



**CITY OF COLORADO SPRINGS
OFFICE OF THE CITY AUDITOR**

**10-20 MEMORIAL HEALTH SYSTEM
ACCOUNTS RECEIVABLE MANAGEMENT**

PUBLIC REPORT

NOVEMBER 18, 2010

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Office of the City Auditor

Public Report

Date: November 18, 2010

To: Honorable Mayor and Members of City Council
Members of the Memorial Health System Audit Committee
Members of the Memorial Health System Board of Trustees

Re: 10-20 – Memorial Health System Accounts Receivable Management

We performed an audit of the Memorial Health System (Memorial) accounts receivable management techniques for the fifteen-month period ended March 31, 2009.

The purpose of this audit was to review Memorial's management of accounts receivable to determine the effectiveness of the collection process and its effect on patient receivables and revenues as measured by organizational goals.

During the audit period, Memorial averaged 52 days in net accounts receivable. Net accounts receivable days is a measure of how long it takes Memorial to collect its accounts receivable from its patients, including Medicare and Medicaid patients. A lower number of days to collect accounts receivable is better for Memorial's cash flows. See the graph on page 4 for details on Memorial's days in net accounts receivable during the audit period.

We conclude that overall the collection process and its effect on patient receivables and revenues was meeting organizational goals. However, during the course of our audit, we did identify areas where we believe internal controls could be strengthened. These areas are listed on the pages that follow.

As always, feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Denny Nester".

Denny Nester
Interim City Auditor

cc: Dr. Larry McEvoy II, Chief Executive Officer
Mike Scialdone, Chief Financial Officer
Tracy Narvet, Controller
Cindi DeBoer, Associate Administrator of Patient Finance
Rhonda Johnson, Director of Patient Financial Services
John Wyckoff, Compliance Officer

INTERIM CITY AUDITOR DENNY NESTER, MBA CPA CIA CGFM CFE CGAP

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Abbreviations and Acronyms used in the Report

| | |
|----------|---|
| EBO | Extended Business Office |
| HFMA | Healthcare Financial Management Association |
| HIS | Hospital Information System |
| IS | Information Services Department |
| Memorial | Memorial Health System |
| PFS | Patient Financial Services Department |

Introduction

AUTHORIZATION

We performed an audit of Memorial Health System's (Memorial) accounts receivable management techniques for the 15 month period ended March 31, 2009. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705, 706, Part 709 (B) and (C), in addition to Chapter 13, Article 1, and Part 103 which state:

1.2.703: ENSURE PUBLIC ACCOUNTABILITY:

The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.

1.2.705: DETERMINE EFFECTIVENESS AND EFFICIENCY OF PROGRAMS:

The City Auditor shall determine the extent to which legislative policies are being efficiently and effectively implemented by administrative officials. The City Auditor shall determine whether City programs are achieving desired objectives. The City Auditor shall review the administrative control systems established by the enterprises, department, or group managers and by the City Manager, Utilities Executive Director, and Memorial Hospital Executive Director and determine whether these control systems are adequate and effective in accomplishing their objectives.

1.2.706: EXAMINE BOOKS, RECORDS:

The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision, and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper, or record in the custody of that person or public official.

1.2.709: MAKE PERIODIC REPORTS TO COUNCIL:

The City Auditor shall make periodic reports to Council which shall include the following:

- B. Information of proposals deemed expedient in support of the City's credit, and recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management;
- C. Matters concerning the effectiveness and efficiency of the programs and operation of the City;

Introduction

13.1.103: ENTERPRISE STATUS; FUNDS; CITY ATTORNEY; CITY AUDITOR:

- C. In accord with the provisions of chapter 1 of this Code, the City Auditor shall have those duties and responsibilities imposed by City Council to ensure the public accountability of Memorial Health System.

ORGANIZATIONAL PLACEMENT

The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council. The audited entity in this audit, Memorial, is an enterprise of the City of Colorado Springs under the direction of its Chief Executive Officer. The Chief Executive Officer reports to the Memorial Board of Trustees, who are appointed by the City Council.

SCOPE AND METHODOLOGY

The purpose of the audit was to determine the effectiveness of the collection process and its effect on patient receivables and revenues as measured by organizational goals. Our audit covered the fifteen-month period ended March 31, 2009.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. The audit included interviews with appropriate personnel and included such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.

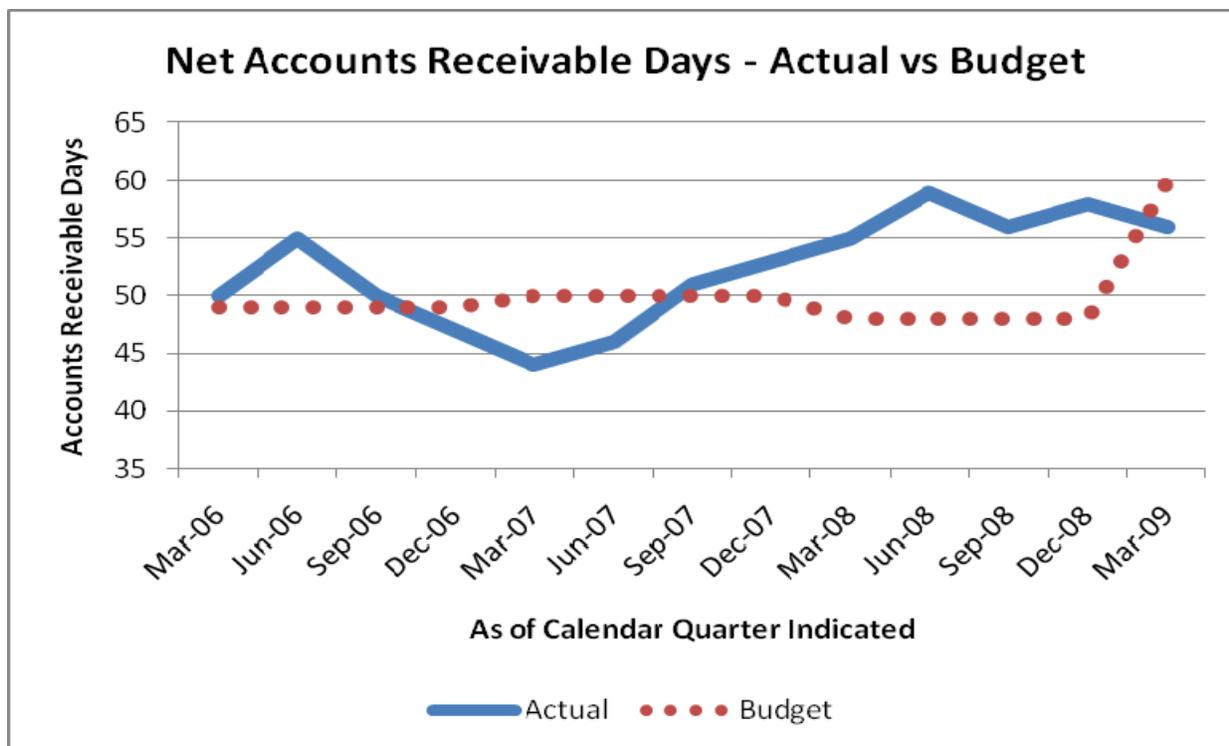
BACKGROUND

According to Memorial's Patient Financial Services Department (PFS), Memorial billed 622,673 claims in 2008 totaling \$1,701,347,363. Per the audited financial statements, Memorial had 30,357 admissions in 2008 and 519,475 outpatient visits. Patient service revenue, net of contractual adjustments was \$592,637,000 in 2008, 11% higher than 2007 per the 2008 audited financial statements. As of December 31, 2008 and 2007 Memorial's patient receivables, net of an allowance for doubtful accounts were \$104,813,000 and \$103,817,000, respectively.

During the audit period Memorial averaged 52 days in net accounts receivable. Net accounts receivable days is a measure of how long it takes Memorial to collect its accounts receivable from its patients, including Medicare and Medicaid patients. A lower number of days to collect accounts receivable is better for Memorial's cash flows.

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The following graph shows Memorial's actual net accounts receivable days compared to budget for the quarters ended March 2006 through March 2009. The data for the period March 2006 to December 2008 is being shown for historical purposes only.



OVERALL OPINION

We conclude that overall the collection process and its effect on patient receivables and revenues was meeting organizational goals. During the course of our audit, we did identify areas where we believe internal controls can be strengthened.

FOR THE FUTURE

Memorial plans to implement an extended business office (EBO) during early 2011. In general, an EBO handles early-out collections through letters, contacts and rebilling. Memorial's request for proposal for the EBO stated that Memorial will select a business partner to assist the facility in management of the patient balance accounts receivable for all self pay and balance after insurance inpatient and outpatient accounts, which will involve collections, resolving patient balances, and may include the completion of charity documents. The implementation of an EBO is a significant change to Memorial's PFS operations. We plan to conduct an audit of the EBO implementation during 2011.

We have made no determination as to which findings are more important than others. Therefore, the findings are not necessarily listed in order of importance.

Findings, Recommendations, and Responses

1. Individuals had unnecessary access to the Hospital Information System.

Only those individuals who require access to Hospital Information System (HIS) mnemonics to complete a job function should be granted access in accordance with Memorial's Information Systems (IS) policy *001 Electronic Information Systems Security*. HIS mnemonics allowed users to access certain functions within the system. During the audit, we reviewed all users with access to three HIS mnemonics which allowed the user to make changes to certain financial aspects of a patient's account. Individuals with this access could mistakenly or intentionally make changes to financial aspects of patient accounts including payments, adjustments, and/or payment plans.

We noted the following exceptions during our review of HIS user access:

- Of the 170 individuals who had access to an HIS mnemonic that allowed the user to make changes to the patient's payment plan, there were 67 users who had access which was unnecessary to complete their job function. Access violations included:
 - Four employees who terminated employment with Memorial as far back as February 2002,
 - Seven IS employees, and
 - 56 other individuals who did not need access to complete a required job function.
- Of the 133 individuals who had access to an HIS mnemonic that allowed the user to post payments and adjustments to a patient's account, there were 13 users who had access which was unnecessary to complete their job function. Access violations included:
 - One employee who terminated employment with Memorial during August 2008,
 - Three IS employees, and
 - Nine other individuals who did not need access to complete a required job function.

According to Memorial's IS policy *Disabling User Accounts Following Termination*, Windows and HIS accounts are to be disabled upon departure, the end of the last day the employee worked and/or the day the Exit List emailed notification is received. While Memorial had a policy to disable HIS access upon termination, we noted five terminated employees who had access to HIS.

We notified PFS management of the access violations during our review.

Auditor's Recommendation:

We recommend that:

- Memorial review all HIS mnemonic access based on job requirements,
- Disable any mnemonic access for users who do not require such access to perform their job duties,
- Memorial assign a business owner to each HIS mnemonic and require that the HIS mnemonic owner approve any new access granted,
- The business owner of the HIS mnemonic perform periodic reviews of users and their access at least annually, and
- Memorial IS develop and implement a process to ensure that HIS access is disabled in accordance with its IS policy *Disabling User Accounts Following Termination*.

Findings, Recommendations, and Responses

Memorial's Response:

We agree with the recommendations.

- Memorial is in the process of developing a process where IS will work with each HIS department manager to review HIS mnemonic access based on job requirements. The process will include development of a report to be used by the HIS department managers to identify all of the users, the access and validation of what access is required based on job requirements.
- Through the current Security Access Request process, all management is required to approve any mnemonic access to an employee before access is granted. The manager is the business owner of each HIS mnemonic. The process includes a listing of the standard access for each role. There are some mnemonics that are restricted based on training requirements. Once classes have been successfully completed, then the manager requests access based on job requirements.
- MHS Compliance does an audit every six months verifying user access.
- Security access is deactivated which blocks access to all mnemonics. Specific HIS mnemonic user access is deactivated rather than deleting the user all together.
- Memorial has updated the formal policy by including in the "Workforce Security Plan and HIPAA Policy Compliance Document" the process for removing former employees' access to all applications (currently a draft document). The policy process flow states that Human Resources will submit an electronic or voice notification to the IS Security Team requesting both the removal of employee access and the timing of such removal. The IS Security Team will disable all employee access per the requested timing. In order to ensure that all employee access has been removed, a report will be provided identifying any orphaned (non-Memorial provisioned access) accounts. Every six months a report listing employees who have accounts will be generated and validated for any discrepancies based on required HIS access. This group does not have a high turnover rate. We expect the policy and procedures to be implemented by November 1, 2010.

Findings, Recommendations, and Responses

2. Employees had unnecessary access to SearchAmerica.

Memorial utilized the services of SearchAmerica (a part of Experian) to verify patient demographic information, access patient's credit information to determine eligibility for assistance programs and to assess patient's ability to pay. Due to the confidential nature of patient data available through SearchAmerica, we reviewed all users who had access to SearchAmerica.

There were two IS employees who had access to SearchAmerica that allowed the employees to access patient credit information as well as set-up new users on the SearchAmerica system.

We also noted that a PFS employee who terminated employment with Memorial on July 3, 2009 had access to SearchAmerica on July 10, 2009, which was the date we reviewed access. We notified PFS management of this access violation and the inappropriate access was eliminated. Although the terminated employee had access after termination date, the terminated employee could only have access to SearchAmerica's website if logged into Memorial's internal network because of SearchAmerica's Internet Protocol Control System.

Auditor's Recommendation:

We recommend that a new SearchAmerica user type be developed for IS employees that only allows access to set up new users on the system. If a new user type cannot be developed, the activities performed by IS employees in SearchAmerica should be monitored by PFS management. In addition, we recommend that Memorial develop a process to ensure that employee access to SearchAmerica is eliminated upon termination.

Memorial's Response:

We agree with this recommendation.

- We will work with the vendor in order to create a new user type. If the new user type cannot be developed, activities can be traced to the user's id. Each user id is unique, which supports tracking of activities of each user. SearchAmerica can identify who has been using the system. We will work with the vendor to identify reports that will identify user access.
- The vendor has set up functionality that prevents a user from accessing the application after 90 days of not logging into the application.
- Memorial has updated the formal policy by including in the "Workforce Security Plan and HIPAA Policy Compliance Document" the process for removing former employees' access to all applications (currently a draft document). The policy process flow states that Human Resources will submit an electronic or voice notification to the IS Security Team requesting both the removal of employee access and the timing of such removal. The IS Security Team will disable all employee access per the requested timing. In order to ensure that all employee access has been removed, a report will be provided identifying any orphaned (non-Memorial provisioned access) accounts. We expect the policy and procedures to be implemented by November 1, 2010.

Findings, Recommendations, and Responses

3. The Medicare Credit Balance Report was not signed by the Chief Financial Officer or Chief Executive Officer.

On a quarterly basis, Memorial was required to complete and file the Medicare Care Credit Balance Report, CMS-838. The CMS-838 was used to monitor identification and recovery of credit balances owed to Medicare. A credit balance is an improper or excess payment made to Memorial as a result of patient billing or claims processing errors. We reviewed the CMS-838 reports filed by Memorial for the quarter ended March 31, 2009. The CMS-838 reports were not signed in accordance with the Medicare instructions by either the Chief Financial Officer, Chief Executive Officer or Administrator.

Auditor's Recommendation:

We recommend that the Chief Financial Officer or Chief Executive Officer of Memorial sign the quarterly CMS-838.

Memorial's Response:

We agree with this recommendation. While Medicare has accepted the signature of the PFS Director for many years, we have changed our process so that the CFO now signs this report in accordance with Medicare instructions.

Opportunities for Improvement

The following findings are presented in the context of City Code 1.2.709, which instructs the City Auditor to make periodic reports to Council which include “recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management.”

4. Patient Financial Services’ process for reviewing staff write offs of bad debt and charity care could be improved.

Patient Financial Services (PFS) management periodically spot checked bad debt and charity care write offs for compliance with its policies that governed write offs by PFS staff. All write offs were identified on a monthly report available to PFS management. This report detailed the write offs transacted during the month by PFS employee.

The process by PFS management for reviewing staff write offs did not include maintaining documentation of the review. Inappropriate bad debt and charity care write offs may occur and go undetected without a formalized review process that includes documentation to support the review.

Auditor’s Recommendation:

We recommend that PFS improve its process for reviewing staff write offs of bad debt and charity care by implementing a requirement that documentation to support the review be maintained by PFS. This documentation may be made within the Hospital Information System.

Memorial’s Response:

We agree with this finding. Memorial does have a formal process in which a report is generated on all write offs. This report is reviewed on a routine basis on a relevant sample size to ensure appropriateness of the write off. Future procedures will ensure the adequate documentation and retention of the review.

Opportunities for Improvement

5. Patient refunds/credit balances were not processed timely.

We reviewed 39 patient refunds issued during the audit period. Sixteen of the refunds, or approximately 41%, were issued at least six months after the event that created the credit balance.

According to the Healthcare Financial Management January 2004 article *Credit Balance Spotlighting a Little-Known Area of Risk and Opportunity* (the Article), patient account credit balances are created everyday by a variety of factors including contractual adjustments, duplicate insurance or patient payments and full payments by both primary and secondary insurers. According to the Article, financial risks associated with patient credit balances could include Medicare penalties, lost opportunities for billing, misstated profit, misstated accounts receivable, and wasted man-hours processing costs. Not all credit balances require a refund to the patient or insurance company.

During the audit period, Memorial's average count of patient account credit balances was 15,197 with a total value of \$6.1 million. PFS' Overpayment Team of five employees was not able to reduce the number or value of patient credit balances over the audit period. According to the Article, an average hospital employee can resolve 1.5 credit balance patient accounts per hour or 12 per day. At this rate, it would take PFS' Overpayment Team staff of five approximately 268 days to clear the 16,113 credit balance patient accounts that existed as of March 31, 2009. This calculation did not consider the new credit balance patient accounts created each day.

On March 11, 2009, PFS submitted an IS Request for the implementation of CBAS. According to information provided by PFS, CBAS is a web-based credit balance tool designed to help prioritize, score and process credit balances in a highly efficient manner. CBAS identifies credit balances based on root cause, including allowance errors, patient refunds, matching credit/debit postings errors, etc. PFS believes that the implementation of this tool will decrease the total dollar value and count of patient account credit balances. The CBAS implementation is currently in process.

Auditor's Recommendation:

We recommend that PFS implement a strategy to reduce the number and value of patient credit balances in order to process timely patient refunds. The strategy may include prioritization of the CBAS implementation and other processes to ensure refunds are issued timely.

Memorial's Response:

Credit balances occur for a variety of reasons due to the complexity of adjudication of accounts in the healthcare industry. All credit balances are not refunds due to patient or payer and need to be closely reviewed to determine and identify any adjudication errors that could have occurred during processing of the claim.

Opportunities for Improvement

Industry average is one day in credit balances, or for our institution \$4.9 million. It is not unusual for a hospital to carry slightly more than one day's average gross charges in credit balances.

We are in the process of implementing CBAS credit balance software, and we have retained one additional staff member from CDR & Associates with the appropriate expertise to assist us in increasing our efficiency in processing credit balances.