

Internal Audit Report

**HEALTH DEPARTMENT
FEE COLLECTIONS
DECEMBER 2016**

Office of the County Auditor





OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA
County Auditor

December 2016

Dr. Maura J. Rossman, M.D., Howard County Health Officer
The Honorable Members of the County Council
The Honorable Allan Kittleman, County Executive

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted an audit of the Health Department's Fee Collections Process. The body of our report presents our findings and recommendations.

Our audit disclosed that although policies and controls exist over the process, they are not current and do not reflect the implementation of new client software. Receipts were not always submitted timely for subsequent deposit and the Department did not account for all receipt forms. Due to problems in implementing new client software, the Department did not charge or collect fees for certain services at the time of service. However, fees were collected subsequently. Outstanding accounts receivable were not always followed up for collection in a timely manner. We made recommendations which we believe will improve the internal controls over the process.

Our findings have been reviewed with the Health Officer and we have included the Health Department's responses. We wish to express our gratitude to the Health Department for the cooperation and assistance extended to us during the course of this engagement.

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EXECUTIVE SUMMARY

We conducted a performance audit of the Health Department's fee collections process. The objectives of our audit were to:

1. Determine if the Department had adequate internal controls over the collection of fees for services.
2. Determine if the Department was properly assessing and collecting the appropriate amount due for services provided.

Conclusions

Regarding our first objective, we found that receipts were not always submitted timely for subsequent deposit and the Department did not account for all receipt forms. Although the Department had established written procedures for fee collections and processing, the procedures had not been approved by Department management and did not reflect the implementation of new client software.

For our second objective, the audit disclosed that, due to problems in implementing new client software, the Department did not charge or collect fees for certain services for at least seven months. We found that the Department did not always follow up on outstanding accounts receivable for collection in a timely manner.

BACKGROUND

The Howard County Health Department is the State agency responsible for protecting the health of Howard County residents. The Department provides a variety of public health services that meet the needs of County residents including community health, environmental health and direct personal health services.

In accordance with Federal, State and County laws, the Department assesses and collects fees for services provided. For fiscal year 2015, revenues collected and deposited totaled approximately \$1.2 million.

For health care services, the Department assesses a fee based on the specific service provided and the client's ability to pay. The Department requires clients to provide documentation of ability to pay. No one is denied service due to an inability to pay.

For environmental health services (such as licenses for restaurants and well/septic systems) fees are assessed and paid at the time of application. The fees are set by the Department in accordance with State and County laws and approved by the County Council.

The Health Department used a client software program to track services provided (such as family planning and addiction counseling) and the related fees. Automated accounts receivable records were maintained separately. As of October 2016, accounts receivable for services tracked by this client software totaled \$223,000, most of which exceeded one year old. During the audit, the Department was in the process of implementing a new client software system that would track services, fees, billings and accounts receivable.

FINDINGS AND RECOMMENDATIONS

We performed tests of selected transactions at the Environmental Health, Columbia Health Center, and Behavioral Health units during the period from July 1, 2014 through September 30, 2015. We tested judgmentally selected items to determine if the proper fees were assessed, if the transactions had the required supporting documentation, if the fees collected were deposited in the bank in a timely manner, and if collection efforts were made when appropriate.

Finding 1

The Department did not assess or collect fees for certain services.

As noted in the Background section, the Department was in the process of implementing a new automated system for client services. However, we were advised that due to problems with the implementation, the Department did not assess or collect fees for services provided by the Columbia Health Center beginning in February 2015. The Department stated that in September 2015, the new system was fully implemented and was being used to assess and collect fees. The Department stated that it was in the process of reviewing services provided during this period and assessing the related fees. In October 2016, the Department advised us that it billed over \$325,000 for services provided based on its review.

We recommend that the Department ensure that it bill and collect fees for all services rendered.

Health Department Response:

The Health Department agrees with Finding 1.

During implementation of the Health Department new Electronic Medical Record system, software problems caused a delay in billing as outlined in Audit Finding 1.

All charges for services that were delayed have since been billed.

Software problems have been corrected and current charges are billed daily.

Finding 2

Accounts receivable were not followed up and referred to the State's Central Collection Unit timely.

Our test of the 15 accounts receivable selected from the June 30, 2015 Aged Accounts Receivable Report disclosed that accounts receivable were often not pursued for collection,

including submission to the State of Maryland's Central Collection Unit (CCU). Specifically, although 10 of the accounts included services provided as far back as April 2013, we could not locate any documentation that the accounts had been followed up on, including submission to CCU for collection efforts.

Our detail testing of specific patient visits also showed that collection efforts were not adequate. For example, our test of 50 Behavioral Health Unit client visits between July 2014 and September 2015 found that charges for 22 visits had not been paid as of March 2016. Of these 22 visits, the Department had submitted 6 to CCU for collection, written off 9 balances and the remaining 7 were still outstanding with no evidence of subsequent collection efforts. We were advised that the nine accounts written off had not been submitted to CCU for collection or abatement. CCU regulations require that State agencies transfer all delinquent accounts to CCU for collection or abatement and specify collection and referral actions.

As noted earlier in this report, accounts receivable related to client services totaled \$223,000.

We recommend that the Department pursue collections on all outstanding accounts in accordance with CCU requirements. We also recommend that the Department review its past due accounts and take appropriate action.

Health Department Response:

The Health Department agrees with Finding 2.

The accounts receivable program used over the last ten years showed some accounts with balances in arrears. Some of these charges should have been written off and some sent to CCU.

A reconciliation of all accounts was undertaken in September 2016 and will be completed by the end of January 2017. All delinquent charges are being forwarded to CCU for collection. Other charges not appropriate for collection through CCU are being forwarded for abatement. Once abatement is approved these charges will be written off. The reconciliation is currently 80% complete.

The new EMR and billing system and procedures for reconciliation of aging reports and client accounts now produce monthly statements for clients, monthly CCU referral for delinquent charges and monthly reconciliation of the Accounts Receivables aging report to assure compliance with CCU and abatement requirements.

Finding 3**The Environmental Health Unit did not always transfer receipts collected to the Fiscal Office timely.**

Our test of 30 Environmental Health Unit transactions found that the unit did not always transfer receipts to the Department's Fiscal Office for subsequent deposit in a timely manner. Specifically, 10 of the 30 receipts were transferred from 3 to 9 business days after initial receipt. The Comptroller of Maryland's *Accounting Procedures Manual* requires that receipts be deposited no later than the first day after receipt. Failure to transfer receipts for deposit timely increases the risk of loss or theft. We did note that the Fiscal Office deposited receipts timely once received.

We recommend that the Environmental Health Unit transfer receipts to the Fiscal Office for deposit in a timely manner (i.e., no later than the day after receipt).

Health Department Response:

The Health Department agrees with finding 3.

Procedures have been put in place to check and verify the timely transfer of receipts. Verification at the close of business (COB) daily is now performed by Fiscal.

Finding 4**Prenumbered receipts were not accounted for.**

The Department did not properly account for prenumbered receipt forms used by the Environmental Health Unit. The Unit records all receipts on prenumbered forms which are submitted to the Fiscal Office along with the related receipts. Our 30 test items disclosed one receipt number was recorded incorrectly in the documentation submitted by the Unit to the Fiscal Office and this error was not detected. Accounting for prenumbered receipt forms ensures that none are missing or duplicated and that all receipts are received for subsequent processing.

We recommend that the Department ensure the Fiscal Office accounts for all prenumbered receipt forms issued by the Environmental Health Unit.

Health Department Response:

The Health Department agrees with finding 4.

The Health Department has established additional procedures for the Fiscal program to monitor the distribution and accounting for sequentially pre-numbered receipts.

Finding 5**Written procedures are outdated and do not reflect implementation of new software.**

We found that while the Department had established formal procedures for fee collections, the procedures are in draft form and have not been approved. This draft was dated May 21, 2013 and had not been updated to reflect changes due to the implementation of new automated client software.

We recommend that the Department update and approve its written procedures, including procedures related to the implementation of new software.

Health Department Response:

The Health Department agrees with finding 5.

The Health Department is currently in the process of reviewing the Standard Operating Procedures for its Fiscal unit. Once reviewed and updated procedures will be approved and distributed electronically and in writing to appropriate staff.

AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We conducted a performance audit of fee collections and accounts receivable of the Health Department. The audit included all transactions made for the period from July 1, 2014 to September 30, 2015.

We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States. Those standards require us to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to:

1. Determine if the Health Department had adequate internal controls over the collection of fees for services.
2. Determine if the Health Department was properly assessing and collecting the appropriate amount due for services provided

To accomplish our objectives, we met with Department staff responsible for the collections process to review formal guidance, operations and controls over the program. We obtained documentation for all fees received between July 1, 2014 and September 30, 2015. We performed detailed tests of transactions as well as other tests designed to ensure compliance with formal guidance.

Department management is responsible for establishing and maintaining effective internal control. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

We conducted our field work from July 2015 to March 2016. The Department's responses to our findings and recommendations are included in this report.

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