

**Report on Internal Management Review
on Revenue Cycle and Expense Management**

Internal Audit performed high level assessments of the billing and collection functions of University of Iowa Hospital and Clinics (UIHC) and the Carver College of Medicine Faculty Practice Plan (FPP) and UIHC's follow up efforts to enhance its revenue and cost management. Internal Audit worked in cooperation with senior officials at both UIHC and the Carver College of Medicine (CCOM). The Internal Audit comments in this memo were formulated through interviews and unaudited documentation received from management.

In March 2003, IDX, a combined business office, patient account management system was implemented. The legacy system, INFORMM, was left in place to maintain accounts receivable information from the pre-IDX period and to support other clinical and human resource applications. Numerous issues surfaced during the system conversion, most notably an expected dramatic increase in "days in accounts receivables" and decreased cash flow for both UIHC and the CCOM. These issues brought focus to the entire revenue cycle.

Accounts Receivable/Bad Debt Valuation – Ernst & Young (E&Y) was engaged by management in November 2003 to perform an evaluation of UI Health Care accounts receivables. The E&Y model was adopted by management in December 2003 to ensure that accounts receivable/bad debt information is more accurate. External reviews of the A/R balances either have or will take place as part of the Iowa State Auditor and KPMG engagements.

Cash Collection/Cash Flow – UI Health Care experienced an expected decrease in cash collection after the IDX implementation in March 2003. During Fiscal Year 2004, UIHC and the FPP experienced year over year increases in cash flow of 35% and 12% respectively over cash received in 2003. The cumulative cash collection improvement, post IDX go-live, was \$86.3 million for UIHC and \$8.5 million for the FPP as of September 30, 2004.

Revenue Cycle Re-Design – First Consulting Group (FCG) was engaged by management in February 2004 to evaluate and assist in re-designing revenue cycle processes. FCG continues to assist management with training, documentation and implementation of new processes. Additionally, the FPP engaged ECG Consulting in November 2003 to evaluate the staffing model for professional billing and collections and these recommendations have been incorporated into the process redesign.

Charge Capture – 3M Consulting was engaged by management in June 2004 to perform an assessment of the charge master and evaluate the accuracy of inpatient DRG coding. FCG has begun a review of the charge capture process including late charges which historically have required extensive manual rework.

Claims Submission – Prior to IDX, claim submission beyond the primary payor was a manual process. IDX has eliminated some of the manual intervention and has expedited claims processing and cash flow.

Denials Management – This is a very complex issue with many underlying processes. The Joint Office of Patient Financial Services (PFS) staff work payer denials daily. An outside consulting firm has been engaged to review claims from March 2003 to July 2004. A new Revenue Integrity unit within Finance and Accounting Services (FAS) will fulfill this role in the future. The FPP and the Clinical Departments are working physician claims denied for medical necessity reasons and are strengthening their linkages with the PFS staff.

Third Party Contracts – IDX includes enhanced payer modeling functionality that is used to evaluate the accuracy of reimbursements. The FPP is acquiring payment monitoring software that will ensure that physician claims are being paid according to contract.

Credit Balances – Management asserts the liability associated with credit balances has been fully reserved on the pre-audited FY2003-2004 financial statements. They also assert that IDX system enhancements will eliminate 85% of system created false credit balances going forward. All other credit balances will require manual resolution. Management will work with General Counsel to identify and fulfill the University's obligation regarding the Iowa State Escheat law.

Revenue Enhancement Presentation Follow-up - As part of the overall review of the UIHC revenue cycle process, UIHC Management has addressed each of the items identified previously for operational improvement. The savings appear to be real and can be on-going with vigilance by all concerned from UIHC Management, Purchasing, and Clinical personnel.

Key areas for future improvements include:

- Credit balances should be continually monitored with both current and future credit balances resolved on a timely basis. Those credit balances that have been fully researched should be systematically flagged to avoid rework
- Continue to develop and enhance the denial management process.
- Resolve the identified late charge issues.
- Continue to decrease manual processes throughout the Revenue Cycle.

Summary

Based on Internal Audit's high level assessment, it appears that UIHC and CCOM financial and operational management are well aware of the risk areas and are aggressively addressing them. They have either completed revisions to processes or have plans in place to improve processes related to the recording and collection of all patient revenues.

UIHC and CCOM must continue to jointly address issues related to the Revenue Cycle. Internal Audit strongly urges the continued cooperation between the two groups so that all areas of risk are efficiently addressed and the new processes appear as seamless as possible to the patient.

To keep abreast with the progress of the various implementation processes and to measure their on-going effectiveness, Internal Audit is committed to performing formal audits of selected revenue cycle processes in the future.