UT Southwestern
Medical Center

Revenue Cycle Bad Debt Review

Internal Audit Report 23:15

July 26, 2023

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Executive Summary

Background

The University of Texas Southwestern Medical Center (UTSW) has front-end processes to render and collect patient estimates and back-end processes to collect outstanding self-pay balances. If the patient estimate or outstanding balance is not collected timely (as described below), they are transferred to bad debt.

When a patient is initially scheduled for an elective procedure, the UTSW Patient Financial Services (PFS) team determines the patient's estimated financial liability for the procedure based upon the physician's order and additional commonly used Current Procedural Terminology (CPT) code(s) for the ordered procedure. Once the patient's estimate is created in the patient's hospital account record and the patient has provided a mobile number, the patient will receive a text message from the UTSW third-party application patient communication system, Odeza, alerting the patient of the estimated upcoming charges for the procedure. Additionally, if the patient is enrolled in MyChart, Epic's patient-facing portal, the patient will receive an automated message with information pertaining to their appointment and estimate. If the patient has neither Odeza nor MyChart enabled, the PFS team will attempt to call the patient or alert them at point of service (POS).

After services are rendered and the claim is processed by insurance, if applicable, the patient may have an outstanding balance and continue to receive Odeza text message notifications, MyChart messages, and/or paper statements in the mail regarding the outstanding balance. The patient statement cycle processes are initiated and completed by Epic automation. The back-end patient inquiries regarding outstanding balances, which are with UTSW or have been transferred to bad debt, are managed by the UTSW Account Resolutions team. If the outstanding patient balance is not paid in full after receiving four patient statements and the account has aged for at least 120 days, the balance will be transferred to bad debt with the organization's primary collections agency, MiraMed. The one exception to this timeframe is if UTSW receives returned mail upon sending a patient statement, as the balance will be expedited to bad debt. Once the patient's balance has been transferred to MiraMed, it can be pulled back from primary bad debt collections within 30 days if the patient pays the balance in full or arranges a payment plan. MiraMed manages patient communication with the patient once the balance has been transferred to the agency. If the balance has not been paid in full after one year with MiraMed, it is then transferred to the organization's secondary collections agency, Nationwide. This process is highlighted in a process flow found in Appendix A.

Executive Summary

Scope & Objectives

The Office of Institutional Compliance & Audit Services (OICAS, Internal Audit, IA) has completed its Revenue Cycle Bad Debt Review. This was a risk-based review and part of the fiscal year 2023 Audit Plan.

The audit scope period included activities of the Patient Financial Services and Account Resolutions teams from May 2022 to April 2023. The project included reviewing processes and controls for generating estimates, front and back-end patient collection practices, bad debt write-offs and approvals, and patient inquiry resolution for centralized, elective procedures. Audit procedures included interviews with stakeholders, review of policies and procedures and other documentation, substantive testing, and data analytics.

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

Fieldwork was initiated, performed, and completed during May and June 2023 and consisted of the following primary objectives:
- Assessing policies, procedures, protocols, and guidelines for adequacy of controls in place to mitigate regulatory, financial, reputational, and patient satisfaction risks related to processes in place for bad debt.
- Evaluating the extent of adherence to established departmental policies (i.e., % of estimate collected at time of service with payment plan for remaining balance) for rendering estimates and/or self-pay packages (e.g., cosmetic, dermatology, etc.), and collection of patient responsibility for elective services / procedures.
- Evaluating the back-end processes for determining and assigning an account as bad debt and assessed whether the bad debt designation processes are performed, and account write-offs / adjustments are carried out consistently, accurately, completely, and timely as per policy (e.g., appropriate approvals, threshold amounts, etc.) and management's expectations.
- Validating across a sample of patient accounts that the appropriate controls were performed at point-of-service through patient statement and collection processes to exhaust efforts to establish patient payment arrangements prior to allocating the uncollected patient liability balance to bad debt.

Executive Summary

Conclusion

Overall, UTSW has demonstrated several accomplishments in its management of bad debt accounts, including its efforts to create and deliver accurate estimates, automation of back-end bad debt processes, and timely resolution of patient complaints, as needed. These accomplishments have led to improvements in patient collections and overall bad debt write-offs, representing <1% of total accounts receivable (A/R) as of May 2023. The past six (6) months (December 2022 to May 2023) of bad debt write-off trending can be found in Appendix B. However, opportunities exist for UTSW to adhere to the management and maintenance of the collection guidelines that are set in place, as well as enhancing and strengthening the systems utilized for monitoring timely bad debt transfers and patient estimate communication methods.

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 C for Risk Rating Classifications and Definitions.

Priority (0)	High (0)	Medium (2)	Low (2)	Total (4)

Key observations are listed below.

- 🟡 **Bad Debt Front-End Patient Collection Protocols** – Sufficient processes are not in place to enforce compliance with the requirements set forth in the *Patient Financial Responsibilities Pre-Services and Point of Service* standard operating procedure (SOP). As a result, employees are not consistently adhering to the associated front-end estimate and collection processes for bad debt patients, including, not collecting the required percentage of the estimate for self-pay patients, not setting up a required payment plan, not collecting payments from patients when discussed and agreed to prior to point of service, and not having additional contact with patients for high-dollar estimates.

- 🟡 **Epic Bad Debt Configuration** – Patient balances are transferred to bad debt prior to the appropriate amount of time (i.e., 120 days from first patient statement) and number of statements (i.e., four) due to an error with the Epic bad debt transfer logic, which can lead to potential patient complaints due to balances being expedited to bad debt.

- 🟢 **Outstanding Patient Balance Collections** – UTSW does not have a SOP outlining how to collect outstanding balances from patients at POS. As a result, outstanding balances are not consistently communicated to patients, nor are attempts to collect consistently made at POS for patient balances that are ultimately transferred to bad debt.

Executive Summary

- **Patient Estimate Odeza Functionality** – When estimates are texted to patients through Odeza, UTSW's texting third-party application, the estimate only contains the estimate information (e.g., service, cost, etc.), and does not contain a link for the patient to make a mobile payment, potentially leading to decreased patient collections.

Management has plans to address the issues identified in the report and in some cases has already implemented corrective actions. Action Plan Owners are designated individuals responsible for implementing the issue resolution. Action Plan Executives are individuals responsible for overseeing or managing the issue resolution. Executive Sponsors are Senior Leadership members who are responsible for ensuring the identified issue is resolved. These responses, along with additional details for the key improvement opportunities identified above are listed in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

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

Sincerely,

Natalie Ramello

Natalie Ramello, J.D., Vice President of Compliance & Chief Compliance Officer / Interim Audit Executive

Audit Team:
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Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response

Risk Rating: Medium 🟡
 	
 1. **Bad Debt Front-End Patient Collection Protocols**
 	
 Sufficient processes are not in place to enforce compliance with the requirements set forth in the *Patient Financial Responsibilities Pre-Services and Point of Service* SOP. As a result, employees are not consistently adhering to the associated front-end estimate and collection processes for bad debt patients, which can lead to potential bad debt and patient complaints.
 	
 Internal Audit reviewed a targeted sample of 35 patient accounts (20 insurance and 15 self-pay) in bad debt to validate that front-end processes were followed per the SOP and identified the following:
 	
 • Nine (9) of 15 self-pay accounts (60%) did not have the required 50% of the estimate collected prior to or at the POS:
 	
     o Four (4) accounts had money collected from the patient, but it was less than the 50% required.
 	
     o Four (4) accounts had attempts to contact the patients that were unsuccessful in collecting.
 	
     o One (1) account did not have an attempt made to collect from the patient.
	1. Determine the approach and enforcement for Pre-Service and POS patient collections moving forward for this bad debt subset of patients that repeatedly do not pay for services to identify opportunities with areas that may need additional follow-up and collaboration with other areas to determine root cause and remediation activities.
	
	 2. Evaluate the *Patient Financial Responsibilities Pre-Services and Point of Service* SOP to ensure that all processes outlined in the SOP align with current front-end workflows.
	
	 3. Ensure that all front-end employees are trained on the *Patient Financial Responsibilities Pre-Services and Point of Service* SOP and perform additional reviews of potential clinical needs that are driving requests for service, including where POS collections are deemed to not be required.
	
	 4. Establish quality assurance reviews and/or dashboard reporting for all metrics outlined in the *Patient Financial Responsibilities Pre-Services and Point of Service* SOP that are distributed to leadership on a defined cadence to monitor employees' adherence to the SOP, identifies any
		Management Action Plans:
		
		 1. Patient Financial Services will continue with their current approach to Pre-Service and POS patient collections and will update the *Patient Financial Responsibilities Pre-Services and Point of Service* SOP to align with this approach, perform additional reviews of potential clinical needs that are driving requests for service, including identifying exceptions where POS collections are deemed to not be required.
		
		 2. Patient Financial Services will leverage Epic Payment History Score, Propensity to Pay Score, and other functionality to identify patients that repeatedly do not pay for services to increase collection practices prior to services being rendered and at POS for this subset of patients.
		
		 3. Patient Financial Services will perform a quality assurance (QA) review on patient accounts that were transferred to bad debt to identify areas of opportunities, remediate activities, and schedule a monthly review of exceptions with key process owners (i.e., clinic leadership), prioritizing review for self-pay and non-contracted patients.
		
		 4. Patient Financial Services will evaluate implementing additional functionality within Epic to auto-complete orders and generate patient estimates.

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
• Two (2) of 15 self-pay accounts (~13%) where patients elected to not use insurance did not have the required 100% of the estimate collected prior to or at the POS. • 19 of 35 accounts (~54%) did not have the required payment plan set up prior to or at the POS when the full estimate was not collected. • Four (4) of 35 accounts (~11%) did not have the full payment taken or did not have a payment plan set up at POS when the patient indicated pre-service that is how they would like to pay for the service. • Four (4) of 35 accounts (~11%) did not have patient contact by MyChart message, phone, or text for estimates greater than $100 or for non-covered items. Concerns were raised through inquiry regarding the volume of elective appointments requiring estimates, which may limit Patient Access' ability to render estimates timely and completely. Internal Audit has not performed a formal resource analysis as it was not within the scope of this review.	departmental concerns, and identifies any additional training opportunities. 5. Research additional Epic functionality to automate estimates for patients.	**Action Plan Owner(s):** Abraham Flores - Supervisor, Patient Financial Services Matthew Gonzalez - Manager, Patient Financial Services **Action Plan Executive(s):** Stephanie Mims - Director, Patient Financial Services Kelly Kloeckler-Thornton - Associate Vice President, Revenue Cycle **Executive Sponsor(s):** Mark Meyer - Chief Financial Officer, Health Systems **Target Completion Dates:** January 31, 2024

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium 🟡 2. **Epic Bad Debt Configuration** Patient balances are transferred to bad debt prior to the appropriate amount of time (i.e., 120 days from first patient statement) and number of statements (i.e., four) due to an error with the Epic bad debt transfer logic, which can lead to potential patient complaints due to balances being expedited to bad debt. Patient balances skip the statement process and are automatically transferred to bad debt when an employee changes the guarantor account type (i.e., from Research to Personal / Family (P/F) and from Individual Agreement (IA) to P/F). Internal Audit reviewed a targeted sample of 35 patient accounts to validate that the accounts were appropriately sent to bad debt and identified that seven (7) of 35 accounts (20%) were sent to bad debt collections prior to the appropriate number of statements and time since the first statement.	Leadership should: 1. Determine the root cause of Epic configuration expediting bad debt transfers and update the Epic logic to reset the patient statement cycle accordingly. 2. Run a report to identify all accounts that had a guarantor change that went to bad debt prior to the appropriate number of statement and allotted time and remediate as appropriate. 3. Develop a report to review on a defined cadence to identify balances that were transferred to bad debt prior to the appropriate number of statements and allotted time, complete a root cause analysis for appropriateness.	**Management Action Plans:** 1. Account Resolutions will identify all accounts that were erroneously expedited to bad debt, pull the accounts back from bad debt, and restart the patient statement cycle. (Complete) 2. Until the Epic logic prioritization is updated, Account Resolutions will run a daily report to update the statement level to zero for accounts with a guarantor account type change. 3. Information Resources will update the Epic logic prioritization to reset the patient statement cycle when the guarantor account type is changed, and Account Resolutions will validate the Epic logic prioritization is updated appropriately. 4. Account Resolutions will implement routine quarterly monitoring to identify any potential future variances with the bad debt transfer process. **Action Plan Owner(s):** Larry Carter - Business Analyst, Information Resources Tina Gorman - Supervisor, Account Resolutions Amber De La Paz - Manager, Account Resolutions Michelle Perez - Program Coordinator, Account Resolutions

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		Action Plan Executive(s):
		Chris Matta - Director, Information Resources
		Michele Glen - Director, Account Resolutions
		Kathryn Flores - Associate Vice President, Information Resources
		Kelly Kloeckler-Thornton - Associate Vice President, Revenue Cycle
		Executive Sponsor(s):
		Mark Meyer - Chief Financial Officer, Health Systems
		Russell Poole - Chief Information Officer, Information Resources
		Target Completion Dates:
		September 30, 2023
Risk Rating: Low 🟢 3. **Outstanding Patient Balance Collections** UTSW does not have a SOP outlining how to collect outstanding balances from patients at POS. As a result, outstanding balances are not consistently communicated to patients, nor are attempts to collect consistently made at POS for patient balances that are ultimately transferred to bad debt. In the *Patient Financial Responsibilities Pre-Services and Point of Service* SOP, it states that "Pre-Arrival teams should communicate prior balances in advance of service"; however, there are no guidelines for how the	1. Determine the approach and enforcement for Pre-Service and POS patient collections moving forward for this bad debt subset of patients that repeatedly do not pay for services to identify opportunities with areas that may need additional follow-up and collaboration with other areas to determine root cause and remediation activities. 2. Integrate guidelines on how to identify patient outstanding balances and the process to attempt to collect at POS within the *Patient Financial*	**Management Action Plans:** 1. Patient Financial Services will continue with their current approach for outstanding patient balance collections and bill patients for outstanding balances and will update the *Patient Financial Responsibilities Pre-Services and Point of Service* SOP to align with this approach, including identifying exceptions where POS collections of outstanding patient balances are deemed to not be required. 2. Patient Financial Services will leverage Epic Payment History Score, Propensity to Pay Score, and other functionality to

Detailed Observations and Action Plans Matrix

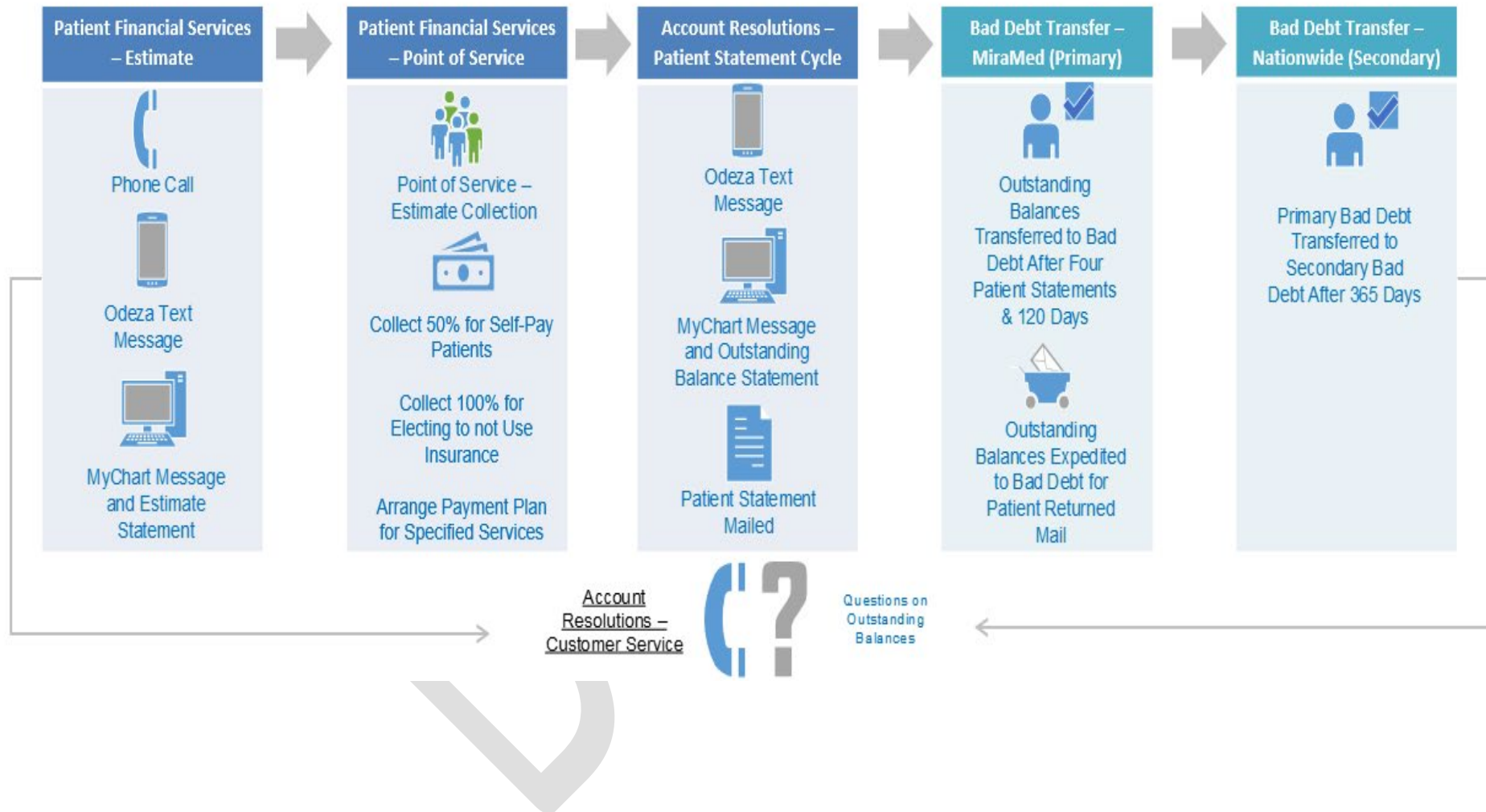| Observation	Recommendation	Management Response
Pre-Arrival teams can identify the prior balance within Epic. This can lead to potential patient bad debt, since outstanding balances are actual patient responsibility after the claim has been adjudicated. Internal Audit reviewed a targeted sample of 35 patient accounts in bad debt to validate that outstanding balances were communicated to patients and an attempt was made at POS to collect and identified that 25 of 35 accounts (~71%) with a total outstanding balance of ~$29K* did not have the outstanding balance communicated to the patient and an attempt to collect was not noted. Additional analysis determined that approximately $16.7M and $5.6M was written off as uncollected patient bad debt in calendar year 2022 and 2023 (as of 5/31/23), respectively. Additionally, there are no POS collection target metrics established by leadership, and thus, no subsequent dashboards or reports to identify department areas of opportunity. * Note: The outstanding balance was determined based on the last statement balance sent to the patient prior to the TOS.	*Responsibilities Pre-Service and Point of Service* SOP. 3. Establish target metrics for POS prior balance collections and create dashboard reporting (i.e., by facility, department, employee) for all metrics established that are distributed to leadership on a defined cadence to identify departmental concerns and additional training opportunities.	identify patients that repeatedly do not pay for services to increase collection practices and focus outstanding patient balance collections for this subset of patients. **Action Plan Owner(s):** Abraham Flores - Supervisor, Patient Financial Services Matthew Gonzalez - Manager, Patient Financial Services **Action Plan Executive(s):** Stephanie Mims - Director, Patient Financial Services Kelly Kloeckler-Thornton - Associate Vice President, Revenue Cycle **Executive Sponsor(s):** Mark Meyer - Chief Financial Officer, Health Systems **Target Completion Dates:** January 31, 2024

Detailed Observations and Action Plans Matrix

| Observation	Recommendation	Management Response
Risk Rating: Low 🟢 4. **Patient Estimate Odeza Functionality** When estimates are texted to patients through Odeza, UTSW's texting third-party application, the estimate only contains the estimate information (e.g., service, cost, etc.) and does not contain a link for the patient to make a mobile payment, potentially leading to decreased patient collections. Odeza includes a link to make a payment when patients are sent a text regarding their outstanding balance after services are rendered, but this functionality is not active for patient estimates.	1. Coordinate with Odeza to understand the feasibility of including a link to make a payment when the patient estimate is texted to the patient since this functionality is currently in place for prior balance statements. a. If feasible, validate that the link included in estimates appropriately works and implement functionality. 2. Receive reporting from Odeza to understand the volume and percentage of patients that are paying via the link included in the text messages.	**Management Action Plans:** 1. Patient Financial Services has worked with Odeza and has determined that they are capable of including a link for patients to make payments for estimates. (Complete) 2. Patient Financial Services will evaluate the time, resources, and cost to implement the payment link within text messages for estimates, determine if the return on investment (ROI) is beneficial to UTSW, and if implemented, validate that the link is working appropriately. (Complete) 3. Patient Financial Services explored the feasibility of obtaining reporting from Odeza that provides the volume and percentage of patients accessing the message and determined that this reporting functionality does not currently exist. Leadership should revisit this with Odeza if they pursue including a payment link within the estimate text to determine if the reporting could be built. 4. Patient Financial Services will revise the communication that Odeza texts to patients if they are self-pay / non-contracted. The text message will note that at least 50% of payment is expected for self-pay / non-contracted patients with payment arrangements established for the remaining balance, prior to service.

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		Action Plan Owner(s):
		Abraham Flores - Supervisor, Patient Financial Services
		Matthew Gonzalez - Manager, Patient Financial Services
		Action Plan Executive(s):
		Stephanie Mims - Director, Patient Financial Services
		Kelly Kloeckler-Thornton - Associate Vice President, Revenue Cycle
		Executive Sponsor(s):
		Mark Meyer - Chief Financial Officer, Health Systems
		Target Completion Dates:
		January 31, 2024

Appendix A – Front-End & Back-End Bad Debt Processes

Patient Financial Services – Estimate
- Phone Call
- Odeza Text Message
- MyChart Message and Estimate Statement

Patient Financial Services – Point of Service
- Point of Service – Estimate Collection
- Collect 50% for Self-Pay Patients
- Collect 100% for Electing to not Use Insurance
- Arrange Payment Plan for Specified Services

Account Resolutions – Patient Statement Cycle
- Odeza Text Message
- MyChart Message and Outstanding Balance Statement
- Patient Statement Mailed

Bad Debt Transfer – MiraMed (Primary)
- Outstanding Balances Transferred to Bad Debt After Four Patient Statements & 120 Days
- Outstanding Balances Expedited to Bad Debt for Patient Returned Mail

Bad Debt Transfer – Nationwide (Secondary)
- Primary Bad Debt Transferred to Secondary Bad Debt After 365 Days

Account Resolutions – Customer Service

Questions on Outstanding Balances

Appendix B – Bad Debt Write-Offs Trending

The Epic graph below displays the percentage of accounts receivable (A/R) that bad debt write-offs represent over the past six months, December 2022 to May 2023. The percentage has decreased from 1.1% to .8%.
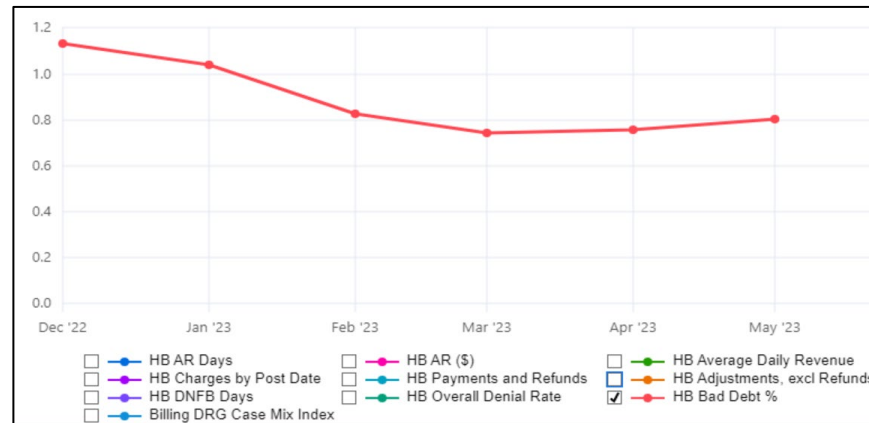
The Epic graph below displays the dollar amount of bad debt write-offs over the past six months, December 2022 to June 2023.
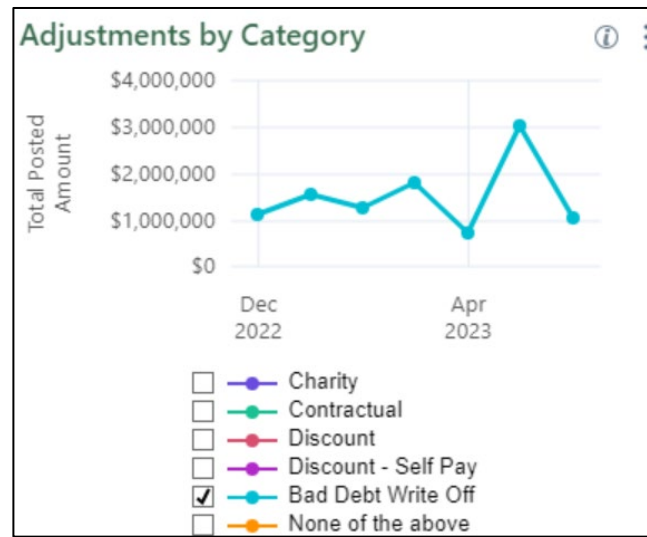
Appendix C – Risk Classifications and Definitions

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 following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

	Degree of Risk & Priority of Action	
Risk Definition- The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.	**Priority**	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.
	High	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.
	Medium	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.
	Low	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.