

University of California  
San Francisco



**Audit Services**

December 17, 2010

**DAVID MORGAN**  
Executive Director  
Ambulatory Services

**SUBJECT: Outpatient Pharmacy Billing Review  
Audit Services Project #11-018(A)**

As a planned audit for fiscal year 2010-2011, Audit Services has completed a review of outpatient pharmaceutical billing within Ambulatory Services. Attached is the final report incorporating the observations and agreed upon management corrective actions.

The management actions specified in this report will be added to the Audit Services follow-up system. Periodically, Ambulatory Services management and the selected Clinics included in the review will be contacted to ascertain the status of implementation for these corrective actions. Once implemented, additional audit procedures may be performed to validate actions taken. You will be notified when all corrective actions have been implemented and we consider this audit closed.

I would like to thank you for your assistance and cooperation during this review. Please do not hesitate to contact me at (415) 502-2238 should you have questions.

Sincerely,

A handwritten signature in blue ink that reads "Rick Catalano". The signature is written in a cursive style.

Rick Catalano  
Director

c: Administrative Director Dial  
Director Moore  
Director Shield

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**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO  
AUDIT SERVICES**

**Outpatient Pharmacy Billing  
Project #11-018(A)**

**December 2010**

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**Rick Catalano, Director**

**Outpatient Pharmacy Billing  
Project #11-018(A)**

**MANAGEMENT SUMMARY**

As a planned review for fiscal year 2010-2011, Audit Services conducted a limited review of outpatient pharmaceutical billing within Ambulatory Services. Ambulatory Services at UCSF encompasses approximately 100 outpatient practices and/or support departments with gross annual revenue of approximately \$285M.

The purpose of the review was to assess the charge capture and billing practices and procedures for pharmaceutical supplies in Ambulatory Services to assure that the billing for pharmaceutical is complete, accurate and timely and that clinical documentation supports the billing. The review focused on three outpatient clinics with the highest medication administration activity: Cancer Center-Infusion Unit (CCC), Transfusion Services (ACC), and Pediatric Day Treatment Center (PTC).

The results of the review showed that inconsistent practices among clinics in the management of pharmaceutical supplies' charge capture and billing exist. To ensure more complete, accurate and timely billing of charges, improvements in the pre-billing verification of encounter forms need to occur. Also, Ambulatory Services may benefit from increased revenue through billing of pharmaceutical wastage by developing processes for tracking and documenting of drug wastage. Additionally, enhanced processes for ensuring complete and accurate medication orders and administration records are maintained is required in order to minimize the risk of non-compliance with regulatory requirements.

Detailed information can be found in the body of this report.

**Outpatient Pharmacy Billing  
Project #11-018(A)**

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**I. BACKGROUND**

As a planned audit for fiscal year 2010-2011, Audit Services completed a limited scope review of the charge capture and billing practices for pharmaceuticals for three clinics: Cancer Center-Infusion Unit (CCC), Transfusion Services (ACC), and Pediatric Day Treatment Center (PTC) within Ambulatory Services.

Ambulatory Services operates approximately 100 outpatient practices and/or supporting departments at the Parnassus and Mount Zion Campus and satellite locations providing comprehensive health care ranging from preventive health and screening to diagnostic consultation, active treatment and follow-up care. Visit volume to the ambulatory practices is around 700,000 visits per year; and, annual gross revenue generated by Ambulatory Services is approximately \$285 million with annual outpatient pharmaceutical supplies expense around \$27.5 million with infusion drugs accounting for 92% of this expense.

Unlike inpatient pharmaceuticals which are billed through the pharmacy’s WORx system, charge capture and billing of drugs administered in the outpatient setting is a manual process whereby entries are made on the encounter forms and then submitted to the Patient Financial Service (PFS) for data entry. The management of patient accounts for billing and payment resides in the Siemens Shared Medical System (SMS) billing system.

For the fiscal year 2010, approximately \$176 million of gross revenue was generated and \$26 million in pharmaceuticals expenditure incurred by the selected three clinics as follows:

	CCC	ACC	PTC	Total
# of Patients Visits	21,117	13,083	3,736	37,936
FTE	24.45	15.63	6.98	47.06
Gross Revenue	\$117,684,176	\$47,510,359	\$11,241,167	\$176,435,702
Pharmaceuticals expense	\$16,166,696	\$8,580,343	\$1,742,012	\$26,489,051

**II. PURPOSE AND SCOPE**

The purpose of this review was to assess the billing practices and procedures for pharmaceuticals. Specifically, the review included:

- Examining the pharmaceuticals charge capture and billing practices for completeness, accuracy, and timeliness;

- Determining whether the documentation for administered pharmaceuticals is complete and supported the billing;
- Determining whether clinics have comprehensive written procedures for ensuring consistency in practices for charge capture and billing; and,
- Evaluating the accuracy of NDC dictionary in the IDX system.

Unless indicated otherwise, the following procedures were performed for the three clinics reviewed:

- Management and staff from the clinics were interviewed to obtain an understanding of existing policies, practices, and processes relating to charge capture for pharmaceuticals;
- A sample of 60 encounters (20 for each clinic) was selected from clinics' appointment lists and validated against the encounter forms and SMS billing system to ensure that pharmaceutical charges for the encounters were captured and billed;
- For the selected sample of encounters, support documentation, including physician's orders, medication administration records, and Pyxis administration records, was verified;
- Late charge reports and TES edit aging reports were reviewed to determine whether the clinics were reviewing and clearing edits and to establish reasons for untimely billing;
- Billing data was examined to ensure compliance with Medicare billing policy related to self-administered drugs;<sup>1</sup>
- Encounter forms were reviewed to ensure that CPTs/CDMs codes on the encounter forms are correct and updated;
- The NDC dictionary was compared to the pharmacy recharge reports to verify the accuracy of drug codes; and
- The accuracy of the NDC dictionary conversion factors used to convert the HCPCS quantity units was verified.<sup>2</sup>

The scope of this review encompassed activities transpiring during the period from July 2009 to June 2010 for the three clinics reviewed. Work performed was limited to the specific activities and procedures described above and did not include other clinics in Ambulatory Services. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in September 2010.

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<sup>1</sup> Self administered drugs are not reimbursable by CMS Ref " Medicare Benefit Policy Manual" Chapter 15 Section 50.2

<sup>2</sup> Observations relating to the NDC have been reported to Pharmaceutical Services and Reimbursement Services under separate cover, see Audit Project #11-018(B).

### III. CONCLUSION

Based on the work performed, each of the three clinics requires some degree of improvements to enhance controls for charge capture and billing. Written standard operating procedures are lacking in all three clinics. A recurring issue identified during this review is the inaccuracies in the entries on the encounter forms resulting in under /over charges. To assure that revenue is maximized and that complete, accurate and timely entry of charges occurs in the billing system, Ambulatory Services management needs to assess the risk of loss and / or incorrect charges against the resource commitment required for a more thorough review and verification of the encounter forms. Also, Ambulatory Services needs to develop better tracking process to capture and document drug wastage that may provide more revenue opportunities. Additionally, tracking and monitoring of drug wastage provides a better understanding of such wastage that can result in process improvements and changes to prevent and detect wastage where possible.

The implementation of the APEX electronic health records system is likely to improve the charge capture and medication administration reconciliation process to some extent. However, as the infusion clinics are not scheduled to implement the new electronic system until 2012 and based on the level of inaccuracies and delays in billing together with non-compliance with documentation requirements, management needs to take some interim measures to enhance controls and improve charge capture and billing practices.

Detailed information on the observations and management corrective actions can be found in the body of the report. A visual summary of the assessment of controls for the three clinics is summarized in Appendix A.

### IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

#### A. Charge Capture and Billing

University Policy requires all revenue generating centers to ensure timely and accurate submission of charge transactions into the billing system; and requires periodic review of records to identify unbilled and unsupported charges.<sup>3</sup>

The following was noted from the review of the charge capture and billing processes within the three selected clinics:

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<sup>3</sup> UC Accounting Manual H-576-60 C.1 "Medical Center: Patient Account Receivables"  
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1. ***Pre-billing review for assuring charges are fully captured, complete and accurately billed could be improved.***

Substantive testing of a sample of 60 encounters (20 for each clinic) identified the following:

- 5 instances of medication administered that had not been marked on the encounter form resulting in missed charges.
- 10 instances of incorrect item or quantity marked on the encounter form resulting in under and /or over charges.<sup>4</sup>
- 5 instances of lost charges - encounter forms indicated that the drugs were administered but these had not been entered in the SMS billing system. It was not possible to definitively establish whether these were due to an oversight by data entry or that the clinic had not forwarded the encounter forms for data entry.
- 1 instance of incorrect data entry in the billing system.

The clinics have deployed a pre-billing verification process whereby encounter forms are reviewed for completeness. However, Audit Services found that two of the three clinics do not validate the encounter form entries against the medication administration records thereby errors and omission are not identified. Additionally, there is insufficient verification of charge entry to the billing system.

Lack of an effective process for validation of charges increases the risk that errors and/or omissions may go undetected, resulting in loss of revenue to the Medical Center.

2. ***Encounter forms had not been updated to reflect the most current CPT/ CDM codes.***

The encounter form is a tool for clinics to record services performed and billable pharmaceuticals administered. The encounter form, while not the official billing record, is used as a source document for charge entry. Therefore, it is important that encounter forms contain accurate and complete lists of pharmaceuticals and that the form is reviewed at least annually to ensure that CPT/CDM code changes are accurately reflected on the form. Comparison of the clinics' encounter forms against the clinics' CDM pricelist and HCPCS codes identified some

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<sup>4</sup> For the sample tested under charges totaled \$27,317, overcharges of approximately \$1060 and missed charges of \$360.

minor inaccuracies whereby inactive and/or inaccurate J drug codes had not been updated.<sup>5</sup>

Outdated and/or inaccurate encounter forms may result in incorrect billing which may cause under recovery of costs and loss of revenue for the Medical Center.

**3. Charges are not billed timely.**

Prompt billing for reimbursement of services is essential for effective management of receivables.<sup>6</sup> Charges should be submitted within a reasonable time following services so that accounts are kept up-to-date and complete final bills can be prepared.<sup>7</sup> Medical Center Administration has defined late charges as those charges that are not entered onto the patient account within 6 days from date of service.

Review of the late charge reports for fiscal year 2010 found one of three clinics had significant high rate of late charges as follows:

	Late Charges	Gross Patient Revenue	Percentage (%)
CCC	\$19,362,760	\$117,684,176	17.0
ACC	\$3,902,269	\$47,510,359	8.0
PTC	\$7,389,131	\$11,241,167	66.0

Additionally, one of three clinics transaction rejections in the IDX Transaction Editing System (TES) are not followed up or cleared timely. Review of TES edits aging summary reports found that PTC had significant number of rejected charges sitting in TES. As of August 21, 2010, 44 unresolved TES edits were aged over 30 days and 430 TES edits were greater than 60 days.

Discussions with Ambulatory Services management highlighted that staff resource constraints have been a contributory factor for delays in processing charge sheets and verification of billing. However, recent concerted efforts directed at improving the encounter flow process through monitoring and tracking of encounter forms per date of services, establishing protocol for

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<sup>5</sup> Encounter Form used by one of three clinics had one inactive drug (J9062), one drug (J7613) linked to wrong drug (J7611), and one procedure (CPT: 90371) used for drug Hep B immune globulin, 1ml). Encounter Form used by another clinic had one wrong J-code (J1453) listed.

<sup>6</sup> UC Accounting Manual, Receivables Management R-212-2, I.B. Billing, Collection, and Analysis

<sup>7</sup> UC Accounting Manual, Medical Centers: Patient Account Receivable H-576-60, II.C. Preparation of Bills

encounter forms submission and batching processes have reduced the charge lag time to a more reasonable level.

Untimely billing increases the risk of delays in reimbursements and potential denials of claims impacting cash flows as well as potential loss of revenue.

### **Management Corrective Actions**

- a) By May 15, 2011, Ambulatory Services management will assess the current charge capture and billing processes for the three infusion clinics with consideration being given to pooling the charge verification and billing functions to a central unit that will be resourced by well qualified billers. Ambulatory Services management will request additional resources to staff this unit in the fiscal year 2012 budget allocation.
- b) Until funding for additional staffing resources are approved, effective February 1, 2011, Ambulatory Services management will require the clinics to perform more thorough verification of encounter forms by validating entries on the encounter forms against the medication administration records. Additionally, resources will be deployed to clear PTC's backlog of the TES edits file.
- c) To assure that charge entry into the billing system is complete and accurate by February 1, 2011, the Clinic Managers will establish procedures to verify the batch control forms to ensure that all encounter forms submitted to Patient Financial Services are entered and accounted for.
- d) By March 1, 2011, the three Clinics will work with Reimbursement Services to review the contents of the encounter forms and the applicable codes in the CPT/CDM list. Any errors or discrepancies identified will be corrected.

## **B. Documentation**

### **1. *Discrepancies exist between Physician's order, Medication Administration Record (MAR), and Pyxis.***

The Center for Medicare and Medicaid Services (CMS) billing regulations require hospitals to bill only for services provided.<sup>8</sup>

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<sup>8</sup> Medicare Claims Processing Manual Chapter 1 – General Billing Requirements.

Also, CMS Conditions of Participation (CoPs) require that each hospital must retain legible and complete records including Practitioners' orders, nursing notes, reports of treatment, and medication records.<sup>9</sup> UCSF Medical Center's Medication Administration procedures require that medication shall only be administered upon the order of a person lawfully authorized to prescribe and that the drug, dosage, route and time/date of administration must be documented.<sup>10</sup>

Examination of physician's orders, Medication Administration Records (MAR) and Pyxis medication records for a sample of 60 encounters identified the following:

- 7 instances where physician's order was not present in the patient charts to support the medication administered.
- 2 instances of medication dosage administered differed to the physician's order.

These discrepancies in medical records were not identified as an effective or sufficient verification process for assuring the completeness and accuracy of medical records is not in place.

Billing for pharmaceuticals that are not supported by patient treatment documentation may be construed as false claim and could result in denied charges and/or penalties and fines. Additionally, the lack of documentation or discrepancies in medication administration records increases the risk of patient safety.

### **Management Corrective Action**

Effective January 24, 2011, Ambulatory Services management will implement on-going audits of physician orders and medication administration records in the three clinics to ensure that relevant documents are present in the patient charts and that medication administered and billed agrees with the physician order.

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<sup>9</sup> 42 CFR § 482.24 , CMS Conditions of Participation – Medical Records

<sup>10</sup> UCSF Medical Center Ambulatory Services Procedure Manual, Medication Administration Procedure 4.2

**2. Clinics could benefit from having comprehensive written procedures that covers all aspects of billing.**

Policies and procedures provide guidelines and principles for personnel in the administration of the clinics and ensure consistency in application of practices. All three clinics do not have comprehensive written procedures addressing charge capture and review process, billing, TES edit review and corrections, and periodic audit. Lack of full and complete documentation for procedures and required steps for each task associated with patient intake, charge capturing, review for accuracy and completeness of services provided will increase inconsistencies in practices and the risk that necessary steps for handling specific tasks are missed or carried out incorrectly.

**Management Corrective Action**

By March 31, 2011, Clinic Managers will develop more comprehensive written procedures related to charge capture, pre-billing verification, error corrections, and working of TES edits.

**3. Revenue opportunities are lost due to lack of an effective system for tracking and documenting drug wastage.**

CMS encourages physicians, hospitals and other providers to schedule patients in such a way that they can use pharmaceuticals or biological most efficiently, in a clinically appropriate manner; however, if a physician, hospitals or other provider must discard the remainder of a single use vial or other single use package after administering a dose/quantity of the pharmaceuticals, the program provides payment for the amount of pharmaceuticals.<sup>11</sup> In order to receive payments for discarded pharmaceutical, sufficient documentation for waste needs to be retained.

A number of cancer infusion drugs used by the clinics are very expensive. Currently, the clinics do not have a system/mechanism in place to document discarded drugs; thus, discarded pharmaceuticals are not charged and billed to the payer.<sup>12</sup>

Absence of an effective process to bill for drug wastage may result in under recovery of costs and missed opportunity for revenue maximization.

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<sup>11</sup> Medicare Claims Processing Manual Chapter 17 – Drugs and Biological

<sup>12</sup> Pyxis is used for documenting discarded pharmaceuticals for narcotics only.

Additionally, tracking and monitoring of drug wastage enables the clinics to better understand such wastage so that process improvements and changes can be made to prevent and detect wastage.

Ambulatory management has acknowledged the potential revenue loss through lack of documentation of drug wastage. However, the absence of effective systems and tools for capturing and documenting drug wastage in the current environment has created challenges. Ambulatory Services management intends to evaluate the possibility of tracking drug wastage when the new electronic health records system, APEX is implemented.

\* \* \*

**Summary of Charge Capture and Billing practices and controls at three selected clinics within Ambulatory Services.**

**Stop-Light Definitions**

No deficiency or minor deficiency	Requires improvement	Significant deficiency

Key Controls Description	Cancer Center-Infusion Unit (CCC)	Transfusion Services (ACC)	Pediatric Day Treatment Center (PTC)
<b>A. CHARGE CAPTURE AND BILLING</b>			
1. Completeness and Accuracy of Billing (Note 1)			
2. Timely Billing of Patient Charges (Note 2)			
3. Accuracy of Encounter Forms (Note 3)			
<b>B. DOCUMENTATION</b>			
1. Documentation support for the charges (Note 4)			
2. Comprehensive Written Procedures (Note 5)			
3. Tracking and Documenting Drug Wastage (Note 6)			

- Notes**
- (1) Charges not fully captured, inaccuracies in completion of entries on the Encounter Form and entry into the billing system.
  - (2) TES Edits not cleared promptly and charges not billed timely.
  - (3) Encounter Form not updated to reflect accurate and current CPT/CDM codes.
  - (4) Discrepancies between Physician's Orders, Medication Administration Record and Pyxis.
  - (5) Clinics do not have comprehensive written policies and procedures on all aspects of charge capture and billing.
  - (6) Clinics do not have an effective system for tracking and documenting drug wastage.