

**UT Southwestern**  
Medical Center

**Revenue Cycle – Patient Account Credit  
Balances Audit**

**Internal Audit Report 18:05**

**July 10, 2018**

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# Executive Summary

## Background

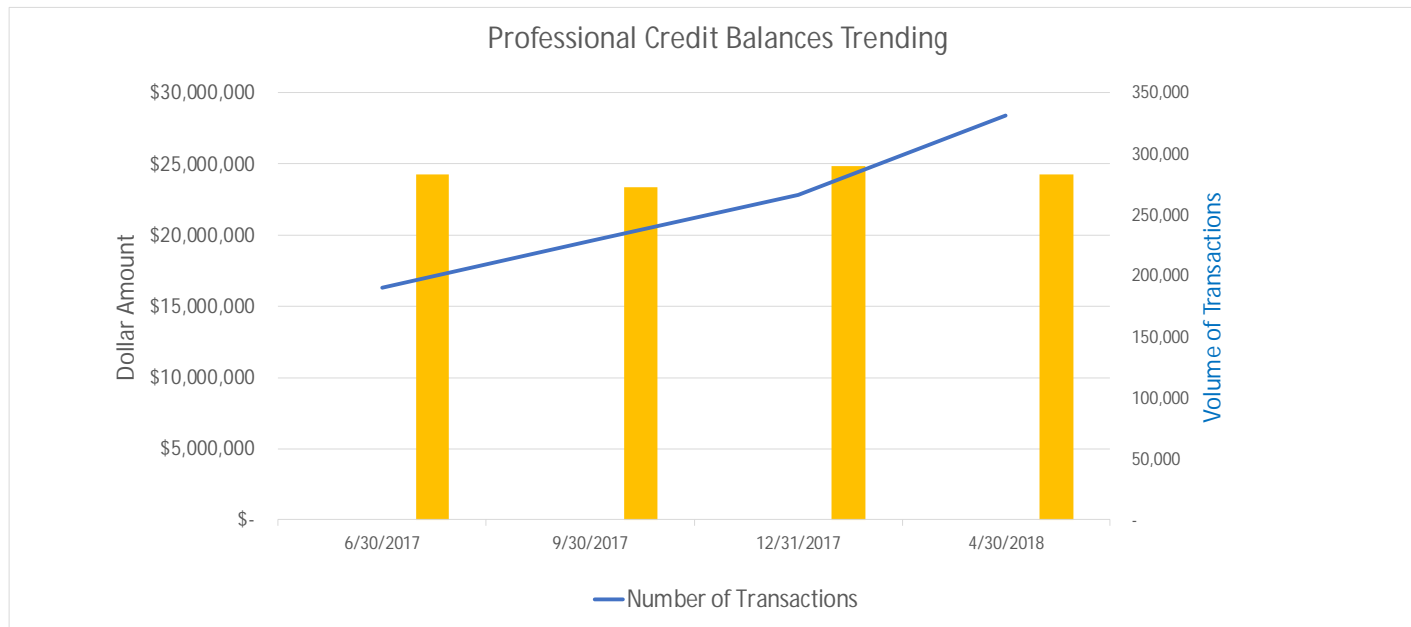
The professional and hospital revenue cycle functions process transactions that may create credit balances due to charge edits on patient accounts, insurance or patient overpayments and incorrect account or contractual adjustments.

Proper management of credit balances is essential to ensure compliance with Medicare and Medicaid regulations, meeting contractual expectations, providing timely refunds and reducing the risk of misappropriation of funds. Ideally, 2% is the standard volume of credit balances as a percentage of total accounts receivable for healthcare organizations. Professional credit balances are 6.4% of total accounts receivable and hospital credit balances are 5.8% of total accounts receivable. Credit balance trending for both hospital and professional accounts receivable are presented below.

The Revenue Cycle Operations team, hospital leadership and clinical department leadership all have responsibilities for managing credit balances. The Epic system is used to track and monitor payments, charges and adjustments. In fiscal year 2014, a patient account credit balance audit was performed covering both professional and hospital revenue cycle operations and management action plans were implemented related to segregation of duties for returned checks, aged credit balance resolution and uniform system security access.

## Professional Credit Balances

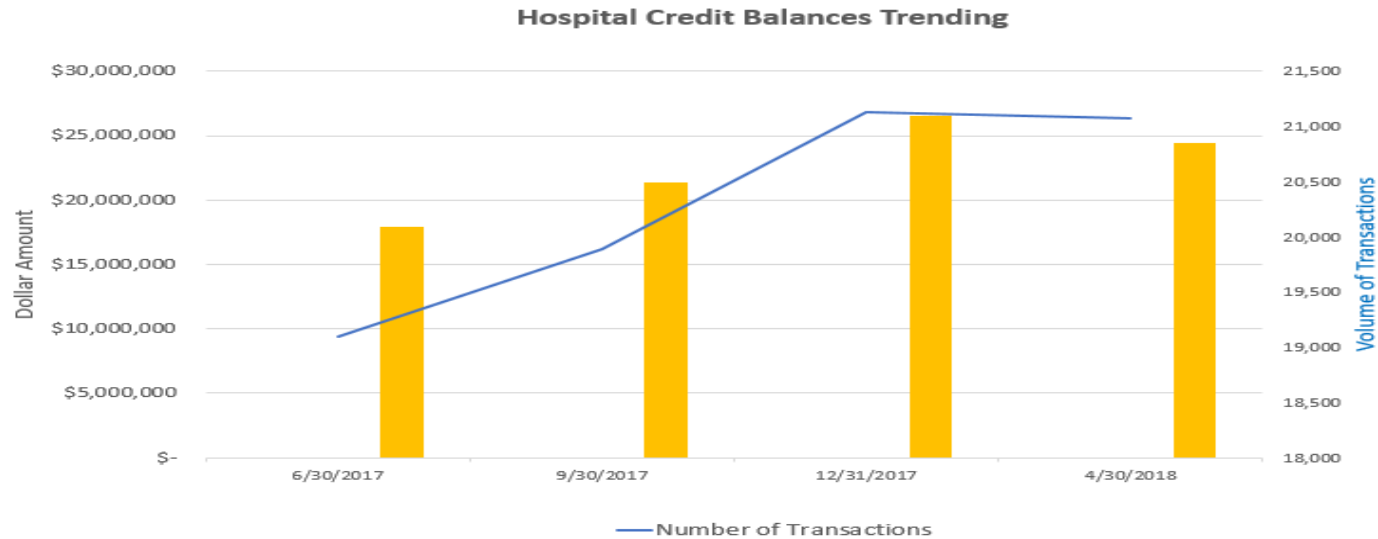
The following graph provides a 10-month professional credit balances trending at approximately every three months from June 30, 2017 to April 30, 2018. Professional credit balances are 6.4% of total accounts receivable as of April 30, 2018.



# Executive Summary

## Hospital Credit Balances

The following graph provides a 10-month hospital credit balances trending at approximately every three months from June 30, 2017 to April 30, 2018. Hospital credit balances are 5.8% of total accounts receivable as of April 30, 2018.



## Scope and Objectives

The Office of Internal Audit has completed its Revenue Cycle – Patient Account Credit Balances audit. This was a risk based audit and part of the fiscal year 2018 Audit Plan. Audit procedures included interviews with stakeholders, analysis of policies and procedures and other related documentation, substantive testing, and data analytics.

The audit scope included credit balances as of April 30, 2018 and transactions during the period of September 1, 2017 to April 30, 2018. Overall audit objectives were to assess the effectiveness and efficiency of operations and programs over the internal controls that ensure achievement of objectives, compliance with key regulations and institutional policies and procedures, safeguarding of assets, and accuracy of reporting were in place for:

- Timely analysis, processing and resolution of credit balance accounts, with appropriate approvals,
- Identifying root causes and trends of credit balances for process improvement,
- Efficient and effective use of system tools to track and manage credits.

We conducted our audit according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

# Executive Summary

## Conclusion

Credit balance account volumes for professional and hospital patient accounts have reduced slightly; however, systemic root causes for producing account credit balances should be addressed to reduce the number of credit balance accounts requiring manual review and resolution. Updating Epic system functionality will improve accurate identification and reduction of credit balance account volumes, enable timely resolution and strengthen regulatory compliance. In addition, work queue management and monitoring should be enhanced to support the timely resolution of credit balances.

The Revenue Cycle Operations leadership team has engaged with Epic Systems and the Medical Center’s Information Resources team to seek expert consultation for evaluation of the current state of the revenue cycle systematic processes and streamlining credit balance management capabilities. The project plan includes Epic updates through December 31, 2018 with continuing review and enhancements over a one year estimated timeline. In addition, the leadership has reorganized resources and devoted additional resources to credit balance review and resolution during this time to manage the credit balance activity.

Included in the table below is a summary of the observations noted, along with the respective disposition of these observations within the Medical Center internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (1)	Medium (1)	Low (1)	Total (3)
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## OBSERVATIONS

1. **Enhance Epic System Revenue Cycle Logic to Decrease Transactions Causing Credit Balances** - Current Epic system rules and logic are contributing to patient account credit balances requiring manual reviews and resolution to determine if actual refunds are necessary, increasing risk for untimely refunds.
2. **Strengthen Process for Creation and Management of Epic System Work Queues** – There are 141 unassigned active credit balance work queues with credit balances, totaling \$2.2M with 52,202 accounts, increasing the risk of untimely review and resolution.
3. **Strengthen Process for Reversing Test Account Balances from Accounts Receivable** – Test account balances in the Epic production environment are not reversed in a timely manner, increasing the risk of inaccurate accounts receivable balances.

Management has plans to address the observations identified in the report and in some cases has already begun implementing corrective actions.

## Executive Summary

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These responses, along with additional details for the key improvement opportunities listed above are in the Detailed Observations and Action Plans Matrix (Matrix) section of this report. Additionally, the audit team, as requested by management, will partner with the Revenue Cycle and Information Resources leadership teams to provide advisory services as the credit balance streamlining project is implemented.

We would like to thank the departments and individuals included in this audit for the courtesies extended to us and for their cooperation during our audit.

Sincerely,

Valla F. Wilson, Associate Vice President for Internal Audit, Chief Audit Executive

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## Executive Summary

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## Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p><b>Risk Rating: High</b> 🚩</p> <p><b>1. Enhance Epic System Revenue Cycle Logic to Decrease Transactions Causing Credit Balances</b></p> <p>Current Epic system rules and logic are creating a large volume of credit balances that require manual labor-intensive processes, resulting in delays in resolving credit balances and the risk of understatement of accounts receivable and revenue. In addition, compliance and reputational risks increase when refunds are not processed timely.</p> <p>As of April 30, 2018, professional patient account credit balances were 6.4% (\$25M) of the accounts receivable balance. The industry standard for healthcare organizations is 2%. Below are examples of the types of transactions creating credit balances requiring manual review and resolution:</p> <ul style="list-style-type: none"> <li>- \$11M due to undistributed payments from payors (i.e., payments not matched to charges),</li> <li>- \$8.7M due to overposted debits, which are charge corrections after billed to insurance, resulted in payer contractual adjustments and cash posted in excess of charges which require manual review and resolution.</li> </ul>	<ol style="list-style-type: none"> <li>1. Re-evaluate and enhance the Epic system revenue cycle modules logic to ensure the appropriate identification of credit balances. The Epic improvements should align with the Medical Center's goals and objectives and with industry standards and practices.</li> <li>2. Update procedures with the revised credit balance processes and procedures, including methods for escalating, when necessary.</li> <li>3. Provide training on the new processes to ensure new procedures are working as intended.</li> </ol>	<p><b><u>Management Action Plans:</u></b></p> <ol style="list-style-type: none"> <li>1. Revenue Cycle and Information Resources are working together to develop and implement a project plan with priorities identified and key milestones. Weekly meetings will be held to monitor progress.</li> <li>2. Update procedures to align with the revised processes.</li> <li>3. Training will be performed for impacted revenue cycle employees on the new processes.</li> </ol> <p><b><u>Action Plan Owners:</u></b></p> <p>Associate Vice President, Revenue Cycle Operations            Director, Revenue Cycle Operations            Director, Revenue Cycle &amp; Business Systems</p> <p><b><u>Target Completion Dates:</u></b></p> <ol style="list-style-type: none"> <li>1. December 31, 2018, with further optimizations as needed through August 31, 2019</li> <li>2. December 31, 2018</li> <li>3. December 31, 2018</li> </ol>



## Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Hospital patient account credit balances were 5.8% (\$25M) of the accounts receivable balance and are primarily due to coordination of benefits issues, managed care payor contract management and transplant billing arrangements.</p>		
<p><b>Risk Rating: Medium <span style="color: yellow;">n</span></b></p> <p><b>2. Strengthen Processes for the Creation and Management of Epic System Work Queues</b></p> <p>As of June 2018, there were 141 unassigned active credit balance work queues, totaling \$2.2M with 52,202 accounts. Credit balance work queues are set up to assign responsibility for reviewing and resolving credit balance accounts. Unassigned work queues were not reviewed and resolved timely.</p> <p>Original creation of these work queues were either system generated to monitor a specific group of accounts or unassigned since initiation.</p>	<ol style="list-style-type: none"> <li>1. Determine which work queues are necessary and assign supervisors for all active work queues.</li> <li>2. Develop a method, such as a work queue flag, that provides the reporting of active work queues without an assigned Supervisor and inactive work queues containing transactions. Develop a standard operating procedure for limiting the creation of work queues.</li> <li>3. Revenue Cycle Operations leadership team should implement monitoring controls to review work queue reports on a periodic basis and request updates as necessary.</li> </ol>	<p><b><u>Management Action Plans:</u></b></p> <ol style="list-style-type: none"> <li>1. We will assign supervisors to all active work queues.</li> <li>2. Optimize work queues by purpose to reduce the overall number. Develop guidelines for work queue creation to limit the creation of unneeded work queues.</li> <li>3. Monitor work queues monthly to ensure appropriate assignment and aging of the work queues.</li> </ol> <p><b><u>Action Plan Owners:</u></b></p> <p>Associate Vice President, Revenue Cycle Operations Director, Revenue Cycle Operations Director, Revenue Cycle &amp; Business Systems</p> <p><b><u>Target Completion Dates:</u></b></p> <ol style="list-style-type: none"> <li>1. September 30, 2018</li> <li>2. February 28, 2019</li> <li>3. September 30, 2018</li> </ol>

## Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p><b>Risk Rating: Low</b> <span style="color: green;">n</span></p> <p><b>3. Strengthen Process for Reversing Test Account Balances from Accounts Receivable</b></p> <p>Test account balances in the Epic production environment are not reversed timely, resulting in inaccurate accounts receivable balances and revenue.</p> <p>As of June 25, 2018, a \$9,185 test charge, created in January 2017, was included in active accounts receivable. This charge had not been reversed from active accounts receivable. Monitoring is not in place for timely reversal of these charges, and test account charges entered by users do not have a dollar amount limit.</p> <p>This observation was previously included in the Internal Audit 2014 patient account credit balances audit and Deloitte audit as part of Fiscal Year 2017 year-end accounts receivable testing.</p>	<ol style="list-style-type: none"> <li>1. Avoid potentially overstating accounts receivable by reversing test account charges timely. This includes providing refresher training for those who create test charges and monthly monitoring to ensure charges are reversed timely.</li> <li>2. Evaluate the feasibility of limiting test accounts in the Epic production environment and restricting testing to the test environments.</li> </ol>	<p><b><u>Management Action Plans:</u></b></p> <ol style="list-style-type: none"> <li>1. Test charges will be identified and reversed in the system on a monthly basis.</li> <li>2. Identify users who create test accounts and provide refresher training on timely resolution of test accounts.</li> </ol> <p><b><u>Action Plan Owners:</u></b></p> <p>Director, Revenue Cycle &amp; Business Systems</p> <p><b><u>Target Completion Dates:</u></b></p> <ol style="list-style-type: none"> <li>1. September 30, 2018</li> <li>2. October 31, 2018</li> </ol>

## Appendix A – Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The intention of the following chart is to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

<p><b>Risk Definition</b> The possibility that an event will occur that will impact an organization's achievement of objectives</p>	<p><b><u>Degree of Risk and Priority of Action</u></b> The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.</p>	
	<b>Priority</b>	An issue identified by Internal Audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
	<b>High</b>	A finding identified by Internal Audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.
	<b>Medium</b>	A finding identified by Internal Audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action is needed by management in order to address the noted concern and reduce the risk to a more desirable level.
	<b>Low</b>	A finding identified by Internal Audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the subsequent pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions. It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.

## Appendix B – Revenue Cycle Process Map

The following process map details the revenue cycle process and highlights patient credit balances within the process.

Revenue Cycle Process Map

