



SALT LAKE COUNTY AUDITOR'S OFFICE

JEFF HATCH
Auditor

May 12, 2008

Gary Edwards, Executive Director
Salt Lake Valley Health Department
2001 S. State Street, S-2500
Salt Lake City, Utah 84190-2150

Re: Audit of Health Department Accounts Receivable

Dear Gary:

We recently completed an audit of Accounts Receivable for the Health Department. Our audit included an examination of data from the Custom Data Processing (CDP) system, documentation to support transactions for the annual write-off of uncollectible accounts, and controls for collection of delinquent accounts. Due to the recent conversion from Envision to CDP billing system for Environmental Health, the scope of the audit was narrowed to only include the Family Health section.

The lead auditor was James Fire. Larry Decker had administrative oversight of the audit.

The audit consisted of a review of Accounts Receivable operations and included observations and discussions with responsible personnel, as well as compliance and substantive testing of various related Accounts Receivable documentation. For each area audited we addressed the effectiveness of internal controls and processes employed by Accounts Receivable personnel. Our objective was to determine whether operations relevant to areas of our examination were in compliance with applicable Countywide and internal policies. Original records as well as copies and electronic media were used as evidence and verified through physical and electronic examination. Our review of physical records and documents was limited to samples. We did not look at 100 percent of the records. As with all sampling, there is a risk that issues may not be identified.

While, in general, we found internal administrative and system controls to be sufficient, instances were noted where we believe improvements could be made to

strengthen existing controls and procedures. These observations are listed individually in the body of this letter along with our recommendations.

Salt Lake Valley Health Department administers its own accounts receivable program. The following aspects of its operation are noteworthy.

- Revenue recognition is a cash basis method. Encounters, which are billable events, are only recognized as revenue when payments are received. Use of cash basis is common procedure in all County divisions and offices where relatively small fees are collected from the public.
- All month-end billings for self-pay, insurance, Medicaid and Medicare, including assessed late fees, are recognized as revenue only when payments are received at a later date.
- The use of formal accounts such as “Accounts Receivable”, “Allowances for Bad Debts” and a “Bad Debt Expense” does not exist. This complies with Countywide Policy #1220 “Management of Accounts Receivable and Bad Debt Collections”
- All adjustments for late fees, write-offs, and reductions are not directly recorded in AFIN, the County’s financial accounting system. They are recorded as account transactions in the CDP system only.
- The control to compare the accounts receivable aging report to a trial balance account is not possible because an accounts receivable trial balance account does not exist.

Each year, the Fiscal Manager presents the Department of Health Board with a list of accounts to be written-off for their approval. The list includes accounts that were:

- Below a cumulative \$40 balance
- Uncollectible following unsuccessful collection efforts
- In the CDP system for two years

Once approval is given, the patient accounts are adjusted with a reversing entry in the CDP system. The write-off does not affect revenues or expenses in AFIN due to the accounts not reflecting cash transactions.

Write-off of patient accounts has trended downward since 2003 as noted in the following amounts:

2003 - \$64,919
2004 - \$55,055
2005 - \$51,697
2006 - \$25,057

There are several factors contributing to this reduction, most notably the hiring of the current Medical Billing Adjudicator who is responsible for collections. Efforts of the Medical Billing Adjudicator contributed significantly to the success of accounts receivable collections. All who were interviewed expressed appreciation for his professionalism and results.

Health Department I/T personnel stated that a major update to the Family Health application within CDP is in the planning stages. Specific changes in the application are undetermined at this point. However, Oracle Reports will be integrated into the system, a utility that should significantly improve reporting capabilities.

CDP CONTROLS

The CDP system is all inclusive from the first encounter to the final write-off of uncollectible accounts. For accounts receivable, CDP is used to produce aging reports, post payments to patient accounts, calculate and post late fees, record notes of collection efforts, provide frontline warning screens, and download collection files.

The CDP data is stored and maintained in Frankfort, Kentucky with a redundant system operated in LaGrange, Illinois. According to Health Department I/T personnel, patient data is backed up daily and stored off-site to protect data integrity.

A one-time late fee of 10 percent of the outstanding balance is assessed on accounts that are 30 days past due. The late fees are assessed by line item or encounter item, to avoid double billing of late fees. An encounter includes items such as immunizations, tuberculosis and STD screenings. When the patient to whom a late fee has been assessed returns to a clinic for services, a popup screen will notify the frontline staff that the account is overdue and has been charged a late fee. The frontline staff will notify the patient and attempt to collect payment. It is the policy of the Health Department to never deny services, even if a patient's account is over due or in collection.

The Health Department relies on default CDP controls alone without performing regular reviews of data creation, access trends, errors, and checksums that validate totals. Because of this lack of review, users could discover ways around the controls and exploit them, resulting in lower collections and revenues.

The following are findings for this portion of the audit:

- **Monthly CDP encounter-data reconciliations were not performed.**
- **Monthly accounts receivable reconciliations were not performed.**
- **All late fees could not be matched to the original transaction.**
- **Names of cashiers who recorded payments in CDP could not be linked to accounts submitted to the District Attorney's Office for collections or to accounts included in the annual write-off.**

A monthly CDP encounter-data reconciliation was not performed. A monthly reconciliation of encounters to the accounts receivable billing report would improve internal controls. Best business practices use data reconciliations as a means to address the integrity or accuracy of individual data records, including matching the source and reflecting an accurate, valid value. This also encompasses the accounting principle of completeness, which is the inclusion of all information necessary for faithful representation.

A reconciliation of CDP encounter-data helps identify records that may be misclassified, incorrectly billed, incomplete, or lost. Though the data is presumed to be complete because it is in electronic form, data errors can nevertheless be caused by a variety of sources, such as power supply fluctuations, network transmissions, signal conversion noise, or other ambient condition. An example occurred in August 2007 when an entire insurance batch electronically submitted for payment was not received by the insurance company. The batch aged into the 120+ day range, which violated the insurance company's policy of only paying for items billed within 60 days of service.

Under the current CDP system, report templates are not readily available to perform CDP encounter-data reconciliations. Nevertheless, I/T staff indicated that it would otherwise be possible to perform this reconciliation. Also, as noted earlier, CDP is scheduled for a major revision that includes integration of Oracle Reports. This step should make reconciliations easier to perform. A monthly reconciliation of

global CDP encounter data to the accounts receivable billing report, as well as cash collections and adjustments, should be a standard report in Oracle Reports.

RECOMMENDATION:

A monthly CDP encounter-data reconciliation should be performed to identify outstanding items and balance with the accounts receivable billing report, cash collections and adjustments.

Monthly accounts receivable reconciliations were not performed.

Formal reconciliations that use the prior accounts receivable balance and adjusts it for current transactions resulting in a new ending balance, were not performed.

Countywide Policy #1220 "Management of Accounts Receivable and Bad Debt Collection" 5.4 states, "...a supervisor, or second responsible employee, shall review and sign the monthly reconciliation, as a control on the process."

Collection of outstanding accounts receivable is most likely to occur within the first 30 days of service. An accounts receivable reconciliation is useful for identifying outstanding items that are time sensitive. Currently, cash payments recorded in CDP are reconciled to AFIN as recorded revenue. However, other entries such as billings, adjustments, late fees and write-offs are not reconciled to an accounts receivable aging report.

Reliance on CDP to track, report, and age accounts receivable has led to a lack of recognition of the need for an accounts receivable reconciliation process.

An analysis should also be performed to determine the collection ratio, which measures the average number of days it takes to receive payment on accounts receivable. This is helpful to provide immediate feedback on success of collection efforts as opposed to waiting for the annual write-off, which normally occurs during the first quarter of each calendar year.

The monthly collection ratio is calculated:

$$\frac{\text{Current Accounts Receivable Balance}}{(\text{Current Monthly Revenue} / 30 \text{ days})}$$

This ratio indicates the number of days required to collect on unpaid invoices. A higher ratio indicates problems in making these collections. The ratio

can be tailored to specific categories such as self-pay, Medicaid, Medicare, etc., to provide detailed ratios for each category.

RECOMMENDATIONS:

- 1. A monthly accounts receivable reconciliation should be performed to comply with Countywide Policy.**
- 2. An accounts receivable collection ratio analysis should be performed to provide measurement on collection efforts.**

All late fees could not be matched to the original transaction. In our analysis of the electronic database from 2004 to 2007 we found 6,694 lines of data representing late fees only. We matched 6,171 of these to their original transactions using the patient ID number. We also recalculated the 10 percent late fee charge on the original transaction. All of the late fees assessed in these instances were calculated correctly and represented a total late fee dollar assessment of \$12,838.

We traced the remaining 523 late fee line items to their original transaction based on the patient ID number, but the 10 percent late fee could not be recalculated or verified due to the items having multiple lines of payments and adjustments. Therefore, the amount on which the 10 percent was applied was not readily determinable.

The system bases the late fee on the remaining balance after taking into consideration adjustments and payments. Moreover, it populates the late fee "invoice number" column with eight "9's" and does not tie it to a specific original invoice on which the late fee was based. This is a system deficiency that should be addressed and corrected to allow for verification of late fee charges.

Performance of a monthly review and reconciliation of late fees to the original balance would help ensure completeness and accuracy.

Policy #1220 "Management of Accounts Receivables and Bad Debt Collection", section 2.1.5 states, "*Collection policies and procedures adopted by an office or agency of the County must be reasonable and ensure fairness to all debtors.*"

Late fees are designed to encourage payment for services as quickly as possible. A monthly review can ensure that all accounts have been charged accurately in a timely fashion.

Total reliance on the CDP program to identify, calculate and post the late fees to patient accounts without review, may result in late fees not being accurately assessed.

RECOMMENDATIONS:

- 1. Late fees should be reviewed monthly to ensure they are 10 percent of the outstanding account balance.**
- 2. The Health Department should explore ways in which the CDP system can be reformatted to tie separate listings of late fee charge to the original invoice or amount that gave rise to the late fee.**

Names of cashiers who recorded payments in CDP could not be linked to accounts submitted to the District Attorney's Office for collections or to accounts included in the annual write-off. We intended to perform an analysis to determine if there was a correlation between specific cashiers and accounts turned over to the District Attorney's Office or accounts included in the annual write-off.

Countywide Policy #1220 "Management of Accounts Receivable and Bad Debt Collection" states, *"The purpose of this policy is to:...Establish guidelines for the approval, control, and accounting for amounts due Salt Lake County."* Without retaining the cashier ID in the electronic record, this control is compromised.

The CDP system is not programmed to retain the initial cashier identification with the original charge. Dual controls exist that would prevent a cashier from applying charges to a different patient record. This would thwart any skimming scheme to apply charges to a fictitious account or to an account that is in collections.

However, the current CDP system overwrites the user identification with the last user's identification to edit the record. An example is a nurse who may enter test results. Thus, the name of the cashier who originally entered the accounts receivable transaction does not appear in the electronic record.

RECOMMENDATION:

The CDP system should retain logs of users who post charges separate from the last user that accessed the patient's record, including the user ID of the original cashier.

DISTRICT ATTORNEY COLLECTIONS

Accounts that exceed the \$40 cumulative threshold are submitted to the District Attorney's Office for further collection efforts. Countywide Policy #1220 sets a limit of \$50 and 90 days delinquency before an account can be submitted to the District Attorney's Office for collections. However, the Health Department is allowed to submit accounts that are \$40 to the District Attorney's Office.

We had the following finding in this area:

- **Accurate personal information was often not collected from individuals presenting themselves at the City Medical Clinic for services.**

Accurate personal information was often not collected from individuals presenting themselves at the City Medical Clinic for services. We noted that the City Medical Clinic had a higher rate of account write-offs than other clinics. An analysis was performed of self-pay accounts that were submitted to the District Attorney's Office for collections for all clinic locations. The City Medical STD Clinic experienced 1.3 percent of all self-pay accounts representing \$13,422 that were submitted to the District Attorneys Office for collection. This was twice the number of accounts than the next closest clinic of .65 percent, representing \$5,931. Though we were not able to analyze transactions by individual cashier, Health Department personnel explained that the relatively high rate of write-offs was due to the nature of services provided, specifically testing for sexually transmitted diseases.

In October 2006, the Health Department's Management Analyst conducted a review of the STD Program at the City Medical Clinic and addressed efforts to increase collections. The uncollectible accounts were attributed to the significantly higher cost of billable encounters compared to other clinics, the transient nature of

the population served, and the desire of the population to remain anonymous. In the review, it was determined that several policy changes were required.

The first change targeted patients who would provide fictitious names and addresses to remain anonymous, resulting in an uncollectible encounter. A new policy was enacted that required all patients who wished to remain anonymous to pay for all services at the time of the encounter. If the patient wishes to be billed, then verifiable personal information must be provided, such as picture identification with an address.

The new policy also addressed discounts that were provided to patients who had multiple or recurring tests. The discounts were eliminated along with the sliding fee scale and income verification. All STD tests are now charged a set fee for all patients.

The Office Supervisor confirmed that cashiers have internet access on their workstations. Cashiers should confirm address validity by entering the address at the United States Postal Service website at <http://zip4.usps.com/zip4/welcome.jsp>. A bad address will appear on the screen as undeliverable.

In addition, the City Medical STD Clinic Supervisor was unaware of the volume or value of accounts that were turned over to the District Attorney's Office for collection. Without this information, it is unlikely that an emphasis of efforts by the frontline staff to collect valid billing information was shared.

RECOMMENDATIONS:

- 1. A monthly detail report of accounts submitted to the District Attorney's Office for collection should be provided to the Clinic's office supervisor for review.**
 - 2. Frontline staff should use the United States Postal Service website to confirm if an address is deliverable when practicable.**
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In closing, we thank the Health Department staff for their cooperation and assistance during our audit. They were most helpful and prompt in responding to our requests. We trust that implementation of our audit recommendations will lead to more efficient and effective operations. If we can be of assistance to you in the future, please let us know.

Sincerely,

James B. Wightman, CPA
Director of Internal Audit

cc:
Doug Petersen
Jeff Gardner
Lori Burk
Lin Chen
Brian Bennion