

UCLA AUDIT & ADVISORY SERVICES



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March 8, 2012

VICE CHANCELLOR/CHIEF FINANCIAL OFFICER STEVEN A. OLSEN
SENIOR VICE PRESIDENT/CHIEF COMPLIANCE & AUDIT OFFICER SHERYL VACCA:

Re: Santa Monica Bay Physicians (SMBP) Business Office Audit Report #12-1601

The audit of the SMBP Business Office has been completed, and the report detailing our results is enclosed, with management's responses incorporated. This audit was conducted as part of the Health Sciences audit plan for 2011-12.

The purpose of the audit was to determine the adequacy and effectiveness of internal controls and to evaluate compliance with University policies and procedures.

The scope of the audit included the following areas:

- Billing
- Accounts Receivable
- Payment Handling
- Payment Posting/Recording
- Segregation of Duties
- Monitoring Tools
- General Information System Access Controls

Based on the results of the work performed within the scope of the audit, the SMBP Business Office has made reasonable efforts to implement effective internal controls and comply with University policies and procedures. However, some issues were identified.

Billing

- Because Medicare no longer accepts consultation codes, if a physician designates a consultation code on the charge document for a Medicare patient, billers have been using a "crosswalk" to convert the consultation code to an acceptable billable code. Per the Faculty Practice Group (FPG) Physicians Billing Office (PBO) director, this task should be performed only by certified procedural coders.
- The process to rebill claims that require modifications of diagnosis codes needs to be strengthened.

Accounts Receivable

- At the time of the audit, documentation for accounts receivable adjustments did not always contain approvals and/or adequate supporting documentation. Also, several individuals posted adjustments.

March 8, 2012

- The process to identify credit balances within patients' accounts needs to be strengthened. At the time of the audit, a credit balances report had not been created.
- Although refund requests generated by the SMBP Business Office are approved by the Management Services Officer (MSO) if they are rush requests, non-rush refund requests are processed by the collectors and provided to the FPG PBO for check generation without any additional approval.
- A modification to the process for handling of refund checks would further assure the physical security of the checks.

Payment Handling

- At the time of the audit, due to a misunderstanding of previous audit guidance, mailed-in payments were not being opened by two individuals in accordance with Business and Finance Bulletin BUS-49, "Policy for Handling Cash and Cash Equivalents."

Payment Posting/Recording

- At the time of the audit, a process to reconcile payments posted in Practice Management (PM) against monies deposited to the bank had not yet begun. This function is the responsibility of FPG Finance, and this issue has been reported to FPG management.
- The SMBP Business Office's role in voiding payments at the request of clinics creates exposure.

Segregation of Duties

- Issues noted are covered in other sections of the audit report.

Monitoring Tools

- At the time of the audit, quality control and trend monitoring processes for the SMBP Business Office had not been finalized and were still being developed.

General Information System Access Controls

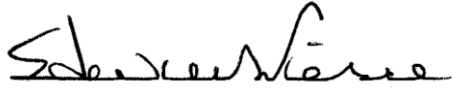
- PM does not have the capability to segregate access to the various billing functions such as posting of charges, payments, and adjustments. When an individual is given "billing" access, he/she can perform all billing-related functions.
- In the wake of system limitations, the Information Technology Application Manager had not identified an alternative approach to herself setting a user's password in Touch Chart when a new user is set up or when a password change is requested.

Observation

- Documents sent through an external courier are not adequately secured.

The corrective actions implemented or planned by management satisfactorily address the audit concerns and recommendations contained in the report. In accordance with our audit follow-up policy, we will conduct a review to assess the implementation of all corrective actions approximately three months from the date of this letter.

If you have any questions, please call me at x33730.



Edwin D. Pierce, CPA, CFE
Director

Enclosure

cc: G. Barba
D. Feinberg, M.D.
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SANTA MONICA BAY PHYSICIANS BUSINESS OFFICE
AUDIT REPORT #12-1601

Audit & Advisory Services
March 2012

SANTA MONICA BAY PHYSICIANS BUSINESS OFFICE
AUDIT REPORT #12-1601

Background

In accordance with the health sciences audit plan for 2011-12, Audit & Advisory Services conducted an audit of the Santa Monica Bay Physicians (SMBP) Business Office. SMBP was acquired by the Regents of the University of California on December 31, 2010, to join the UCLA Health System. SMBP is a Santa Monica-based medical group of 40 physicians in primary care and a multitude of specialties and sub-specialties, providing healthcare through every phase of life from infancy to geriatrics. There are currently 11 SMBP clinic sites throughout the Westside. The SMBP Business Office performs the billing and collection functions for all of the SMBP offices.

The SMBP Business Office is staffed by four billers, six collectors, two payment posters, three clerical/administrative staff and a Management Services Officer (MSO). The MSO reports to the Faculty Practice Group (FPG) Physicians' Billing Office (PBO) director. The SMBP utilizes Allscripts technologies, including the Electronic Health Record, the Practice Management System (for billing and collections functions), and Touch Chart (for scanning).

For fiscal year 2011-12 as of October 31, 2011, SMBP patient visits approximated 35,800. Patient revenues generated by the SMBP totaled \$7,561,311 for the same time period. The SMBP Business Office sends out approximately 1,000 claims each day. Between \$8,000 and \$35,000 in payments, consisting primarily of mailed-in payments and payments by phone, are received at the SMBP Business Office each week. (Additional payments are transmitted electronically directly to the bank.)

Purpose and Scope

The purpose of the audit was to determine the adequacy and effectiveness of internal controls and to evaluate compliance with University policies and procedures.

The scope of the audit included the following areas:

- Billing
- Accounts Receivable
- Payment Handling
- Payment Posting/Recording
- Segregation of Duties
- Monitoring Tools
- General Information System Access Controls

The audit was performed in accordance with generally accepted auditing standards and included personnel interviews and testing considered necessary in achieving the purpose. In the area of billing, a sample of ten claims and five patient statements from June through August 2011 were verified for accuracy against the supporting charge documents. Also, for a sample of five dates of service from the same time period, the timeliness of charge entry was reviewed. In the area of accounts receivable, a sample of eight adjustments and six refunds from May, June and July 2011 were reviewed for legitimacy and proper approval/supporting documentation.

Summary Opinion

Based on the results of the work performed within the scope of the audit, the SMBP Business Office has made reasonable efforts to implement effective internal controls and comply with University policies and procedures. However, some issues were identified.

Billing

- Because Medicare no longer accepts consultation codes, if a physician designates a consultation code on the charge document for a Medicare patient, billers have been using a "crosswalk" to convert the consultation code to an acceptable billable code. Per the FPG PBO director, this task should be performed only by certified procedural coders.
- The process to rebill claims that require modifications of diagnosis codes needs to be strengthened.

Accounts Receivable

- At the time of the audit, documentation for accounts receivable adjustments did not always contain approvals and/or adequate supporting documentation. Also, several individuals posted adjustments.
- The process to identify credit balances within patients' accounts needs to be strengthened. At the time of the audit, a credit balances report had not been created.
- Although refund requests generated by the SMBP Business Office are approved by the MSO if they are rush requests, non-rush refund requests are processed by the collectors and provided to the FPG PBO for check generation without any additional approval.
- A modification to the process for handling of refund checks would further assure the physical security of the checks.

Payment Handling

- At the time of the audit, due to a misunderstanding of previous audit guidance, mailed-in payments were not being opened by two individuals in accordance with Business and Finance Bulletin BUS-49, "Policy for Handling Cash and Cash Equivalents."

Payment Posting/Recording

- At the time of the audit, a process to reconcile payments posted in Practice Management (PM) against monies deposited to the bank had not yet begun. This function is the responsibility of FPG Finance, and this issue has been reported to FPG management.
- The SMBP Business Office's role in voiding payments at the request of clinics creates exposure.

Segregation of Duties

- Issues noted are covered in other sections of the audit report.

Monitoring Tools

- At the time of the audit, quality control and trend monitoring processes for the SMBP Business Office had not been finalized and were still being developed.

General Information System Access Controls

- PM does not have the capability to segregate access to the various billing functions such as posting of charges, payments, and adjustments. When an individual is given "billing" access, he/she can perform all billing-related functions.

- In the wake of system limitations, the Information Technology Application Manager had not identified an alternative approach to herself setting a user's password in Touch Chart when a new user is set up or when a password change is requested.

Observation

- Documents sent through an external courier are not adequately secured.

The audit results and recommendations are detailed in the following section of the audit report.

Audit Results and Recommendations

#	FINDING	RECOMMENDATION	MANAGEMENT'S RESPONSE
BILLING			
1	<p><u>Consultations:</u> Because Medicare no longer accepts consultation codes, if a physician designates a consultation code on the charge document for a Medicare patient, billers have been using a "crosswalk" to convert the consultation code to an acceptable billable code. Per the FPG PBO director, this task should be performed only by certified procedural coders.</p>	<p>Management should modify processes such that, if a physician designates a consultation code on a charge document for a patient whose insurance does not accept consultation codes, documentation relating to the visit should be provided to a certified procedural coder within the FPG PBO for re-coding. Billers at the SMBP Business Office should not attempt to convert the codes.</p>	<p>SMBP Business Office has changed the process and is sending any consultation codes to CPC at FPG PBO to be re-coded.</p>
2	<p><u>Rebilled Claims:</u> The process to rebill denied claims that may warrant modifications of diagnosis codes needs to be strengthened. Sample testing of ten claims submitted on August 2, 2011, included one claim that had been denied by Medicare due to lack of medical necessity, and that was subsequently rebilled with a different diagnosis, which was extracted by the SMBP MSO from the medical record. Per the UCLA Compliance Office, the diagnosis extracted by the SMBP MSO is not supported by the medical record documentation.</p> <p>The FPG PBO is currently reviewing this case.</p>	<p>Management should reevaluate whether SMBP Business Office staff, who are not certified procedural coders, should be allowed to extract diagnoses from physicians' notes. The FPG PBO director indicated that a quality control process can be implemented for these types of rebills. Audit & Advisory Services supports such a process as a compensating control if it is not possible to have certified coders perform the diagnostic coding.</p> <p>In addition, the FPG PBO and the UCLA Compliance Office should work together to ensure that the charges/diagnoses billed for the cited claim noted during the audit are adjusted to that which is supported by the medical record documentation.</p>	<p>Management will continue a quality control process through our quality reviews for these types of rebills to ensure that any modifications of diagnosis support the medical record documentation.</p> <p>Management is continuing to research the cited case.</p>
ACCOUNTS RECEIVABLE			
3	<p><u>Adjustments:</u> A review of a sample of eight adjustments from May and June 2011 indicated that all of the adjustments were legitimate. However, documentation for adjustments did not always contain approvals and/or adequate supporting documentation.</p>	<p>During the audit, management modified procedures such that adjustments are currently to be posted only by the administrative assistant, who ensures that an approval is documented and that supporting documentation is sufficient. Audit & Advisory Services supports this modification. Management should, however, be aware that the</p>	<p>Management will continue a quality control process through our quality reviews and select adjustments from an adjustment detail report that is inclusive of all adjustments processed during a given time period, not from adjustment batches turned in by the administrative assistant.</p>

#	FINDING	RECOMMENDATION	MANAGEMENT'S RESPONSE
	<p>In addition, several individuals were posting adjustments.</p>	<p>new procedure is limited because all staff still have the capability to post adjustments due to PM system security limitations. Also, per FPG Decision Support Services, it is not possible to generate a report showing adjustments posted by logon ID as a tool to ensure that only the administrative assistant is actually posting adjustments.</p> <p>As a compensating control, management should ensure that, for the evolving quality control process, adjustments are selected from an adjustment detail report that is inclusive of all adjustments processed during a given time period, not from adjustment batches turned in by the administrative assistant. Selecting adjustments for review from a detail report could potentially identify unauthorized adjustments posted by other staff members. See #10 below for an additional discussion about development of the quality control process.</p>	
4	<p><u>Identification of Credit Balances:</u> The process to identify credit balances within patient accounts needs to be strengthened. Payment posting staff are responsible for identifying credit balances as they post payments. A report of credit balances, however, has not been created. As a result, if a payment poster inadvertently doesn't notice that a payment he/she posted created a credit balance within the patient's account, a refund may not be generated.</p> <p>Sample testing of six patient refunds from June and July 2011 identified one refund for an HMO patient that was not issued until July 8, 2011, although the overpayment was identified on March 1, 2011. Per SMBP staff, the refund request was not submitted to FPG until June 20, 2011. It is not clear what caused the delay. The review of a</p>	<p>FPG Decision Support has indicated that it can create a credit balances report for the PM system. Management should request that this report be generated and run regularly. This report should be worked at least monthly to ensure that outstanding credit balances are being identified and that refunds or other adjustments are processed as warranted.</p>	<p>Management will start implementing a monthly credit balance report from the PM system to be reviewed. We will ensure that outstanding credit balances are being identified and that refunds or other adjustments are processed as warranted (i.e., refunded or reverse adjustments accordingly).</p>

#	FINDING	RECOMMENDATION	MANAGEMENT'S RESPONSE
	credit balance report could be of assistance in preventing/identifying such oversights.		
5	<u>Refund Approvals:</u> Although refund requests generated by the SMBP Business Office are approved by the MSO if they are rush requests, non-rush refund requests are processed by the collectors and provided to the FPG PBO for check generation without any additional approval. In contrast, approval from a supervisor of the refund unit is required for all refund requests initiated by the FPG PBO.	To provide better assurance that refund requests are legitimate and that processing of refunds is consistent, all requests should be reviewed by an independent individual, such as the SMBP MSO. Another option would be to make an individual within the FPG PBO responsible for approving the SMBP refunds. (This individual would need inquiry access and training on the PM system.)	Management will work with FPG PBO to identify an individual to approve SMBP refunds. We will ensure that the individual has the appropriate access and training on the PM system.
6	<u>Refund Checks:</u> A modification to the process for handling of refund checks would further assure the physical security of the checks. As noted above, refund checks are generated by the FPG PBO based on supporting documentation provided by the SMBP Business Office. The checks are then returned to the SMBP Business Office. Upon receipt of the checks, SMBP Business Office staff update the patients' accounts within the PM system to reflect the refund and then mail them out. The transport of checks from one location to another increases the potential for loss. Also, the SMBP Business Office administrative assistant who receives the checks has administrator capabilities within the PM system, which could allow her to generate fictitious credit balances/ unauthorized refunds without detection.	Refund checks should be sent out directly from the FPG PBO by an individual who cannot post payments or adjustments within the PM system. (Improper posting of a fictitious payment can generate a false credit balance.) A staff member from the SMBP Business Office should be set up to receive Post Authorization Notifications (PANs) for refund checks that have been generated by the FPG PBO. (This would require the FPG PBO to add the staff member as a non-mandatory reviewer for purchasing transactions relating to the SMBP account and fund.)	Management is working on having refund checks sent out directly from the FPG PBO. SMBP Business Office will provide access to FPG PBO in order to post payments or adjustments within the PM system. We will have FPG PBO send a notification via email to SMBP Business Office when refunds have been completed.
PAYMENT HANDLING			
7	<u>Mailed-In Payments:</u> At the time of the audit, mailed-in payments were not being opened by two individuals in accordance with BUS-49, Policy VIII.A.3. Due to a misunderstanding of previous audit guidance, a clerk opened the mail by herself and then transferred the checks received to another clerk who prepared the deposit in the	As a result of the audit, the clerk responsible for preparing the deposit currently opens the mail in the presence of the administrative assistant or MSO. Management should ensure that two individuals continue to open the mail and prepare the deposit together. This control measure is particularly important since all SMBP Business	The process of having two staff members open the mail and prepare the deposit together has been in place for almost a year.

#	FINDING	RECOMMENDATION	MANAGEMENT'S RESPONSE
	presence of a supervisor. All business office staff, including the clerk who opened the mail, have the ability to post payments. This combination of duties could allow for a payment to be diverted without detection.	Office staff can post payments.	
PAYMENT POSTING/RECORDING			
8	<p><u>Reconciliation Process:</u> At the time of the audit, the process to reconcile payments posted in PM against monies credited to the general ledger had not yet begun. This process is particularly critical because all SMBP Business Office staff have the functionality to post payments in PM. As described in #11 below, the PM System does not have the capability to segregate billing functions.</p> <p>The SMBP Business Office does have a process that, if enhanced and expanded, would serve as a compensating control and which has value even once a reconciliation process is implemented. An SMBP clerk currently matches the clinics' daily summary sheets (which show the total collections by payment type) with the corresponding CashNet reports (which show what was posted to the general ledger). In cases when the CashNet report is not received, the clerk matches the daily summary sheet to the supporting payment reports from PM. Having the clerk perform a three-way match of the summary sheet, PM reports, and CashNet reports would provide assurance that co-payments posted by the clinics have actually been deposited.</p>	It is recognized that the reconciliation function is the responsibility of FPG Finance, and this issue has been reported to FPG management. The SMBP Business Office should enhance its existing process to include a three-way match of the summary sheet, PM reports, and CashNet reports. This three-way matching process should be expanded to include payments received at the SMBP Office (mailed in and over the phone payments) to further strengthen controls.	Finance management will identify resources to implement a manual reconciliation of cash received by the Business Office.
9	<u>VOIDS:</u> The SMBP Business Office's role in voiding payments at the request of clinics creates exposure. A clerk at the SMBP Business Office processes voids for clinics that do not have the capability to post voids and also in cases when the clinic's super user (who can process voids) is	Management should re-evaluate whether the SMBP Business Office should perform voids for clinics. The feasibility of providing this functionality to clinics who do not have it should be considered. If the SMBP Business Office clerk continues to perform voids, notification of the voids	SMBP clinics will ensure that all voids are performed by the site manager. In the event that a manager is not available during after hours, the SMBP Business Office will perform the void and send notification of the voids, and the clinic manager will confirm the void and provide

#	FINDING	RECOMMENDATION	MANAGEMENT'S RESPONSE
	<p>not available. Payments that need to be voided are notated by the clinic on the PM payment summary but an explanation for the void may or may not be provided. However, the SMBP Business Office clerk doesn't have sufficient information to verify the legitimacy of voids. Consequently, a clinic staff member could potentially use this process to divert monies without detection.</p>	<p>processed should be provided to the clinic manager and the SMBP Business Office MSO. The clinic managers should be instructed to verify the legitimacy of the voids and to provide the Business Office with documentation attesting to their appropriateness.</p>	<p>documentation attesting to their appropriateness.</p>
SEGREGATION OF DUTIES			
	<p>Issues noted are covered in the other sections of this audit report.</p>		
MONITORING TOOLS			
10	<p><u>Monitoring Tools:</u> At the time of the audit, quality control and trend monitoring processes had not been finalized and were still being developed for the SMBP Business Office to monitor its own operations and provide value-added analyses to the SMBP practices.</p> <p>1. Although a trial run of the quality control process utilized by the FPG PBO had been performed, an ongoing quality control process had not been established for the SMBP Business Office. (The FPG PBO weekly quality control process involves reviewing for accuracy a sample of transactions processed by each staff member.)</p> <p>In addition, the SMBP Business Office MSO is currently working with FPG on productivity requirements/tracking for the SMBP Business Office staff. Currently, billers and collectors record the batches posted/accounts processed on log sheets, which are reviewed by the SMBP Business Office MSO.</p> <p>2. Reports being reviewed by the FPG PBO</p>	<p>1. The use of a consistent quality control process is very important, as the misposting of payments, adjustments, or charges impacts the integrity of billing data. Management should continue to work toward implementing a process that is similar to the FPG quality control process and ensure that it is consistently performed. Detail reports (e.g., adjustments, refunds, payments, etc.) from the PM system for a particular time frame should be used to select transactions for review, not the batches generated by staff members. (If all or a portion of a batch is inadvertently or intentionally not scanned into TouchChart, these transactions would not have a chance of being selected for review.)</p> <p>2. FPG and the SMBP should continue to work together to develop monitoring tools for SMBP similar to the FPG PBO Billing Activity Summary (BAS) report. Follow up should be performed as necessary upon identification of unusual trends.</p>	<p>1. Management has started Quality reviews on staff similar to FPG PBO to review misposting of payments, adjustments, or charges. Management continues to work with Decision Support to provide detailed reports of transactions (not staff member batches) generated from the PM system to be used to select transactions for quality control reviews.</p> <p>2. FPG and SMBP PBO continue to work with Decision Support to develop monitoring tools for SMBP similar to FPG PBO such as the Billing Activity Summary (BAS), denials, adjustments, charge lags, accounts receivable agings, etc. Monthly reviews are performed to identify unusual trends.</p>

#	FINDING	RECOMMENDATION	MANAGEMENT'S RESPONSE
	<p>director prior to the audit included the workload relative value unit (RVU) trends and payment trends. During the audit, the director began reviewing the accounts receivable aging and a charge timeliness report. In the future, the director plans to implement reviews of adjustment trends, denial trends and credit balances. (Denial statistics and credit balance reports still need to be developed by FPG Decision Support Services.)</p>		
GENERAL INFORMATION SYSTEM ACCESS CONTROLS			
11	<p><u>Practice Management (PM) System:</u> PM does not have the capability to segregate access to various billing functions, such as posting of charges, payments, or adjustments. When an individual is given "billing" access, he/she can perform all billing-related functions. Although many of the SMBP Business Office staff members perform only some billing functions, all staff have "billing" access.</p>	<p>It is recognized that CareConnect will replace Allscripts, and it may not be financially feasible to expend time and effort to reconfigure the PM system. To compensate for the PM system weakness, management should take extra care to monitor system activity for inappropriate usage as part of the quality control process. (The quality control process is described in #10 above. As mentioned in #10 above, to ensure that all transactions have a chance of being selected for review, detailed reports of transactions (not staff member batches) generated from the PM system should be used to select transactions for quality control reviews. (FPG Decision Support Services can provide detail reports of transactions from the PM System.)</p>	<p>Management will monitor system activity for inappropriate usage as part of the quality control process as mentioned above in #10. Management continues to work with Decision Support to provide detailed reports of transactions (not staff member batches) generated from the PM system to be used to select transactions for quality control reviews.</p>
12	<p><u>Touch Chart System:</u> Due to system limitations, the Information Technology Application Manager has been assigning and entering a user's password in Touch Chart when a new user is set up or when a password change is requested. Although the manager does not keep a record of the passwords and reportedly does not remember them, this process undermines the purpose and security of the password.</p>	<p>It is recognized that CareConnect will replace Touch Chart, and it may not be financially feasible to expend time and effort to reconfigure the system. To compensate for the Touch Chart System weakness, in cases when a new password is required, the Information Technology Application Manager should meet with the user and have him/her type in a self-selected password. (The Information Technology Application manager should look away when the user is typing in this password.)</p>	<p>Currently, the IT Application Manager creates a temporary password and when the user logs in for the first time, it informs the user to create their own password.</p>

#	FINDING	RECOMMENDATION	MANAGEMENT'S RESPONSE
OBSERVATIONS			
13	<p><u>Courier Service:</u> Documents sent through an external courier are not adequately secured. Superbills and patient receipts, which contain protected health information, are typically sent daily from the SMBP clinics to the SMBP Business Office. These documents are placed in a file folder within an expandable file envelope and secured with the Velcro clasp, which is not adequate to prevent or detect tampering of the contents in transit. It is recognized that a business associate agreement has been established with the courier. However, in accordance with the HIPAA Privacy Rule "minimum necessary" requirement, protected health information should not be accessible when it is not necessary to satisfy a particular purpose or carry out a function.</p>	<p>Management should ensure that documents with patient information are secured at all times in such a way to prevent and/or detect tampering of the contents by individuals other than the intended recipient. Sealed manila envelopes, secondarily secured with taped-over handwritten signatures written on the flap, would be a possible solution.</p>	<p>Management is currently sending documents in a sealed manila folder inside a green envelope with tape. Management will discuss if they can be secured with taped-over handwritten signatures written on the flap.</p>

Primary Network Clinic Bi03