

# INTERNAL AUDIT REPORT

2011-13

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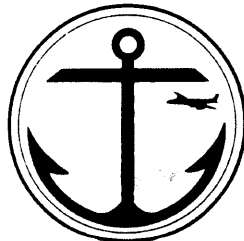
Community Health Service Division  
Billing and Collection Follow-up

Department of Health and Human Services

November 29, 2011

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*Mayor Dan Sullivan*

November 29, 2011

Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2011-13, Community Health Service Division Billing and Collection Follow-Up, Department of Health and Human Services** for your review. A brief summary of the report is presented below.

In accordance with the 2011 Audit Plan, we have completed an audit of the Community Health Service Division Billing and Collection Follow-Up. The objective of this audit was to conduct a follow-up audit to determine the effectiveness of corrective action taken by the Department of Health and Human Services on the deficiencies contained in Internal Audit Report 2010-08. Specifically, we reviewed billing and collection procedures, reviewed selected accounts receivable, examined Explanation of Benefits forms, and evaluated internal controls over client billing and payment collection.

Based on our review, we determined that management action taken in response to the 2010 audit significantly improved the majority of the issues identified. Our follow-up audit revealed that action taken by Department of Health and Human Services personnel has corrected five of the nine deficiencies. However, we found that further management action is still required to improve follow-up of aged billings, the use of collection agencies for unpaid bills, segregation of duties and documentation of client income for determining charges for clinic services.

Management was generally responsive to the follow-up findings and recommendations.

A handwritten signature in black ink, appearing to read "Peter Raiskums".

Peter Raiskums, CIA, CFE  
Director, Internal Audit

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*Mayor Dan Sullivan*

November 29, 2011

**Internal Audit Report 2011-13  
Community Health Service Division Billing and Collection Follow-Up  
Department of Health and Human Services**

**Introduction.** We performed an audit of the billing and collection procedures at the Community Health Services Division (Division) and issued Internal Audit Report 2010-08 on September 2, 2010. To assess the effectiveness of corrective action, we were requested to perform a follow-up audit in 2011. This report contains the results of the follow-up audit.

The Division is part of the Department of Health and Human Services (Department). The Division focuses on the health of the community and provides preventive health care services including immunizations, family planning services, testing and treatment of sexually transmitted infections, breast and cervical health screening, communicable disease investigations, and tuberculosis control. Clients are charged for services by the various clinics and the charges are discounted based on income and family size.

In 2010, the Division had 22,544 visits from 14,430 clients resulting in charges of \$2,577,570 which was adjusted to \$690,663 after the discount based on income and family size was applied. Total program revenue collected in 2010 was \$399,963.

**Objective and Scope.** The objective of this audit was to conduct a follow-up audit to determine the effectiveness of corrective action taken by the Department on the deficiencies contained in Internal Audit Report 2010-08. Specifically, we reviewed billing and collection procedures, reviewed selected accounts receivable, examined Explanation of Benefits forms, and evaluated internal controls over client billing and payment collection.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of July through August 2011. The audit was requested by the Assembly.

**Overall Evaluation.** Management action taken in response to the 2010 audit significantly improved the majority of the issues identified. Our follow-up audit revealed that action taken by Department personnel has corrected five of the nine deficiencies. However, we found that further management action is still required to improve follow-up of aged billings, the use of collection agencies for unpaid bills, segregation of duties and documentation of client income for determining charges for clinic services.

## **AUDIT FINDINGS FOLLOW-UP**

1. **Prior Finding: Billing Procedures Need Improvement.** Follow-up action was not taken if payment or a response was not received for bills sent to private organizations, Municipal Departments, insurance companies, Medicaid or Medicare (third party payers).
  - a. **Corrective Action.** Our review of 20 recent billings to third party payers revealed that follow-up action had been taken for all 20 billings. However, we found that accounts receivable older than six months for insurance companies doubled from \$20,631 in 2010 to \$42,072 in 2011.
  - b. **Evaluation of Corrective Action.** Partially effective. Although current billings are managed and follow-up action is taken if required, prior billings still need to be reviewed and followed-up on. According to Department personnel, limited staff has resulted in inadequate time to work on aged accounts receivable.

- c. **Recommendation.** The Department Director should consider providing sufficient staff to process accounts receivable in a timely manner. If staffing is not available, the Director should consider contracting out the billing and collection of accounts receivable.
  - d. **Management Comments.** Management stated, “We concur with Internal Audit’s evaluation of corrective action, in that there is still more follow-up action that needs to take place related to account receivables older than six months. We are considering ways that we might provide more adequate staffing. Billing and collection of accounts receivable is AMEA work.”
  - e. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
2. **Prior Finding: Individual Clients Haphazardly Billed.** Clients were not always billed for the services provided by the Division.
- a. **Corrective Action.** Our review of client charges revealed that clients have been billed properly for services received.
  - b. **Evaluation of Corrective Action.** Effective.
  - c. **Recommendation.** Not required.
3. **Prior Finding: Collection Agency Not Used.** Delinquent accounts receivable were not sent to a collection agency.
- a. **Corrective Action.** While the Department Director did consider the use of a collection agency as we recommended, the policy to not use a collection agency was

continued and delinquent accounts were written off without being referred to a collection agency.

- b. **Evaluation of Corrective Action.** Not effective.
  
- c. **Recommendation.** To maximize revenue generated from services provided by the clinics, the Department Director should require that unpaid client bills be referred to a collection agency.
  
- d. **Management Comments.** Management stated, “In the past, the department has considered sending clients with delinquent accounts to collections; however, the nature of some of the services that the Public Health Departments Clinical Services provide is very sensitive in nature and could potentially place clients in harmful or difficult situations. It was strongly recommended by one of Clinical Services largest grant supporters that in order to maintain confidentiality and keep confidence in our clients, that we not send client accounts to collection. We have looked this year to see if any of our clients would potentially be able to be sent to collections, but have been unsuccessful in arriving at a solution that would 100% protect our vulnerable clientele. We have implemented a payment plan system for individuals unable to pay their bills at check-out and this has already shown an improvement in our collection ability. We have also placed uncollected ‘written-off’ amounts into client notes on their accounts for those individuals who continue to see us and may be able to in the future pay the amount that was considered ‘written off.’”
  
- e. **Evaluation of Management Comments.** Management comments were partially responsive to the audit finding and recommendation.

4. **Prior Finding: Delinquent Accounts Not Always Transferred.** Delinquent client accounts receivable with no activity in 12 months were not always transferred to a suspense account as required by the Division's Policies and Procedures (P&P) 05-1, *CHS Billing and Collection*.
  - a. **Corrective Action.** The Division revised P&P 05-1 in 2010 to change the absence of activity for delinquent client accounts from 12 months to three consecutive months and transferred delinquent client accounts totaling \$173,926 to a suspense account from September 2010 through July 2011.
  - b. **Evaluation of Corrective Action.** Effective. Although Division personnel are now transferring delinquent client accounts receivable to a suspense account if there has been no action in three months, we question whether some of the accounts could have been collected with more effective billing and collection practices.
  - c. **Recommendation.** Not required. See recommendation 1.
  
5. **Prior Finding: Aging Report Distorted.** The accounts receivable aging report contained both credit and debit entries, distorting the accounts receivable total.
  - a. **Corrective Action.** Even though management responded that a separate accounts receivable report would be developed that did not include credit balances, this report has not yet been developed. However, the current accounts receivable report only contained \$995 in credit entries, down from about \$13,000 in 2010, minimizing the need for a separate report.
  - b. **Evaluation of Corrective Action.** Effective.
  - c. **Recommendation.** Not required.

6. **Prior Finding: Payment Plans Not Monitored.** Payment plans established to allow clients to make payments for the incurred charges were not always monitored to ensure that payments were made as required.
  - a. **Corrective Action.** Our audit revealed that payment plans are now entered into the accounts receivable system and are monitored monthly to ensure that payments are received as required.
  - b. **Evaluation of Corrective Action.** Effective.
  - c. **Recommendation.** Not required.
  
7. **Prior Finding: Lack of Segregation of Duties.** There was a lack of segregation of duties between billing, collecting, recording and depositing cash collected.
  - a. **Corrective Action.** Our audit revealed that there still was a lack of segregation of duties. While some improvement has been made, one employee still performed most of the billing, applying payments to accounts for payments received by mail, and the preparation of deposits.
  - b. **Evaluation of Corrective Action.** Not effective.
  - c. **Recommendation.** To reduce the risk of error and/or misappropriation of cash receipts, the duties of billing and the processing of payments and deposits should be assigned to different employees.



- d. **Management Comments.** Management stated, “We concur with Internal Audit’s recommendation for corrective action. Since the audit follow-up, we have written into the PC Tech II position description the duty of processing daily deposits. This will spread the segregation of duties to be between 4 individuals.”
        - e. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
- 8. **Prior Finding: Insight Billing System Not Approved.** We were not able to find documentation that approved the Department to use the Insight billing system to manage accounts receivable instead of the PeopleSoft Accounts Receivable System.
  - a. **Corrective Action.** Approval was obtained in 2010 from the Chief Fiscal Officer to use the Insight billing system.
  - b. **Evaluation of Corrective Action.** Effective.
  - c. **Recommendation.** Not required.
- 9. **Prior Finding: Additional Policies and Procedures Needed.** The Division did not have a written P&P to verify a client’s income when determining charges for services.
  - a. **Corrective Action.** Our audit revealed that desktop procedures have been developed outlining what should be done when determining income. However, the desk procedures do not require that clients provide documentation to verify income. According to Program Instruction 08-01, *Verification of Income for Title X Clients*, the Municipality can use discretion in determining the extent of income verification based on what they believe is appropriate.

- b. **Evaluation of Corrective Action.** Partially effective. Although we understand that some clients, such as teenagers, may not be able to provide documentation of their income, most clients should provide some documentation.
- c. **Recommendation.** Division desk procedures should be revised to include the requirement for clients to provide some documentation to verify their income when determining charges for services.
- d. **Management Comments.** Management stated, “We concur with Internal Audit’s recommendation for corrective action. Since the audit follow-up, we have created a plan to implement income verification for those 20+ when determining charges for clinic services. Notice to clients of the coming change will begin immediately through letters at check-out and signage within the clinic and on our website. The policy will go into effect in January 2012.”
- e. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on October 10, 2011.

Audit Staff:  
Scott Lee