TO: Honorable Council Members

FROM: John H. Sanderlin, Jr., City Auditor

DATE: March 27, 2015

SUBJECT: Norfolk Community Services Board

Please find attached our final audit report on the Third-Party Billing and Reimbursement Process for the Norfolk Community Services Board. Should you have any questions please feel free to contact me at 664-4045.

cc: Marcus Jones, City Manager
Wynter Benda, Assistant City Manager
Sarah Fuller, Executive Director of the Norfolk Community Services Board
Alice Kelly, Director of Finance
Tammie Dantzler, Deputy City Auditor
Audit of the Third-Party Billing and Reimbursement Process

Table of Contents

Executive Summary ........................................ 1
Background .................................................. 2
Objective, Scope and Methodology ...................... 3
Audit Results and Recommendations ................. 3
Management Responses ........................ Appendix

Executive Summary

The Norfolk Community Services Board (NCSB) is a Department of the City of Norfolk. NCSB provides public behavioral health and developmental services through comprehensive and integrated services to address a broad spectrum of behavioral and developmental concerns. The population served includes infants, children, and adults. Outpatient, community and acute care services are provided in NCSB locations and other facilities. The majority of the services provided by NCSB are guided through a performance contract with the State Department of Behavioral Health and Developmental Services (DBHDS). NCSB receives funding via federal, state and local funds as well as fees for services from insurance providers, contractual agreements and self-pay.

In fiscal year 2013 NCSB received approximately $4.8 million in program fees revenue from insurers and self-pay. Insurance companies have strict guidelines when it comes to participant agreements, diagnosis coding, and billing cycles. Therefore to maximize program fees revenue, it is essential for claims to be processed and billed with minimum issues as possible. Accordingly, as a part of our fiscal year 2013 and 2014 audit plans, we conducted a review of NCSB and narrowed our focus to the efficiency and effectiveness of the third-party billing and reimbursement process.

Also as a basis for our audit focus, in fiscal year 2013, NCSB faced many billing and reimbursement complications with the implementation of Profiler, a new electronic health record.1 As a result, projected program fees revenue were estimated at $6.2 million. This was significantly off target with approximately $4.8 million collected, missing program fees revenue projections by nearly $1.4 million. The challenges of the new billing system were not considered during fiscal year 2014 budget process, therefore; projections were again overstated but much closer, totaling just under $5.4 million. However, during fiscal year 2015 budget process, these challenges were reflected and historical data was used for budgetary assumptions and the projected revenue was reduced.

Generally, we concluded that NCSB has adequate controls over third party billings and reimbursements other than the limitations that are normally inherent with related and/or interrelated processes. We found, overall, NCSB management is being proactive in setting performance measures and goals to ensure that they are processing claims and billings in an efficient and effective manner by establishing the “clean claim”2 concept. Management began an

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1 Profiler is an electronic health record system that systematically maintains and tracks financial and health information about an individual or a population.

2 A “clean claim” is a claim that does not contain a defect requiring the Insurances to investigate prior to adjudication.
Audit of the Third-Party Billing and Reimbursement Process

initiative and created the slogan “no claim left behind” to motivate the staff to exercise due diligence when processing claims. It appears that NCSB divisions and bureaus are consistently working collectively to reduce claims errors and concerns before they are processed for payment.

We did note some areas for management to consider in improving the operation’s overall effectiveness, efficiency and internal control system as follows:

- Continue to make efforts to bill and collect self-pay revenue on a monthly basis.
- Approve and implement the debt set-off program to reduce the self-pay outstanding receivables balance.
- Establish a process to ensure insurance remittance payments are accurately posted to the clients’ files.
- Establish an electronic system to track denials to ensure they are accurately tracked and resolved in a timely manner.
- Continue to transfer programs fees to the City Treasurer’s office in a timely manner and minimize the balances maintained in the NCSB SunTrust bank account.
- Continue to make an assertive effort to properly code methadone services related charges in Profiler to capture and apply the correct fees to patients’ accounts.

Details of the above observations are presented in the results of this report.

NCSB’s management was very proactive during our audit in taking measures to address these observations. We acknowledge the City’s commitment to provide community-based behavioral health care and the efforts of NCSB to pursue and manage financial resources while maintaining compliance with standards and regulations associated with public behavioral health and developmental services.

We discussed our results, conclusions, and recommendations with the NCSB’s Executive Director and her management team on December 2, 2014 and have included management’s responses as an appendix to this report. In addition, management’s actions regarding our recommendations will be subject to a follow-up as part of future audits, reviews, or part of a separate engagement or inquiry.

Deputy City Auditor Tammie Dantzler along with assistance from Assistant City Auditors Barbara Reeves, Yvette Fleming, and Mike Helmke conducted the audit under the direction of City Auditor John Sanderlin. We appreciate the cooperation of the department and the courtesies and assistance extended to us during this audit. We look forward to the continued success of the Norfolk Community Services Board in its highly visible and active role in providing client services for the citizens of the City of Norfolk.

Background

The Norfolk Community Services Board transitioned from an independent organization to a city department in fiscal year 2013. The mission of the NCSB is to provide the citizens of Norfolk who experience behavioral health and developmental disabilities with quality services that instill hope and recovery. To accomplish this, NCSB provides services ranging from education to prevention through acute inpatient crisis intervention. The efforts help ensure that there is a safety net available to the most vulnerable individuals.

NCSB continues to provide services for over 6,000 residents annually, delivering local public mental health, intellectual and developmental disability, and substance abuse services. NCSB is comprised of services for children and adults who have, or
who are at risk of developing, mental illness, serious emotional disturbance, intellectual disabilities, or substance use disorders.

In addition, in October 2012 the NCSB implemented the Profiler Electronic Health Records System to comply with the federal Health Information Technology for Economic and Clinical Health (HITECH) Act. This system is used to track and maintain client’s financial and health information from the intake stage to the creation of insurance bill. NCSB experienced some challenges with the implementation of Profiler, therefore the divisions and bureaus are working collectively to identify and minimize the errors to ensure revenue projections are more accurately projected and met.

**Objective, Scope and Methodology**

Our overall objective was to determine the efficiency and effectiveness of the third-party billing and reimbursement processes. In addition, we also determined if NCSB is consistently performing annual payroll audits as verification that all personnel on the payroll are bona fide employees of the City of Norfolk.

We conducted tests of records and performed other audit procedures as we deemed necessary. We reviewed policies and procedures, financial reports, pay remittances, accounts receivable aging report, bank statements and other applicable documents. Additionally, we did the following to accomplish the stated audit objective:

- Performed a financial analysis to determine if NCSB program fees revenue projections were met.
- Evaluated the fiscal year 2013 and fiscal year 2014 budget process to ensure revenue projections were not intentionally overstated.
- Selected a sample of claims to ensure they were processed and billed in a timely manner.
- Selected a sample of denials to determine if they were processed and resolved in a timely manner.
- Assessed the self-pay billing process to ensure clients are being billed in a timely manner.
- Assessed the reconciliation process to ensure insurance remittance payments are accurately posted to the client’s files.
- Requested copies of bank statements and reconciliations for a six month period to ensure they were reconciled in a timely manner.
- Requested and reviewed pay remittance to verify they were being submitted directly to city’s treasurer’s office.
- Conducted a cash count of the change fund to validate adequate internal controls over cash management.

We also distributed, reviewed, and discussed internal control questionnaires with department leadership and considered the impact of the results on the work of our audit.

We conducted this performance 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 objectives.

**Audit Results and Recommendations**

Our assessment of the third-party billing and reimbursement processes did not disclose any significant issues involving the efficiency and timeliness of collection or
internal control deficiencies. However, during the course of the audit, we noted a few minor areas of concern that we brought to management’s attention for consideration as actions that can make the processing of claims more efficient and effective, improve controls, and automate manual processes that are in place. We also noted that NCSB did not conduct an annual payroll audit as of April 2014. These matters are presented below.

**Self-Pay Billing Statements:**
For approximately 18 months, NCSB did not mail out self-pay billing statements until April 2014. This occurred due to the challenges with the implementation of Profiler Electronic Health Records System. NCSB faced many difficulties such as ensuring the bills to the insurance companies were accurate and reliable, understanding the accounts receivable reports and confirming the modified statements were logical. During the audit, the NCSB staff indicated that although this was the first self-pay statement mailing since the implementation of the new system, they will continue to bill on a monthly basis. Also, they established a phone line that allows clients to call in and speak with a billing representative if they have any billing questions.

We do recognize that self-pay revenue is only between 1% and 3% of total revenue from program fees and can be considered as immaterial; however, we encourage management to continue to make an effort to send out self-pay statements on a monthly basis to increase potential collections.

**Debt Set-off Program:**
In fiscal year 2012, in response to the DBHDS 2011 review of operations, NCSB Financial Management Team established a policy for a debt set-off collection process that is pending the NCSB board’s approval. However, since NCSB is now a city department, we support the implementation of this program to assist in self-pay revenue collection efforts, thus potentially reducing outstanding receivables and bad debt write-offs.

Before the implementation of the debt set-off program, we suggest that management establish a process to ensure that insurance and contract remittance payments are accurately posted in Profiler to reduce the risk of inappropriately applying collection efforts on clients whose accounts should have been cleared.

**Tracking and Resolving Denials**
At the beginning of the audit, NCSB did not have a process in place to track denials in the new system. Denials are claims that were rejected due to documentation or processing errors that could have occurred throughout the process of providing client services from the intake stage to the production of the claim. We noted during February and March 2014 approximately $32,861 in denials were processed. During the course of the audit, a tracking mechanism using an Excel spreadsheet was developed to track and resolve denials. From our testing of denials, we recognized that the reimbursement specialists were making assertive efforts to resolve issues in a timely manner. However, we did note some manual errors on the tracking report. Therefore, we suggest developing an automated report to enhance performance, and increase accuracy and proficiency of resolving denials.

**Transfer of Revenue to the City**
NCSB uses SunTrust to deposit clients fees (cash and checks) collected at the program service sites. This account allows NCSB to securely transport the cash from the program sites including using the Brinks Armored Service and relieves the treasurer’s office of multiple daily deposits and protects the confidentiality of the consumers who could also be a city employee. A check is written from the account to transfer money into the city’s operating account. During the audit, we noted that NCSB did not establish a criterion or minimum account balance for transferring money to the operating account, making periodic transfers as high as $95,000.
We inquired with staff and immediate actions were taken to establish a minimum account balance of $5,000 that would remain in the SunTrust account to cover the bank’s minimum balance requirement of $2,500 and to cover any contingencies such as return checks and/or bank fees.

**Substance Abuse Back Billing**
During our audit, we noted the substance abuse program fees for methadone dosages were being recorded in Methasoft (a methadone dispensing system) but not in Profiler. In addition, charges for other Opioid Program Services such as individual, group and family and physician services were not in Profiler when the payments were being received. Therefore, these payments were reflected as non-applied credits on the accounts receivable reports.

We urge NCSB to make an assertive effort to properly code charges in Profiler to capture and apply the correct fees to patients’ account.

**Recommendations**
We recommend the Executive Director of NCSB implement the following:

1. Continue efforts to send out self-pay statements on a monthly basis
2. Implement the debt set-off program to reduce the self-pay outstanding receivables balance.
3. Establish a process to ensure insurance remittance payments are accurately posted to the clients’ files.
4. Establish an electronic system to track denials to ensure they are accurately tracked and resolved in a timely manner.
5. Continue to transfer programs fees to the City Treasurer’s office in a timely manner and minimize the balances maintained in the NCSB SunTrust bank account.
6. Continue to make assertive efforts to enter billing codes in Profiler to properly bill for methadone dosages.
Inter Departmental Memorandum

TO: John Sanderlin, City Auditor

FROM: Sarah Paige Fuller, Executive Director, NCSB

COPIES TO: Wynter Benda, Deputy City Manager

SUBJECT: Response to Draft Internal Audit

Dear Mr. Sanderlin,

Included below is the Norfolk Community Services Board's response to the draft internal audit presented to the NCSB on December 3, 2014. We appreciated the level of interest and detail that you and your team used in this audit process. Your team was professional and courteous, taking the time to engage our staff in a process that was thorough and educational. We also appreciate that your team understood that activities and processes that may seem simple to outside entities can be quite complex, require multiple levels of work, and multiple staff through a process. We also appreciate that your team recognized that changes made have significant ripple effects, must be tested against multiple rules and processes, and take time.

RESPONSE TO RECOMMENDATIONS:

Recommendation 1: Continue efforts to send out self-pay statements on a monthly basis.

NCSB Management Response 1: Self-pay statements have been going out to NCSB consumers and/or their representatives on a monthly basis since 4/1/2014. One exception is a portion of the Opioid Treatment Program, billing of counseling and nursing for that program is under internal audit and we are scheduled to resume self-pay statements by January 31, 2015.

Recommendation 2: Implement the debt-set off program to reduce the self-pay outstanding receivables balance.

NCSB Management Response 2: We will continue to explore the benefits, limitations, and possible complications of implementing the debt-set off program and will return to the City Auditor's office our recommendation to engage in further discussion on a final recommendation by April 1, 2015.

Recommendation 3: Establish a process to ensure insurance remittance payments are accurately posted to the clients’ files.

NCSB Management Response 3: This is a manual process and the finance team has re-organized their work structure to allow for segregation of duties, so that this task is completed accurately and efficiently.
**Recommendation 4:** Establish an electronic system to track denials to ensure they are accurately tracked and resolved in a timely manner.

**NCSB Management Response 4:** This is an area that the team has been discussing since the inception of Profiler, the Electronic Health Record System. At this point, we are working with our vendor on an improved electronic record format for billing and posting payments. This will greatly improve the electronic environment for the end user managing billing, denials, and resolutions. We will still need to monitor and track the denials for resolution through an electronic spreadsheet. At this point, we are not sure that any more automation is realistic. The process we are using does not appear to be working well and generating an accurate and effective result, and will only be improved with the enhancement. We also continue to work with other CSBs in the state using Profiler to share best practices and products as each of the Profiler CSBs address similar issues.

**Recommendation 5:** Continue to transfer programs fees to the City Treasurer’s office in a timely manner and minimize the balances maintained in the NCSB SunTrust bank account.

**NCSB Management Response 5:** NCSB has been transferring funds on a regular basis from the SunTrust account to the City Treasurer’s Office. Our recommendation is that this should be done once a month on the 15th (or closest business day signature is available) for any posted balance over $5,000 to ensure a consistent and effective practice beginning January 2015.

**Recommendation 6:** Continue to make assertive efforts to enter billing codes in Profiler to properly bill for methadone dosages.

**NCSB Management Response 6:** The methadone program utilizes two different electronic health record systems, both of which are required by state and federal rules. We continue to work on manual processes to merge and/or replicate the information across the two systems as the vendors for each of these products have yet to provide an electronic solution. We have begun effective implementation of billing Medicaid products for methadone services and receiving services.

Overall, I am pleased with the progress we have made over the past 3 years and appreciative of the level of skill and dedication that the NCSB staff have to their work, including the business of billing, electronic health record product utilization, and reimbursement. I am also reassured that we do not have to operate in isolation. It is of great benefit to be a department of the City and have the resource of partnership. It is also of great benefit that we are members of multiple workgroups across the region and the state to share best practices and to work towards resolution of common issues.

Respectfully submitted,

Sarah Paige Fuller  
Executive Director  
Norfolk Community Services Board  
City of Norfolk