



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

**10-04 – MEMORIAL HEALTH SYSTEM
PATIENT BILLING AUDIT**

PUBLIC REPORT

3/26/2010

Denny Nester, MBA CPA CIA CGFM CFE CGFM
Interim City Auditor

Roy Florey, CIA CISA
Principal Auditor





Office of the City Auditor

Public Report

Date: 03/26/2010

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

Re: 10-04 – Memorial Health System - Patient Billing Audit

We performed an audit of Memorial Health System's patient billing procedures as processed by the Patient Financial Services Department from January 1 to December 31, 2008.

The purpose of this audit was to review the Patient Financial Services Department's policies and procedures including a review of their billing process. We determined compliance with policies and consistency in the performance of procedures. The audit consisted of a sampling of patient bills and we performed attribute testing to determine accuracy according to the patient medical records.

We conclude that overall, the Patient Financial Services Department's policies and procedures were adequate and they consistently complied with them.

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

Sincerely,

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

Denny L. 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
John Wyckoff, Compliance Officer

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Abbreviations Used:

Memorial	Memorial Health System
PFS	Patient Financial Services
HIS	Hospital Information System

Introduction

AUTHORIZATION

We performed an audit of Memorial Health System's (Memorial) patient billing process performed by the Patient Financial Services Department (PFS) from January 1, 2008 to December 31, 2008. 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 through 706.

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.

1.2.704: PERFORM POST-AUDIT:

The City Auditor shall perform a current post-audit of the financial operation of the City government and its enterprises. The City Auditor shall submit reports to Council of periodic audits of each enterprise, department, group, unit, division, or account. The Auditor shall have access to the books and accounts of all City enterprises, groups, departments, administrative officials, or employees charged with the receipt, custody, or safekeeping of public funds.

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.

Introduction

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 Health System, 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 Health System Board of Trustees, who are appointed by the City Council.

SCOPE AND METHODOLOGY

The purpose of this audit was to review the Patient Financial Services Department's policies and procedures including a review of their billing process. We determined compliance with policies and consistency in the performance of procedures. The audit consisted of a sampling of patient bills and we performed attribute testing to determine accuracy according to the patient medical records. The audit covered the period January 1 to December 31, 2008.

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

Per the Patient Financial Services Department (PFS), Memorial Health System (Memorial) billed 622,673 claims in 2008 totaling \$1,701,347,363. Per the audited financial statements, Memorial had 30,096 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. Other operating revenue in 2008, which PFS also processed, totaled \$11,407,000.

Individual departments within Memorial were responsible for entering patient charges in the billing system. Charge capture procedures varied among revenue departments. Once charges were captured into the Hospital Information System, PFS completed the billing process by submitting the bill or claim to the payor for services provided by Memorial. PFS also obtained insurance information, provided financial assistance if needed, provided cost information, financial counseling, and provided referrals to community resources.

Introduction

OVERALL OPINION

We conclude that overall, the Patient Financial Services Department's policies and procedures were adequate and the Department has consistently complied with the policies and procedures. However, during the course of our audit, we did identify one area where we believe internal controls can be strengthened and a couple areas where there are opportunities for improvement.

***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. Memorial did not have a centralized oversight function for charge-capture policies and procedures.

Independent oversight is necessary to provide unbiased assessment of the effectiveness of established policies and procedures; to deter, prevent; to prevent inconsistent policies; and to efficiently implement improvements.

Memorial's charge-capture policies did not provide for an organizational, independent structure to review the effectiveness and timeliness of the overall patient charge process. Finance Charge Policy No. I.OR.G. 8a (1/05) allowed department managers to determine the method used to input charges for their departments, assign appropriate staff member(s) for charge input, and assure staff training. The policy allowed the department manager to decide how to reconcile patient accounts according to the charge method implemented and created by the same manager. Department managers were allowed to establish policies and procedures to audit and monitor charges for accuracy and timeliness.

Although the policy did state minimum standards for charge posting, accountability for the organization's overall charge-capture process did not exist. Consistent procedures to communicate and address timeliness and accuracy issues did not exist, resulting in late patient billings and recurring patient charge errors. Staff resources were used to make repetitive corrections before bills were submitted to payers. Lack of proper coordination hampered efforts to effectively resolve repeat billing errors throughout the organization due to different departmental procedures.

Auditor's Recommendation:

We recommend Memorial establish centralized oversight of all departmental charge-capture policies and procedures in order to increase accountability for the charge-capture process, to improve internal controls, to analyze and implement improvements, to increase timeliness of patient bills, and to effectively resolve common and repetitive patient-charge issues.

Memorial's Response:

We agree with this finding. Memorial Health System will be initiating the implementation of a Revenue Integrity Department in 2010 which will be tasked with maintaining an accurate charge master, assisting the hospital departments with the establishment and accurate use of charges and modifiers, and assisting hospital departments with their charge capture and auditing processes. The Compliance Department will continue to be responsible for auditing certain aspects of the charge process and will report its findings to the Revenue Integrity Department to assist in this effort. Responsibility for ensuring charges are posted accurately and timely and the subsequent monitoring and auditing of such rests with each department as noted in Finance Charge Policy I.OR.G 8a and as noted by the auditor's findings.

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.”

2. A report did not exist that accumulated the quantity and types of charging errors received and corrected by the Patient Financial Services Department.

A method for reporting and monitoring the quantity and types of charging errors corrected by the Patient Financial Services (PFS) did not exist. Absence of user-friendly error reports prevented the use of a performance measurement tool and prevented adequate communication, which could reduce inefficiencies throughout the organization. Quantity and types of errors produced during information gathering and charge-capture process of revenue-generating departments were not documented to detect problem areas. In addition, new billing procedures to improve the process could not be evaluated after implementation.

Although some patient accounts required additional processing by PFS due to system limitations and the complex nature of the process, there were controllable errors that could be avoided or eliminated to improve efficiency and increase timeliness of payments. Controllable, repetitive errors such as incorrect demographic information, missing required data, and duplicate posting of credits corrected by PFS were some examples observed. Since a tracking and reporting method did not exist, effective communication to the originating departments was not consistently performed. Therefore, routine processing errors continued.

Due to the lack of a tracking and reporting tool, information regarding any efforts to correct or improve the billing process was difficult to quantify and measure. Staffing resources required to correct and process repetitive errors were used without an adequate tool to mitigate waste and improve efficiency to the overall billing process. Since many of the corrections needed to be made by the originating department, delivery time of the bill to the payor increased, thereby slowing customer payments to Memorial.

Unless a method is implemented for identifying and tracking errors made during the charging process, the effect of planned initiatives, such as the revenue cycle initiatives stated in the April 2009 Uncompensated Care Final Report by the Uncompensated Care Committee, cannot be quantifiably measured.

Auditor’s Recommendation:

We recommend Memorial review reporting options such as a report writing tool available through the existing software that would provide tracking of corrected patient charge errors in order to measure, communicate, and improve the patient billing process while monitoring progress.

Memorial’s Response:

We agree that a more efficient systematic approach to categorizing and proactively resolving issues that result in the errors needs to be developed. It should be noted that billing errors are reviewed and corrected prior to the bill being sent. While we do not have one report which shows all billing errors, we do have many reports that are available to staff to identify some of the repeated billing errors. In addition, the age and limitations of the current billing system leads

Opportunities for Improvement

to additional process inefficiencies. The upgrade/ replacement of the system is currently under review.

Opportunities for Improvement

3. Reports that measure timeliness of the charging process were not produced for department management to identify areas performing below target levels.

Memorial had not developed a process to identify charging departments who were consistently reporting late. Memorial's goal was to bill all medical charges within four days after a patient is discharged. Late reported charges decrease the chance of collection, decreasing revenues for Memorial. The HIS system contained the information necessary to identify delinquent departments. However such information had not been identified and reported in a manner that allowed for identification of departments consistently reporting charges late.

We understand the Compliance Department created a Late Charges Report that was a part of an update to the Global Charge Policy planned to be rolled out in 2009.

Improved reporting would allow Memorial to measure the timeliness of the patient billing process, increase departmental accountability and revenues.

Auditor's Recommendation:

We recommend Memorial review the capability of the current system to generate a monthly report indicating the number of days to issue patient bills by department. We also recommend Memorial create a process for monitoring improvement and establishing accountability. The Late Charges Report could be a part of that process.

Memorial's Response:

We agree with this finding. Finance Charge Policy I.OR G 8a places responsibility of timely charging on the individual departments. Memorial's charge policy establishes accountability for timely charging with the department heads. A more proactive system to better identify, communicate to and follow up with problematic areas is being developed and will be monitored on a monthly basis.