



Mayor Jim Newberry

## LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

Division of Internal Audit

### **INTERNAL AUDIT REPORT**

DATE: November 5, 2007

TO: Jim Newberry, Mayor

CC: Joe Kelly, Senior Advisor for Management  
Marlene Helm, Commissioner of Social Services  
Kyna Koch, Commissioner of Finance & Administration  
Jean Sabharwal, Director of Family Services  
Mary Fister, Director of Accounting  
Urban County Council Members  
Internal Audit Board Members

FROM: Bruce Sahli, Director of Internal Audit

RE: Family Care Center Internal Audit Report

#### **Background**

The Division of Family Services' Family Care Center (FCC) operates a pediatric medical and dental Clinic in partnership with the University of Kentucky. The Clinic offers services to children and mothers in the areas of acute and preventive primary care and dental care. These services are typically paid for via Medicaid, and Clinic management estimates it receives an average of 55 medical patients and 16 dental patients per day. For FY 2008, the FCC Health Services Fund is budgeted to receive \$2,076,790 in medical and dental care payments.

Billings for services rendered by the Clinic are performed internally by LFUCG employees. Claims for reimbursement are processed daily, with Medicaid claims sent to Electronic Data Systems (EDS) and non-Medicaid claims sent to other third party insurers. Medicaid payments are received by LFUCG via ACH generally 15 to 20 days after the claim is submitted. Claims denied by Medicaid are tracked through the Physician Computer Company (PCC) System which identifies the cause for the rejected claims. FCC management researches those denied claims, and resubmit those claims they determine to be incorrectly denied.

#### **Scope and Objectives**

H O R S E   C A P I T A L   O F   T H E   W O R L D

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The general control objectives for the audit were to determine that:

- Billing functions at the Clinic are properly segregated for internal control purposes
- Clinic Accounts Receivable are properly recorded, reported, and monitored by management
- Medicaid payments are correctly recorded
- Denied claims receive appropriate follow up to ensure subsequent collection or, when necessary, appropriate write off in Accounts Receivable
- Duplicate payments, if received, are properly resolved

General control procedures were evaluated for all billing and collection processes. Detail testing of accounts was limited to Medicaid accounts as these constitute approximately 92% of FCC's Account Receivable. The detail testing included selected samples of Medicaid transactions for the period July 1, 2005 through May 31, 2007.

### **Statement of Auditing Standards**

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

### **Audit Opinion**

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

## **SUMMARY OF AUDIT FINDINGS**

### **FCC Accounts Receivable not Reported to Accounting**

FCC management stated the Clinic's year-end Accounts Receivable balance has never been reported to Accounting, nor was a process in place to determine what that balance would be. The Division of Internal Audit applied procedures to determine, to the extent possible within the PCC System, the FCC Accounts Receivable balance as of June 30, 2007, obtaining an estimated balance of \$383,289. This information will be provided to the Director of Accounting for posting into STARS. In the future, it is recommended FCC management personnel generate a proper cutoff of the Accounts Receivable balance report as of the last business day of the Fiscal Year and provide this information to Accounting for inclusion in STARS for financial reporting purposes.

Division of Family Services Management Response: Family Care Center has not been asked for year end account receivable balances in the past. However, during the audit it was determined that a cut off date be set and a report generated to show the A/R balance as of 6/30 of each fiscal year. Once the report is generated, it will be forwarded to the Director of Accounting for inclusion in STARS for financial reporting purposes. The above procedures will be implemented beginning FY 08.

Commissioner of Social Services Management Response: The Commissioner of Social Services concurs with the Division of Family Services Management Response.

Division of Accounting Management Response: The Division of Accounting is in agreement with the findings by the Division of Internal Audit regarding the FCC year-end Accounts Receivable. Once detail of the accounts receivable is received by the Division of Accounting it will be posted to the STARS system and reflected in the FY 07 year end financials.

The Division of Accounting will work with FCC management and Revenue to insure that procedures are in place to capture revenue and accounts receivable information in a timely manner to insure accurate reporting in the STARS system.

Commissioner of Finance & Administration Management Response: The Commissioner of Finance & Administration concurs with the Division of Accounting Management Response.

### **Medicaid ACH Account Reconciliations Significantly Late**

The Division of Accounting reconciles ACH payments received from the state Medicaid office to supporting records provided by the FCC. It was noted during field work that this reconciliation process was several months behind, i.e. through mid-July the recon had only been completed through February. Account Reconciliations are an important internal control that should be completed each month to ensure deposit issues are identified and resolved in a timely manner.

Division of Accounting Management Response: The Division of Accounting concurs with the Division of Internal Audit finding. Due to issues related to the implementation of the Accounts Receivables and Billing modules of the STARS system the Division of Accounting failed to timely reconcile ACH payments. Currently Accounting staff is verifying all ACH payments and finalizing reconciliations of all depository items for the FY 07 and FYTD 08. The Divisions of Accounting is actively working to implement timely reconciliation processes to ensure that deposit issues are timely identified and resolved.

Commissioner of Finance & Administration Management Response: The Commissioner of Finance & Administration concurs with the Division of Accounting Management Response.

### **Segregation of Duties Issues**

The Administrative Specialist Principal at the FCC acts as the System Administrator for the Physician Computer Company (PCC) System which is used to monitor and update patient account activity. This individual has the capability to create changes within the patient accounting system, including the addition and locking out of users, the editing of account information, and the transferring of patients between accounts (e.g., if a child is incorrectly listed under the wrong parent's name). The Administrative Specialist Principal may also be involved in reviewing nightly total reports with related detail, which among other functions acts as a deposit report. In order to properly segregate duties for internal control purposes, the System Administrator should not have data entry, account adjustment, or account update capabilities.

Division of Family Services Management Response: In order to segregate duties as much as possible, the position of the Health Clinic's Administrative Specialist position have been altered in order to remove payment posting, denial resolution and adjustments to accounts from duties assigned to the System Administrator. This assigns the System Administrator responsibility for overview of the billing/payment processes without the data entry portion of the duties. Please note that during staff shortages, it may be necessary for the System Administrator to be more involved in the remittance review and posting process in an effort to have revenues posted in a timelier manner in PCC as well as STARS.

Commissioner of Social Services Management Response: The Commissioner of Social Services concurs with the Division of Family Services Management Response.

### **FCC Data Security Issues**

The PCC System server on site at FCC is basically the size of a desk top CPU, and sits on a desk in the Administrative Specialist Principal's office. This server contains all the account information for the FCC patients, much of which is subject to HIPAA regulations regarding patient confidentiality. The Administrative Specialist Principal stated that three new servers, one an upgrade from PCC for billing and scheduling and two to generate electronic medical records (all subject to stringent HIPAA regulations), will soon be stored in her office, all of which will be of portable size. In addition, each day the Administrative Specialist Principal makes a back-up copy of all PCC patient account data onto digital data tapes with the same HIPAA sensitive data and stores it in her office file cabinet, which is often unsecured during normal work hours. Due to the very sensitive nature of the data contained in the current and future servers, FCC management should coordinate with LFUCG Computer Services personnel to determine if a more secure location can be obtained for these servers. FCC management should also select a more secure location for storage of the digital data tapes.

Division of Family Services Management Response: The current barriers to a satisfactory response include limited amount of physical space consistent with the size of the servers; cabling; temperature control requirements; securing an available location where there is the ability to limit access. At this time, there are no vacant, adequate spaces in the Health Clinic to house the servers where there is temperature control (must maintain 72 degrees) but we will continue to look at alternatives for spacing and security issues.

However, PCC upgraded and installed a new server at FCC on 10/17/07 that is much larger (80 lbs.) and the server's hard drives and power switch have a cover that must be unlocked in order to gain access to these systems. The fact these are locked prevent anyone from accessing the system or removing hard drives/memory. Computer Services was contacted about the possibility of a cabinet/server rack that could be locked or at least keep the servers out of view. Computer Services provided several web links to various sites that have server racks, but not a secured cabinet. Clinic will continue to investigate cabinetry that might secure server(s) from public view.

Commissioner of Social Services Management Response: The Commissioner of Social Services concurs with the Division of Family Services Management Response.

### **Several Employees Working Under one User ID and Password**

During periods of significant activity, employees working the check-out window may share one user ID and password to enter data into the PCC System. This creates a control weakness as it reduces management's ability to track the source of updates to patient accounts, and could result in unauthorized or inappropriate transactions being made with the User ID and password of someone other than the actual user. It is recommended FCC employees be required to log in under their own User ID and password whenever they enter data into the PCC System.

Division of Family Services Management Response: As of 10/07, staff was instructed to log in under their own user account and password and when they leave their work station for breaks, lunches or for the day to log off the system. This requires any staff member filling in to sign on to the system using their own ID and password.

Commissioner of Social Services Management Response: The Commissioner of Social Services concurs with the Division of Family Services Management Response.

## **PROCESS OBSERVATION**

The following observation identifies a process improvement associated with the FCC Medicaid billing process that is not considered an audit finding, but that if implemented would likely result in improved claims processing and reduce the turnaround time for the receipt of Medicaid payments by LFUCG.

### **Electronic Billing Option Should be Considered**

Under its current PCC System software program, the FCC must manually print and sign remittance advices and physically mail them to the Medicaid payment processing center. This process generates a significant amount of paper (FCC management estimate they process at least 20,000 claims during a standard year), incurs additional postage expense, and as with any manual system, carries an inherently greater risk of error than an automated process. FCC management has obtained the current fee schedule from PCC and notes that for an additional annual cost of approximately \$14,100, FCC

can upgrade to Electronic Claim Processing, which would result in electronic billing of Medicaid, as well as for all other insurance claims. As Medicaid processes payments on a weekly basis, Electronic Claim Processing may also reduce the turnaround time for Medicaid payments to be received by LFUCG, which under the current manual process typically takes 15 to 20 days. The Division of Internal Audit supports management's efforts to improve internal controls through the use of automation when feasible. FCC management should consider seeking annual funding for this option in order to obtain the benefits of automated billing.

Division of Family Services Management Response: The Health Clinic will request in our FY09 budget to have the money allocated for electronic claims submission and electronic remittances. We have already requested and received the cost from PCC and have the ability to convert to electronic claims as soon as funds become available.

Commissioner of Social Services Management Response: The Commissioner of Social Services concurs with the Division of Family Services Management Response.