UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES

University of California, Davis Health System
Department of Dermatology
Internal Audit Services Project #14-21

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Fieldwork Performed by:

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Reviewed and Approved by:

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MANAGEMENT SUMMARY

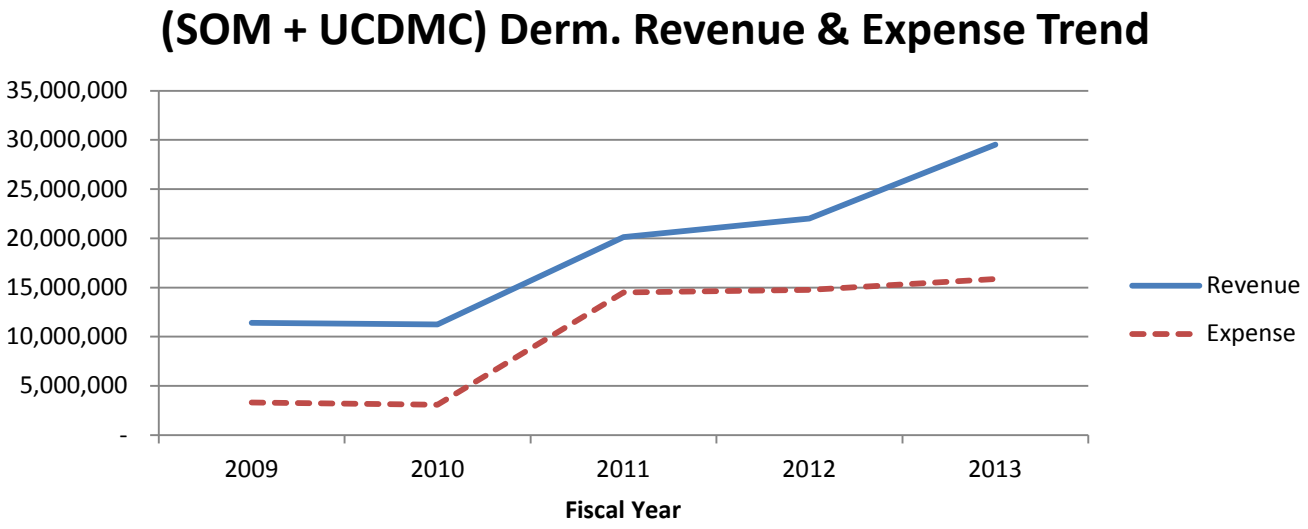
BACKGROUND

Department of Dermatology (Dermatology) provides clinical research and educational programs along with comprehensive diagnosis and treatment for patients of all ages with dermatological problems. Dermatology specializes in surgical and nonsurgical procedures to treat various skin, hair, nail and vein conditions, including benign growths, skin cancers, aging skin, unwanted fat, excess hair and varicose veins. Dermatology treats skin conditions such as acne, eczema, psoriasis, rosacea, and skin cancer. Dermatology is a major referral center for Northern California and Nevada. Dermatology does not perform major surgeries; invasive cosmetic surgeries are referred to Ear, Nose, Throat department (ENT) or Plastic Surgery Clinic.

Dermatology also offers both live interactive teledermatology and store-and-forward teledermatology to allow patients to be examined and treated without making a trip to the office. Teledermatology has been particularly useful for patients with mobility issues or living in remote areas. Dermatology is able to treat patients from 32 remote sites in California via live interactive teledermatology.

UC Davis Dermatopathology Service (Dermatopathology) is a clinical practice unit that provides diagnostic interpretation of submitted skin specimens (including wet tissue, paraffin blocks, & prepared slides) from UC Davis Health System (UCDHS) and non-UCDHS providers, and supports all directly associated responsibilities such as: physician coverage, administrative coverage, laboratory staffing, laboratory certification and quality assurance. Dermatopathology is committed to providing a level of patient care and client services that meets or exceeds the existing community standard.

Over the past 2 fiscal years, Dermatology's net revenue increased by about $9 million to approximate $29.5 million for fiscal year (FY) 2013 while expenses remained consistent and controlled.



PURPOSE AND SCOPE

Department of Dermatology was audited as part of Internal Audit Services (IAS) planned reviews for FY2014. The purpose of the audit was to review the adequacy of general internal controls over billing, inventory, expenditures, related efficiency of processes, and identify opportunities for improvement.

To conduct our review, we interviewed Dermatology personnel to determine patient services performed along with associated process and systems utilized to ensure timely and complete billing. We performed substantive procedures to test the completeness of charges for all completed outpatient visits. We performed analytical procedures to test the timeliness of charge submission, management of charge errors and charge denials. We also performed analytical procedures to assess the purchase and sales of skin products along with potential sales tax impact. We used a risk based approach and focused our review on specific key processes and services such as patient registration, charge entry, resale of skin products, management review and oversight, and physician services provided to outside entities.

CONCLUSION

Based on our review, we concluded that sufficient separation of duties exist and adequate internal controls are in place to provide reasonable assurance that patient services are billed, and skin product sales are reasonably in line with related purchases of these products. Strong management review controls exist over patient billing and expenditures. We also identified opportunities for improvement in contracting with external medical organizations, sales tax reporting, billing and charge lag. Specifically we identified contracts for revenue arrangements and related service rates were not completely up to date for professional and facility dermatopathology services provided to medical organizations outside of UCDHS; Sales tax was not reported and remitted for skin product sales over the past five fiscal years; Charges were not submitted for some clinic visits; and Charge lag has deteriorated due to late encounter closing from a few physicians.

Our detailed observations and recommendations are presented within the body of this report along with corresponding corrective actions management has agreed to implement.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

1. Business Agreements

Contracting process for dermatopathology services to medical organizations outside of UCDHS can be improved.

We identified arrangements without formalized business agreements with two healthcare clients that dermatopathology invoiced on a monthly basis for services rendered and two healthcare clients with business agreements that did not cover all the dermatopathology services provided. In the past, most of the business arrangements were informally established through phone calls and emails. For FY 2013, we identified arrangements without formalized business agreements with two healthcare clients charged approximately $2,000 for dermatopathology services rendered.

UC Davis Policy 330-05, Administrative Business Agreements, establishes that agreements for revenue and expense related activities at or for the UCDMC and the School of Medicine are processed by the UCDHS Contracts office. The initiating department is responsible for ensuring that all terms and conditions of the business agreement are processed and documented.

Recommendation

Dermatopathology should work with Health System Contracts to update pre-existing business agreements with the current service requirements and pricing structure, and establish a process to initiate requests with Health System Contracts to formalize new business agreements for statement-billed healthcare clients and maintain a record archive of these business agreements.

Management Corrective Action

Dermatopathology has initiated a request with Health System Contracts to update pre-existing business agreements with the current services and pricing structure.

Dermatopathology has also established a process to initiate requests with UCD Health System Contracts to formalize new business agreements that detail pricing structures and discount rates for statement-billed healthcare clients and maintain a record archive of the business agreements.

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2. Sales Tax

Sales tax reporting process for skin products can be improved.

Taxable and nontaxable sales generated from Dermatology skin products were not reported and sales tax was not remitted to the California Board of Equalization. Sales tax reporting responsibility was not clearly defined for Dermatology. Over the past five fiscal years, Dermatology clinic generated approximately $300,000 in cosmetic product sales and total projected sales tax liability was about $20,000.

Board of Equalization Publication 45, Hospitals and Other Medical Facilities, establishes that retailers of tangible personal property are required to report and pay tax unless an exemption such as sales of medicine applies. Sales of property other than medicine that are intended to be used after the patient has left the hospital are taxable sales that must be reported and paid. UCOP Accounting Manual T-182-73, Sales and Use Tax, establishes that all California retailers are liable for sales tax for the privilege of making the sale of any tangible personal products.

Recommendation

Dermatology should coordinate with UC Davis Tax Reporting & Compliance to report prior years underreported gross receipts and sales.

Dermatology should establish processes to ensure sales that are subject to and exempt from sales tax are tracked and reported to UC Davis Tax Reporting and Compliance.

Dermatology should establish a process to notify vendors when purchases are for resale purposes and as a result the vendor should not apply sales tax to invoices for such purchases.

Management Corrective Action

Dermatology will coordinate with UC Davis Tax Reporting & Compliance to report prior years underreported gross receipts and sales by November 15th, 2014.

Dermatology will establish a process to track and maintain sales tax collected data as part of the sales process by January 15th, 2014.

Dermatology will establish a process to report sales tax for taxable sales and the related tax liability to UC Davis Tax Reporting and Compliance by January 15th, 2015.

Dermatology will establish a process to prepare and submit a resale declaration (ie: resale certificate) to vendors for goods purchased for resale to stop the imposition of sales tax from the respective purchases for resale by October 1st, 2014.

3. Clinic Visit Charges

Charge submission process for clinic visits could be improved.

Charges were not submitted for all completed clinic visits. UCD Administrative Responsibilities Handbook requires each department to ensure that all financial transactions are recoded accurately in a timely manner.

We developed data-mining procedures to compare completed hospital-based clinic visits with submitted pro-fee charges and technical charges respectively. Due to inherent differences in billing rules by payers for physician services, not all completed hospital-based clinic visits are chargeable and as a result our data-mining procedures could not eliminate false positives. Instead, a detailed review of each medical record was required to assess whether services not charged but should have been or were in fact not chargeable. Therefore, Centralized Coding Unit (CCU) and Dermatology agreed to assist us through their manual review of medical records to confirm if charges were truly missing.

Our data-mining logic script compared 20,529 clinic visit records against technical charge records from Jan 2013 to Nov 2013 and identified 42 visit encounters not matched against technical charge records submitted as of the date of testing (1/3/2014). The Dermatology Coder and CCU verified that these visits should have had a technical charge submitted. Estimated technical charges for the 42 visits were about $17,000 in total. Additionally, 31 of these visit encounters also were missing an estimated $5,000 in pro-fee charges as determined by the Dermatology Coder and CCU.

For pro-fee charges, our data-mining logic script compared 20,836 clinic visit records against pro-fee charge records from Jan 2013 to Nov 2013. The data-mining logic script result yielded 671 clinic visits not matched to pro-fee charge records, but this result contained false positives where there would not be a corresponding pro-fee charge to the visit due to certain payer billing rules or missing documentation. We sampled 20 of the 671 visit population to review with the Dermatology Coder's assistance and determined 5 of the visits were missing pro-fee charges due to late or inadequate physician documentation. Estimated missing pro-fee charges for the 5 clinic visits were about $1,800.

This risk may affect other departments within UCDHS but no additional procedures were performed to assess the organization-wide potential impact.

Recommendation

Centralized Coding unit should investigate the feasibility of establishing a process to review completed visits from the EMR schedule with submitted charges on a daily basis to ensure charge completeness and apply the change throughout the organization where applicable.

Management Corrective Action

Centralized Coding unit has established a simple cost effective process to review completed visits from the EMR schedule with submitted charges on a daily basis to ensure charge completeness and apply the change throughout the organization where applicable.

4. Charge Submission Timeliness

Timeliness of charge submission process can be improved.

Dermatology charge lag days deteriorated over the past two fiscal years. Late encounter closing from a few physicians contributed to most of the charge lag deterioration. UCD Hospital Policy and Procedures 1205, Outpatient Charge Submission, requires the submission of charges within 5 working days of receipt of a closed encounter from a provider of care. For FY 2013, 82% of the clinic pro-fee charges in the amount of about $11 million were submitted past 5 days of the encounter.

Recommendation

We recommend Dermatology coordinate with selected physicians and explore staffing opportunities and patient scheduling opportunities on a case by case basis to help control the charge lag days.

Management Corrective Action

Dermatology will coordinate with selected physicians and explore staffing opportunities and patient scheduling opportunities on a case by case basis to help control the charge lag days by September 15th, 2014.

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