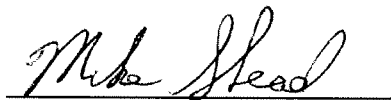


UNIVERSITY OF CALIFORNIA, IRVINE
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES

CASH COLLECTION PROCESSES
OTOLARYNGOLOGY HEAD AND NECK SURGERY OUTPATIENT CLINIC
Report No. 2011-202A

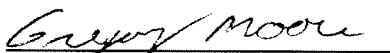
March 10, 2011

Prepared by:



Mike Shead
Senior Auditor

Reviewed by:



Gregory Moore
Health Sciences Audit Manager

Reviewed by:



Bent Nielsen
Director

March 10, 2011

**WILLIAM ARMSTRONG, M.D.
DEPARTMENT CHAIRMAN
DEPARTMENT OF OTOLARYNGOLOGY**

**RE: Cash Collection Processes in the Otolaryngology Head and Neck Outpatient
Surgery Clinic
Report No. 2011-202A**

Internal Audit Services has completed the review of cash collection processes in the Otolaryngology Head and Neck Outpatient Clinic and the final report is attached.

Please let us know if we can provide additional support or assistance.



Bent Nielsen
Director
UC Irvine Internal Audit Services

Attachment

C: Terry Belmont, Chief Executive Officer, UC Irvine Medical Center
Ralph Clayman, M.D., Dean, School of Medicine
Alice Issai, Chief Operating Officer, UC Irvine Medical Center
Jayne Mislant, Administrative Nurse IV
Cathy Ta, Management Services Officer
Audit Committee

**UC IRVINE MEDICAL CENTER
CASH COLLECTION PROCESSES
OTOLARYNGOLOGY HEAD AND NECK SURGERY OUTPATIENT CLINIC
Report No. 2011-202A**

I. MANAGEMENT SUMMARY

In accordance with the fiscal year 2010-2011 audit plan, Internal Audit Services (IAS) reviewed cash collection processes in the Otolaryngology-Head and Neck Surgery Outpatient (ENT) clinic. Based on the audit work performed key internal controls could be strengthened to ensure compliance with University policies and procedures and best business practices. Specifically, we noted the following:

- **Cash Collection Processes** – Processes at the ENT clinic could be improved to reduce the number of occasions in which funds are either over or under collected from patients. The details related to these issues are provided in Observation 1;
- **Cash Handling Activities** – Cash handling processes need to be strengthened to provide an adequate level of internal control over cash collection, reconciliation and depositing procedures. The details related to these issues are provided in Observations 2, 3, 4, and 5;
- **Quest Financial System** – Enhancements to the Quest system, and/or additional manual processes are needed to provide an adequate level of internal control over cash collections. The details related to these issues are provided in Observation 6.

II. BACKGROUND

The audit of cash collection processes at the ENT clinic involved a review of the Quest system which is being implemented in phases at the University of California, Irvine Medical Center. The Quest phase I implementation, which was completed in 2009, included a new, automated system by which the Medical Center receipts for patient payments could be prepared electronically in real time and printed for the patient.

The ENT clinic is located on the first floor of the Pavilion II building at the Medical Center. The clinic's front office is staffed by ENT staff members and includes ENT board-certified physicians specializing in the medical and surgical treatment of all the diseases of the ear, nose, throat, head, and neck, and facial plastic surgery.

**UC IRVINE MEDICAL CENTER
CASH COLLECTION PROCESSES
OTOLARYNGOLOGY HEAD AND NECK SURGERY OUTPATIENT CLINIC
Report No. 2011-202A**

III. SCOPE AND OBJECTIVES

The scope of the audit included a review of the cash collection and cash-handing processes in the ENT clinic and the Quest system controls focusing on the recording of patient payments and creation of payment receipts.

The primary objectives of our review were as follows:

1. Determine whether internal controls are in place to ensure that proper amounts are collected from patients on the date of service;
2. Determine whether collected funds are deposited to the Medical Center Cashier's Office (MCO) in a timely manner;
3. Determine whether internal controls over cash handling processes are sufficient to ensure compliance with University policies and procedures and good business practices;
4. Determine whether internal controls within the Quest system that pertain to cash collections are adequate to ensure accountability over the patient payment process.

IV. CONCLUSION

Business risks and control concerns were identified in the areas of patient payment collections, cash handling activities, daily deposits, voided transactions, and Quest system transactions. 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. Collection of Payments on the Date of Service

Background

Quest system patient rosters from the ENT clinic were obtained for sample dates in June and July 2010. From the rosters, a sample of patient visits was selected for audit test work. Several audit procedures pertaining to cash collection processes were performed, using the sample of patient visits.

**UC IRVINE MEDICAL CENTER
CASH COLLECTION PROCESSES
OTOLARYNGOLOGY HEAD AND NECK SURGERY OUTPATIENT CLINIC
Report No. 2011-202A**

Observation

Collection of co-payments and other patient financial obligations by the ENT clinic front office could be strengthened to ensure that collections are made on the date of service. Out of 24 sampled patient visits occurring in June and July 2010, two patient co-payments were not collected at the time of the patient's visit. The following transaction details are provided.

1. One co-payment for a patient with Health Maintenance Organization (HMO) insurance was not collected on the July 6, 2010 date of service by the ENT front office. Subsequently, the ENT billing office billed the insurance provider for the patient's visit. However, as of the audit date, the insurance provider had not yet provided the billing office with an Explanation of Benefits (EOB) form to confirm the patient's portion of the overall financial obligation.
2. A co-payment for a patient, also with HMO insurance, was not collected on the June 23, 2010 date of service by the ENT front office. The HMO insurer subsequently provided the ENT billing office with an EOB form that confirmed the patient's \$40 financial obligation. The patient was billed for the co-payment by the billing office on September 21, 2010.

Failure to collect co-payments and other patient financial obligations on the date of service increases the cost of collecting the obligation.

Management Action Plan

Additional education and training has been provided to the ENT front office staff members with regard to the importance of collecting payments at the time of each patient's appointment. The front office staff determines patient obligations during the pre-registration process two to three days prior to each patient's appointment. Patient's payment obligations (if any) are confirmed a second time on the day of the appointment through a review of the patient's insurance card. We will also implement a quality assurance process in which we will periodically spot-check cash collection processes to ensure that the correct amount is collected from each patient at the time of their appointment. We will retain documentation of our spot-checks as they are completed. The anticipated implementation date is July 2011.

**UC IRVINE MEDICAL CENTER
CASH COLLECTION PROCESSES
OTOLARYNGOLOGY HEAD AND NECK SURGERY OUTPATIENT CLINIC
Report No. 2011-202A**

2. Accountability over Cash Handling Activities

Observation

Control procedures that ensure accountability over cash handling activities in the ENT clinic need improvement. Accountability over University funds and cash collections from patients is not always adequately maintained. Observations of ENT clinic cash handling operations disclosed that at least three front office staff members can accept payments from patients. During business hours, when payments are received from patients, staff members will place the funds in a desk drawer in the front office. The desk drawer is lockable, however, all front office staff members have a key to the lock.

In addition, patient payments and/or an ENT change fund are stored during non-business hours in a container with a combination lock. After funds are placed in the container and secured, the container is placed in a lockable cabinet in the ENT office. However, all front office staff members know the combination to the container and the location of the key to the cabinet.

Failure to maintain adequate accountability over University change funds and funds for deposit may result in a diversion of University funds and/or a cash loss.

Management Action Plan

To improve accountability over University cash and cash collections in the ENT front office, management will implement a new policy in which a specific front office staff member will be accountable for the change funds and all patient collections. In this new role, the designated front office staff member will have possession of a new lockbox combination and key to the lockable storage area in which the lockbox is placed during non-business hours. In addition, the ENT front office supervisor will serve as a back-up, and will possess the lockbox combination and a back-up storage area key. No other person will have access to either the combination or the key.

Because other front office staff members are required to receive payments from patients during business hours, they will also need to access the ENT change fund during business hours. As a compensating control, the ENT change fund will be counted in the presence of two employees at the beginning and end of each business day. A log will be retained at the ENT office that will document the daily cash verifications. Our anticipated implementation date is July 2011.

**UC IRVINE MEDICAL CENTER
CASH COLLECTION PROCESSES
OTOLARYNGOLOGY HEAD AND NECK SURGERY OUTPATIENT CLINIC
Report No. 2011-202A**

3. Independent Review and Approval of the Daily Deposit

Observation

The processes by which the daily deposit is prepared by ENT clinic staff members could be strengthened.

1. Although each patient's payment requirement is identified by ENT clinic staff members at pre-registration, and again at the time of the patient's visit, this information is not being provided to ENT clinic employees responsible for preparing the daily deposit. Payment information is useful to the deposit preparer in ensuring that all payments have been accounted for in the preparation of the daily deposit.
2. Although the deposit is prepared by an ENT staff member who does not otherwise handle cash in the front office, the daily deposit is not reviewed and approved by a management-level employee prior to the time that the deposit is taken to the MCO.

Failure to reconcile, on a daily basis, the number and amount of patient payment obligations to the number and amount of payments actually received by the ENT front office and recorded in Quest, and have the daily deposit reviewed and approved by a management-level employee may result in a financial loss.

Management Action Plan

With regard to providing information about patient payment requirements to employees responsible for preparing the daily deposit, we will implement a new policy in the ENT front office. ENT front office employees will document patient payment requirements and the amounts actually paid by patients on the patient roster(s) printed daily from the Quest system. The patient rosters will be forwarded to the ENT employee responsible for preparing the daily deposit. The information documented on the rosters will be used by the deposit preparer to confirm that all required patient payments were received by the ENT front office and/or notify the ENT billing office, through notation in the Quest system, that certain patient obligations were not paid. Our anticipated implementation date is July 2011.

With regard to the review of the ENT daily deposit by a management-level employee, the ENT front office has undergone a change in operations since the audit date. The ENT staff person who previously prepared the daily deposit has left the department and the position is currently unfilled. The daily deposit preparation responsibilities have been assumed by an ENT front office employee who also handles cash during the business day. We anticipate filling our vacant

**UC IRVINE MEDICAL CENTER
CASH COLLECTION PROCESSES
OTOLARYNGOLOGY HEAD AND NECK SURGERY OUTPATIENT CLINIC
Report No. 2011-202A**

position, however it is likely that all of the new hire's time will be devoted to clinical activities. As a result, it is also likely that daily deposit preparation responsibilities will continue to be performed by a front office employee who also handles cash during the business day.

If we cannot adequately separate deposit preparation duties from cash handling duties in the ENT front office, we will implement a mitigating internal control in which the Clinical Practice Manager will, on a monthly basis, audit the daily deposit and verify the processes by which the daily deposit is prepared. This mitigating control will help to ensure that the daily deposit is complete, accurate, and submitted to the MCO in a timely manner. We will retain documentation of our daily deposit audits as they are completed. The anticipated implementation date is July 2011.

4. Transport of University Funds

Observation

The transport of funds for deposit by ENT clinic personnel is not performed in the manner prescribed by UC policy, and may put University employees and assets at risk.

ENT clinic staff members transport collected funds to the designated drop off location. Usually, one staff member performs this function. A failure to transport funds in accordance with UC policy may result in injury to University employees and/or a loss of University funds.

Management Action Plan

We have implemented a new policy whereby, on a daily basis, two ENT employees escort the daily deposit to the drop-off location. On business days in which the ENT total deposit exceeds the UC policy threshold, we will contact Hospital Security to provide us with an escort.

5. Processing Voided Transactions

Observation

A sample review of ENT's Deposit Advice Form (DAF) for July 17, 2010 revealed two voided transactions. Quest receipt forms documenting both the original transaction and the voided transaction were properly included with other deposit documentation sent to the MCO by ENT clinic employees for that business day. However, the Quest receipts did not include either a written

**UC IRVINE MEDICAL CENTER
CASH COLLECTION PROCESSES
OTOLARYNGOLOGY HEAD AND NECK SURGERY OUTPATIENT CLINIC
Report No. 2011-202A**

explanation for the voided transaction, or a manager's signature documenting approval for the voided transaction.

Failure to document reasons for, and obtain written management approval for voided transactions may hinder the detection of discrepancies in cash handling processes and may result in a financial loss.

Management Action Plan

We have implemented a new policy at the ENT front office whereby the front office supervisor will review and approve, in writing, each voided transaction at the time of occurrence. Paperwork to document the voided transaction will include two Quest receipts: the voided receipt and a second receipt that corrects the void. Each receipt will notate (i.e., cross-reference) the sequence number of the other receipt.

The voided receipt will have the word "void" written on it. The voided receipt will also include a written explanation for the voided transaction, and the signature of the cash handler who caused the void and the signature of the supervisor who is approving the void. In situations where money is refunded to the patient, the patient will also be asked to sign the voided receipt.

To correct the voided transaction in Quest, a new receipt (i.e., the void correction receipt) will be created. A zero dollar amount will be entered for the new receipt. The note section of the new receipt will include the voided receipt number and dollar amount. Both receipts will be documented in, and submitted with the same DAF.

6. The Quest System – Recording Patient Payments

Observation

As patients make their cash payments to the ENT clinic, a staff member accepts the payment and records it in the Quest system. A copy of each Quest payment receipt is retained by the clinic and deposited at the end of the business day with the patient's payment to the MCO. Control measures should be in place to assure that all cash received and recorded in the clinic is deposited daily to the MCO. However, there are three issues that make it difficult for the clinic personnel to ensure that all cash transactions recorded in the ENT clinic are accounted for.

- a. The deposit preparer cannot view or print out from Quest a batch total for payments recorded in Quest. As a result, neither the deposit preparer nor an independent deposit reviewer/approver can confirm from Quest the total number and amount of payments recorded throughout the business day.

**UC IRVINE MEDICAL CENTER
CASH COLLECTION PROCESSES
OTOLARYNGOLOGY HEAD AND NECK SURGERY OUTPATIENT CLINIC
Report No. 2011-202A**

- b. The Quest system does not assign sequential numbers at the clinic-level to recorded transactions. Instead, Quest assigns sequential numbers to financial transactions in the order that they are recorded, irrespective of which department/clinic has recorded the transaction. As a result, neither the clinic personnel nor the MCO can use the sequential numbers printed on the Quest receipts to track cash collections.
- c. The Quest-prepared patient receipts do not identify the clinic staff member who received the payment from the patient and/or recorded the payment in Quest. Patients cannot readily determine, from their receipts, the clinic staff member who assisted them.

The inability of department/clinic staff members to document their cash collections on receipts that are sequentially-numbered for their specific department/clinic may prevent a timely and accurate accounting of patient payments and/or result in a financial loss.

With the implementation of the Quest system phase I an initial concern was identified regarding the ability for a department to sequentially track all transactions posted in the Quest system. As a result, possible solutions were discussed with Health Affairs Information Services (HAIS) personnel to modify the Quest application. However, it was determined the application software could not be modified.

To address this concern, it is our understanding that a Quest process was developed as a pilot, for subsequent evaluation. Based upon the evaluation, the MCO will propose a new procedure by which they will issue controlled, five-part, pre-numbered receipts to each cash collection site. These receipts can then be printed at the collection site and may be used by the collection site to help ensure a timely and accurate accounting of patient payments. The MCO will initiate a draft procedure that will assist clinic staff members in the verification of the daily transactions.

Management Action Plan

It is recommended that the action plan set forth is adopted across all 200 Medical Center cash collection sites. The MCO, along with department personnel will determine and perform the following:

- Identify hardware requirements;
- Identify Quest system software and enhancement requirements for pre-numbered receipt processing including information services resource allocation needs;

**UC IRVINE MEDICAL CENTER
CASH COLLECTION PROCESSES
OTOLARYNGOLOGY HEAD AND NECK SURGERY OUTPATIENT CLINIC
Report No. 2011-202A**

- Prepare cost analysis to include hardware requirements, printing costs, and identify the new and annual cost to each collection site to purchase pre-printed and numbered receipt forms;
- Prepare policy and procedure;
- Prepare final cost analysis/report and obtain approval from Finance Administration and the School of Medicine to implement the recommended plan;
- Train all collection site personnel (up to 600 staff members).

Estimated completion date of the analysis, management approval and implementation is August 2011.