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Nancy L. Zimpher, Ph.D.
Chancellor
State University of New York
State University Plaza
353 Broadway
Albany, NY 12246

Danielle Laraque-Arena, MD, FAAP
President
Upstate Medical Center
750 East Adams Street
Syracuse, NY 13210

Re: State University of New York Upstate Medical University's Billing Practices
Report 2016-S-50

Dear Dr. Zimpher and Dr. Laraque-Arena:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we examined the medical billing practices at State University of New York Upstate Medical University to determine if they were adequate to ensure that insurance carriers are billed timely and that services being provided meet the carriers' "medical necessity" requirements. The audit covered the period July 1, 2014 through June 30, 2016.

Background

State University of New York Upstate Medical University (Upstate), central New York's only academic medical center, specializes in research and treatment of the most prevalent human diseases, such as cancer, diabetes, and heart disease. Its overarching mission is to improve the health of the communities it serves through education, biomedical research, and health care. To achieve these goals, Upstate employs 9,640 employees at its numerous facilities, including its downtown campus location in Syracuse and over 100 specialty clinics. Upstate serves 1.8 million people, and works with over 30 insurance carriers to provide health care for their insured members.

To obtain reimbursement for services provided, Upstate submits a claim to the patient's insurance carrier, which then reviews the claim and, if approved, processes it for payment. If the carrier determines a claim is improper, contains errors, or is incomplete, the claim is denied and returned to Upstate. Carriers allow Upstate a limited period of time thereafter (based on the date of service) to resolve the claim and resubmit it for payment. Upstate's Patient Financial Services Department is responsible for resolving denied claims, including coordinating patient information, reviewing the charges for services rendered, and resubmitting.

All hospitals operate knowing that some claims will be denied, and payments might not be obtained for certain services. Insurance carriers may deny payment for a variety of reasons (e.g., service deemed not a medical necessity based on Medicare and other evidence-based criteria, or claim not submitted within the carrier's specified timeframe after the date of service). Hospitals can write off uncollectible accounts, but require prior approval by the New York State Attorney General's Office to do so. The Healthcare Financial Management Association has established an industry standard of 1-2 percent of Net Patient Service Revenue for write-offs of uncollectible accounts.

In 2013, Upstate hired a consultant to help strengthen its billing processes in an effort to improve its performance in collecting accounts receivable and minimizing write-offs. The $15.2 million contract, which Upstate procured through a Request for Proposal, runs from February 1, 2013 through January 31, 2017, with another one-year renewal option available. As of November 21, 2016, about $14.1 million has been spent. The consultant's contract focuses on several key areas, including:

- Restructuring the business office to accommodate the volume of billings and denials and to increase individual accountability and productivity;
- Deploying consultant staff with client leadership in key revenue cycle areas (billings and denials);
- Collaboratively re-engineering processes to aid in the achievement of best practices and successful billing system transition; and
- Developing risk mitigation strategies for: medical charge routing; patient-, account-, and claim-level work queue development and implementation; and maximizing revenue realization to positively affect operations and financial performance.

For the two fiscal years ended June 30, 2016, Upstate billed 31 insurance carriers for services totaling nearly $7.1 billion, including five carriers that were billed approximately $6 billion (85 percent) of this amount. For the 2014-15 fiscal year, Upstate had patient service revenues totaling about $632 million, and wrote off about $5.9 million (0.9 percent) in insurance denials. For the 2015-16 year, Upstate had about $720 million in patient service revenues and wrote off more than $11.4 million (1.6 percent) in denials, well within the industry standard of 1-2 percent set by the Healthcare Financial Management Association.

Results of Audit

Overall, we found Upstate has taken appropriate steps in recent years to manage its

accounts receivable and bad debt write-offs, including hiring a consultant to re-engineer its billing systems and establish process improvements, and moving to a new billing system (EPIC). Further, we found that Upstate has taken appropriate steps to follow through on these initiatives and has made significant progress toward these ends. Upstate's audited financial statements show that since calendar year ended December 31, 2012:

- Patient accounts receivable has steadily declined, from $101.7 million to $73.7 million (27.5 percent); and
- Net patient service revenue has steadily increased, from $631.7 million to $719.8 million (14 percent).

Further, a June 2015 Steering Committee Status Report shows that the average monthly bad debt write-offs for Upstate's downtown campus decreased by about $2 million, based on a comparison of the periods of June 2012 – October 2013 and November 2013 – May 2015.

We met with staff from the New York State Attorney General's Office, which is required to approve uncollectible accounts prior to Upstate formally writing them off, to obtain an opinion regarding Upstate's performance in this area. Officials there corroborated Upstate's claims, stating that moving to the EPIC billing system and hiring a consultant resulted in improvements to the revenue cycle, lower write-offs, and better accounts receivable turnover.

Timeliness of Claims Submission and Medical Necessity

During 2014-15 and 2015-16, Upstate wrote off about $10.1 million in billings due to timeliness issues. To determine the extent to which weaknesses in the billing process may have contributed to late claims submission, we reviewed a random sample of 100 of 10,386 failed billings (i.e., resulted in a write-off), totaling $58,625. Based on our review of the information retained in Upstate's EPIC billing system and meetings with Upstate's Patient Financial Services staff, we concluded that 31 of the 100 failed billings (31 percent), totaling $12,218, were late due to reasons that did not originate from actions by Upstate units or staff (e.g., inaccurate patient-reported insurance information). The remaining 69 billings, totaling $46,407 in write-offs, originated from errors or delays that were largely within Upstate's control. However, in each case, we determined that the issues were isolated in nature and largely attributable to human error (e.g., data entry) or the change to the EPIC billing system, and thus not reflective of a systemic weakness in Upstate's billing process.

For the two fiscal years we reviewed, Upstate also wrote off about $5.9 million in accounts receivable for services that carriers deemed not a medical necessity. We reviewed a random sample of 25 of these write-offs, totaling $155,842, which we drew from a population of 999 such write-offs, each valued at over $1,000. We discussed each write-off with Patient Financial Services staff while they guided us through the notes and details in their billing system. Of the 25 write-offs, we determined five should have been categorized instead as timeliness issues, and four others were actually routine contractual adjustments. Of the remaining 16 medical necessity-related write-offs, only one, for $35,961, appears to have been easily preventable: an account billed to Medicare as an outpatient service that included "inpatient only" billable services. Once

services are billed at the outpatient level of care, Medicare prohibits hospitals from re-billing at the inpatient level.

While there is usually some room for process improvement, we also recognize that there will always be risk that claims go unpaid because of human error or other reasons over which Upstate has limited control, particularly given the magnitude of claims Upstate processes. Although there were occasional deviations from standard procedures in processing claims, there were no trends indicating recurring issues with a particular insurance carrier or with a specific aspect of the billing process.

Medicare Payment Liability Waivers and Insurance Pre-Approvals

Certain medical procedures are not covered by Medicare, and therefore, the costs of such procedures are borne by the patients. In these cases, Upstate is required to obtain an Advanced Beneficiary Notice of Non-Coverage (ABN) waiver from the patient acknowledging his or her responsibility for payment. Likewise, some necessary procedures must be pre-approved for coverage by the insurance carrier. Over the two fiscal years under our review, Upstate wrote off more than $1.4 million (from 5,006 billings) for services that lacked an ABN waiver (nearly $730,000) or an insurance pre-approval (about $680,000). In explaining these write-offs, Upstate officials stated that situations arise where: a patient is incapacitated (e.g., under sedation) and unable to sign the waiver; there isn't time to obtain the pre-approval (e.g., emergency surgery); or the need to obtain a patient's signature or pre-approval was simply overlooked.

Upstate's EPIC billing system does not contain any specific notes or other information that would identify specifically why the responsible departments did not obtain the necessary waivers or pre-approvals. To determine the frequency of these types of write-offs, we selected a random sample of 50 (of the 5,006) failed billings, totaling $9,413, and found that 49 were due to a lack of ABN waiver. The remaining item was originally coded as a write-off, but was later reversed when payment was received.

To determine whether there were write-off trends within specific Upstate departments or among insurance carriers, we compared our sample with all write-offs attributable to a lack of ABN waiver or insurance pre-approval for the period. Our analysis did not identify a specific department or insurance carrier with a disproportionate number of denials. Rather, the write-offs were distributed fairly evenly across departments and insurance carriers. Furthermore, there was not a specific trend that indicated a systemic weakness or issue. This observation appears to corroborate Upstate officials' assertion that situations arise that are less conducive to direct control and/or where hospital staff do not obtain the required waiver signature or pre-approval in time.

Audit Objective, Scope, and Methodology

We audited Upstate's billing practices to determine if they were adequate to ensure that insurance carriers are billed timely and that services being provided meet the carriers' "medical necessity" requirements. The audit period covered July 1, 2014 through June 30, 2016.

To accomplish our objective, we reviewed relevant laws, regulations, and Upstate's policies and procedures related to its medical billing practices. We also became familiar with and assessed Upstate's internal controls as they relate to its billing practices. We reviewed Upstate's records related to billing the various insurance carriers, and held meetings with Upstate officials to gain an understanding of hospital medical billing practices as well as an overall understanding of the requirements for each individual insurance carrier. We also reviewed the consultant's contract to improve the revenue cycle. Finally, we analyzed Upstate's billing data that pertained to our scope period, and met with staff of the Office of the Attorney General in regards to its role in the billing and collection process.

To assess billing practices, we reviewed the insurance denial write-offs for the two most recently completed fiscal years (2014-15 and 2015-16) to determine the write-off amounts and types. We analyzed the total amount of write-offs related to timeliness to: determine if there were any anomalies in their amounts; identify any insurance carrier for which there was a disproportionate amount of write-offs compared with billings; and identify any specific write-off category that appeared disproportionate in size. Our random samples of billings to assess timeliness and medical necessity were selected from the pool of failed billings and were not representative of all billings submitted by Upstate. Our random sample of billings to test ABN waivers and insurance pre-approvals was selected from the pool of failed billings and not from all billings wherein Upstate was required to obtain an ABN waiver and insurance pre-approval for the period.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating threats to organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

We provided a preliminary copy of this report to Upstate officials for their review and comment. We considered Upstate's comments in preparing this report. Upstate officials agreed with our observations and declined the opportunity to provide a formal written response to this report, as there are no formal audit recommendations.

Major contributors to this report were Brian Reilly, Wayne Bolton, Raymond Barnes, Jeffrey Dormond, Jarrod Weir, and Marzie McCoy.

We thank the management and staff of Upstate for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

John F. Buyce, CPA, CIA, CFE, CGFM
Audit Director

cc: Division of the Budget