UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES

UC Davis Health Claims Denial Management and Write-Off Accounts
Audit & Management Advisory Services
Project #18-15

June 2018

Fieldwork Performed by:
Janet Cox, Senior Auditor

Reviewed and Approved by:
Leslyn Kraus, Director

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<u>MANAGEMENT SUMMARY</u>

<u>Background</u>

As part of the fiscal year (FY) 2018 audit plan, Audit and Management Advisory Services (AMAS) conducted a review of claim denials management and account write-offs at the UC Davis Medical Center (UCDMC). Originally, these were scheduled as two separate projects but in an effort to maximize resources, the projects were combined into a single review.

Denials are a normal function of patient billing and occur when a payor refuses to pay a claim either in part or in whole. Management of denials, which involves identifying trends, communicating results of trend analysis, and taking corrective action, is crucial to revenue collections and for ensuring reimbursement for all services rendered.

Write-offs of hospital charges are also a normal part of the revenue cycle and are grouped into three major classifications:
- Charity Care – a write-off that occurs due to a patient's inability to pay for services or when a person exhausts personal resources and/or third-party coverage.
- Bad Debt – a write-off that occurs when a patient has been determined to be able but unwilling to pay for all or part of the services provided.
- Administrative – a write-off due to an error in the medical record or billing process that prevents UCDMC from collecting for all services provided.

<u>Purpose and Scope</u>

The purpose of our review was to evaluate the effectiveness of UCDMC oversight of denied claims and account write-offs. To achieve this we performed the following:

- Reviewed information from the Epic Userweb, including *Epic's Hospital Billing Denials Strategy Handbook* dated May 2018;
- Attended one monthly Denials Task Force meeting;
- Reviewed monthly reporting for denials and account write-offs;
- Reviewed processes for developing monthly reporting along with processes for conducting and documenting root cause analysis;
- Evaluated raw data to identify the denial codes contributing to the largest amount of denied claims and account write-offs;
- Performed a high level trend analysis of open denials;
- Traced a sample of denials to confirm that assignment of responsibility was correct;
- Performed a reconciliation of write-offs in Epic to the amounts posted in the general ledger;
- Reviewed the methodology for assessing the allowance for bad debt and validated that the accrual was sufficient and aligned with UCOP policy requirements; and
- Interviewed staff from Patient Financial Services (PFS) and UCDMC Finance.

Our review focused on hospital billing claim denials for the six month period from July 2017 to December 2017.

Conclusion

We determined that the current effort to manage oversight of claim denials and account write-offs is effective. In an effort to improve revenue cycle and denials management processes, PFS sought assistance from the consulting group Huron in 2015 and again in 2018[1]. As a result of the consultants' feedback, PFS implemented revised processes for denials management and reporting in 2016 and we found those processes to be in place and functioning appropriately.

PFS is assigned responsibility for oversight of patient billing, denials management, collections, and account write-offs for hospital based services provided throughout University of California Davis Health (UCDH). However, the responsibility for resolving denials is not limited to PFS, and requires the participation of Registration, Clinical Case Management, and Health Information Management to update records and provide additional or missing information necessary for the claim to be adjudicated.

Recent industry benchmarks for hospital billing denials range from 10-15%. The UCDMC rate for avoidable denials was approximately 13.85%, or $293.8 million, of all claims submitted for the six month period ending December 31, 2017. The top five reason codes for avoidable denials during this period are shown below:

TOP FIVE DENIAL REASON CODES		
Reason Code	**Amount**	**Count**
16-Lacks information needed for adjudication	$ 59,766,381	3,859
197-Payment denied, no precertification, authorization	$ 43,766,775	2,003
252-An attachment is required to adjudicate claim	$ 36,932,795	1,916
50-Not covered. Not deemed medical necessity	$ 30,442,876	10,895
Time limit for filing has expired	$ 15,836,524	664

UCDMC bad debt as a percentage of revenue measured 1.21% during the six month period reviewed, materially lower than the bad debt benchmark for teaching hospitals of 1.77%[2]. Though overall account write-offs are low, total write-offs include a significant number that are categorized as avoidable. Below are the top 5 categories for avoidable write-offs from July 2017 to December 2017.

TOP FIVE AVOIDABLE WRITE-OFFS[3]			
Owning Area	**Category**	**Amount**	**Count**
Clinical Case Management	Medical necessity/level of care	$ 7,566,771	2,362
Patient Access	Non-Covered	$ 6,902,668	16,449
Patient Access	Authorization	$ 4,573,551	2,286

[1] In 2018 Huron is assisting primarily with denials due to medical necessity and the results of the engagement are not yet complete.

[2] American Hospital Directory, dated February 2017.

[3] Amounts shown are the amounts that were written off. These are primarily adjusted off at net, but certain types of denials are written off at gross.

Patient Financial Services	Provider Non-Compliance/Past Timely Filing[4]	$ 3,740,851	12,580
Coding	Coding	$ 2,125,240	7,309

As the denials management function continues to be refined opportunities for further improvement remain:

- PFS relies on manual processes for the evaluation of denied claims for root cause analysis, denied claims with multiple appeals, and account write-offs. PFS should consider technological options that could streamline the process and increase efficiencies.
- Reporting tools for comparison of actual denial recovery to expected recovery should be updated to ensure accuracy.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

A. Current oversight of denials relies on manual processes that reduce efficiency and increase risk of errors.

In conjunction with Huron, PFS has established a denials management function that appears to be effective. Portions of this process include the identification of denial trends for root cause analysis; the tracking of outstanding secondary appeals that are in dispute with the payor; and the review of monthly account write-offs. However, identification and maintenance of these data sets is a manual process as PFS tracks the data in monthly spreadsheets. Use of manual processes can reduce efficiencies, and for data of this significance manual processes add additional risk of errors or omissions.

Recommendation

PFS should consider technological options within Epic and other outside sources that could streamline processes and improve efficiencies.

Management Corrective Action

By February 15, 2019, PFS will consider implementing technology that would aid in streamlining the manual processes currently in place.

B. Reporting of the denials recovery rate is currently not available.

Reporting on the recovery of denials was made available to UCDMC with the implementation of Epic version 2015 in the spring of 2017. This reporting tool would allow users to assess denials for expected recovery amount, the amount that was written-off, the actual amount recovered and the percentage of the recovery. This information would be useful to management to help identify areas with significant discrepancies between the amount of the expected recovery and the actual amount recovered. It would also help measure recovery rates.

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[4] The number of write-off accounts exceed the number of denials as accounts are written-off without submission to the payor when it is known that the timely filing date has passed.

UCDMC has a denials recovery report listing in both Page Center X and Business Objects, however the report available in Page Center X is outdated and the data in the Business Objects report could not be validated, as the actual recovery is listed as zero.

Recommendation

PFS should update denials recovery reporting to ensure it is reliable. PFS should also communicate the availability of this reporting tool to area owners.

Management Corrective Action

By April 15, 2019, PFS will develop denials recovery reporting so that it is reliable, and will advise the area owners of its availability.