are properly established, reviewed and approved to ensure cost recovery and/or profitability; and

5. Assess and review selected information technology (IT) general controls over systems used for data input, charge capture, and billing services.

IV. CONCLUSION

IAS noted control deficiencies in the areas of A/R monitoring and payment collections, contract administration, billing, and documentation tracking and retention. We concluded that the lack of effective controls at the front end of the lab requisition process increased the risk of inaccurate or missing information, resulting in potential lost revenue and non-compliance. During the audit, we also noted several opportunities for process improvement and other efficiencies which are discussed in more detail in the remainder of this report.

Observation details and recommendations were discussed with Lab and PBG management, who developed action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Lab Requisition Tracking

Background

UC Policy 9420 (Legal Medical Record Standards) states that information from another provider or healthcare facility, such as client requisitions may be subject to disclosure on specific request or subpoena. Additionally, these records must be retained for at least as long as required by State and federal law.

Observation

IAS met with Lab and PBG management to obtain an understanding of their processes for tracking and retaining requisitions to ensure their availability upon request. Currently, there is no way of ensuring that all orders have corresponding requisitions on file at PBG. During the course of the review, IAS was provided with a list of 284 missing, third-party requisitions for nursing home clients from PBG. PBG management indicated that they were only able to determine that these requisitions were missing because nursing home clients provide a census of their orders. For the remaining clients (non-nursing home/non-third party), there is currently no way to determine if requisitions are missing, which presents a high risk of non-compliance in the event of a third-party audit or subpoena.

Lab management, in coordination with PBG should develop a batch control process to ensure that all requisitions collected and sent to PBG for billing are accounted for.

Management Action Plan

Lab and PBG management will develop processes to ensure that the requisitions for all orders entered in the Lifepoint/Sunquest systems are properly accounted for and retained in accordance with state and federal record retention laws and/or University policies. These processes will be implemented by October 2013.

2. Lab Order Management

Background

Lab orders are entered into the Sunquest system and are sent daily through a system interface to the Medical Management Services (GGB) (Middleware) system to PBG for billing.

Observation

IAS noted that 59 orders were not sent to PBG for billing through this interface. This error was discovered after the client notified PBG that they had not received these invoices for services rendered from September 2012 through October 2012. In response, Lab staff had to manually summarize the client's orders, which was sent to PBG for billing. Based on a review of this client's fee schedule, IAS noted that the potentially lost revenue from this error is approximately $2,700. As of the audit report date, the Laboratory Information Systems (Lab IS) unit had not yet identified the root cause of this issue.

Management Action Plan

Lab management will work with the Lab IS unit to identify the root cause(s) of the issue noted above and implement procedures to ensure all orders are sent to PBG for billing. Additionally, Lab management will examine the possibility of developing an error log report that identifies orders that were not transferred through the interface to PBG. Lab management will develop an action plan to address billing interface error log reporting based on Lab IS observations. The estimated completion date is November 2013.

3. Contract Monitoring

Background

In 2011, the Contracting Department (CD) and the previous Lab Manager developed documented lab agreement procedures that provide a high-level description of the steps taken prior to executing a formal agreement. These procedures state that service should not be provided to any facility/client until a fully executed contract/agreement was in place. Further, UC Irvine policy IDA432 – Execution of Service Agreements – indicates that all such agreements must be executed in accordance with applicable University policies, and must be approved as to legal form prior to execution. IAS met with Lab and CD management to determine the process by which laboratory client contracts/agreements are developed and renewed.

Observation

IAS conducted test work to determine if services were recently provided to clients without valid contracts/agreements. IAS obtained and reviewed an activity report from PBG that listed all clients charged for services from July 2011 through October 2012. This report was reconciled to a list of clients with current and/or expired contracts/agreements provided by CD to identify clients who did not have any established contracts/agreements to receive referral lab services.

Based on our review, IAS identified 54 clients receiving referral lab services without a valid contract/agreement and five clients with expired contracts that still have outstanding A/R balances as follows:

a. Forty clients did not have valid contracts/agreements in place to receive Lab services, and four clients' contracts/agreements may not have been executed. IAS noted that as of October 15, 2012, these 44 clients had a total outstanding A/R balance of $91,887. Of this balance, $50,567 (55 percent) is over 120 days past due. In addition, these clients were not in the process of establishing contracts to receive Lab services.

b. Ten clients with expired contracts/agreements were still receiving services. As of October 15, 2012 these ten clients had a total outstanding A/R of $44,365, of which $20,921 (47 percent) is 120 days past due. Eight of the ten clients' contracts had been expired for nine months or longer and their A/R balance is $35,448 of the total $51,663 A/R outstanding. Several of these clients are in the contract renewal process with CD.

c. Five clients with expired contracts had outstanding A/R balances for services that appear to have been provided during their contract terms. Three of the five clients had a total outstanding A/R balance of $8,028 and the remaining two had credit balances totaling ($770).

Without valid contracts/agreements, the Pathology Department has limited recourse against clients who do not pay for services rendered. Lab management should ensure that all clients have valid contracts/agreements in effect before providing lab services, and monitor them to ensure that services are only provided in accordance with the contract/agreement.

Additionally, IAS noted that the lab agreement procedures noted above are not entirely reflective of current practices and should be updated.

Management Action Plan

Lab management, in coordination with CD, will implement a process to ensure that all clients have a valid contract/agreement or letter of intent in place to receive referral services. Additionally, the Lab agreement procedures will be revised as needed to reflect current practices. Estimated completion date is August 30, 2013.

4. Accounts Receivables and Monitoring

Background

PBG is responsible for direct-client billing and collections, while third-party (e.g. Medicare and Medi-Cal) billing and collections are currently performed by a contractor, GGB. In addition, PBG utilizes GGB's systems Middleware for Lab invoice creation and for maintaining payment and accounts receivable information (Reflections).

Observations

A. A/R System Data

Direct-Bill A/R

PBG personnel cannot rely on the accuracy of A/R data maintained in the GGB Middleware and Reflections systems to effectively monitor direct-bill, collections and outstanding A/R balances. PBG management indicated that the A/R data in these systems is frequently incorrect and requires a significant amount of PBG staff time to prepare manual reconciliation work arounds to ensure accurate billing, collections, and aged A/R information.
IAS requested a direct-bill, A/R aging report as of October 15, 2012, and noted the process to produce the report was extremely time-consuming and

inefficient. IAS noted this process took PBG personnel approximately 120 hours to reconcile the data provided by GGB to the documentation maintained by PBG. The reconciliation resulted in the aging report provided by GGB being overstated by $1.5 million. The GGB A/R aging report had approximately $2.5 million in direct-bill A/R. However, PBG determined the actual direct-bill A/R to be $989,000. In addition, prior to October 2012, GGB was not providing detailed, direct-bill A/R aging reports to PBG.

Third-Party A/R

Although GGB provides monthly third-party financial reports to PBG, PBG management does not rely on the accuracy of these reports due to the issues noted above. IAS reviewed a sample of GGB's financial reports from June 2012 through November 2012, and noted that the Lab's third-party A/R balance as of December 1, 2012 was $5.2 million of which approximately $4.3 million (83 percent) was over 120 days past due. IAS noted that the actual ages of the over 120 day old balances is unknown, as the GGB reports do not provide that level of detail.

Since the system data cannot be relied upon for accuracy, PBG should determine whether GGB systems provide the functionality needed to ensure accurate and timely reporting of A/R information.

Management Action Plan

PBG will require GGB to produce a direct-bill A/R aging report by client on a weekly basis, which will be reviewed and corrected as needed by PBG staff to ensure the integrity of direct-bill A/R data. This has been implemented. Additionally, PBG will start billing and collecting third-party A/R, beginning with all labs ordered on April 1, 2013 to ensure the integrity of third-party A/R data.

B. A/R Monitoring

Observation

IAS determined that PBG's A/R monitoring efforts should be improved, and the A/R monitoring process should be documented. Although A/R is reviewed monthly on a client-by-client basis by PBG billing staff, direct-bill A/R aging reports were not being reviewed prior to the audit. PBG management indicated that this was not being performed prior to October 2012 because GGB did not produce consolidated A/R aging reports by client for their review, even though PBG had repeatedly requested this information.

Additionally, IAS noted that PBG does not have documented procedures on monitoring their A/R. Formalizing these procedures would be beneficial in providing guidance to PBG staff in the event of management turnover or an external audit.

Management Action Plan

PBG will require GGB to produce a consolidated A/R aging report by client on a weekly basis. PBG will review the aging report on at least a weekly basis to ensure compliance with University policies. Additionally, PBG will document monitoring procedures for future reference to ensure compliance with University policies. The A/R review process has been implemented and the documented monitoring procedures will be implemented by April 1, 2013.

5. Direct-Bill Bad Debt Write-Off Procedures

Observation

IAS met with PBG management to determine how uncollectible client accounts are written off, if any approvals are needed before writing off client account balances, and if bad debt conversions within the past fiscal year were performed in accordance with University policy.

PBG currently does not have documented procedures that address the handling of direct-bill accounts that are transferred to bad debt. The Director of PBG indicated that only one client's (Precision Diagnostics) account balance of approximately $91,000 has been transferred to bad debt since PBG assumed responsibility for collections. Although PBG has procedures to address the conversion of third-party balances to bad debt, it would be beneficial to revise those procedures to include direct-bill clients, such as Precision Diagnostics. Formalizing these procedures would be beneficial to billing staff by providing guidance to ensure write-offs are performed in accordance with University policy.

Management Action Plan

PBG, in coordination with Lab management, will work with the Medical Center's Controller's Office to establish appropriate policies and procedures for transferring direct-bill client A/R to bad debt. This will be completed by September 2013.