Office of the Public Auditor

Commonwealth of the Northern Mariana Islands
Website: http://opacnmi.com
1236 Yap Drive, Capitol Hill, Saipan, MP 96950

Mailing Address:
P.O. Box 501399
Saipan, MP 96950

E-mail Address:
mail@opacnmi.com

Phone: (670) 322-6481
Fax: (670) 322-7812

March 16, 2017

Esther L. Muna
Chief Executive Officer
Commonwealth Healthcare Corporation
P.O. Box 500409
Saipan, MP 96950

Dear Chief Executive Officer Muna:

Report on the Audit of the Commonwealth Healthcare Corporation's Patient Revenue Cycle

This report presents the Office of the Public Auditor's (OPA) audit of the Commonwealth Healthcare Corporation's (CHCC) patient revenue cycle management. The hospital is the primary source of health care for residents and the visiting public. Although management has made Centers for Medicare and Medicaid Services (CMS) recertification its top priority for the last five years, the financial management of the hospital must also become a priority due to its direct and indirect effect on CMS certification.

Our audit offers 11 recommendations to address CHCC's management of revenues, noncompliance with procurement regulations, and inadequate oversight of outsourced billings and collection. We believe that implementation of these recommendations will improve collections and minimize losses.

Based on the response received from CHCC, OPA considers all 11 recommendations unresolved. The law requires OPA to report semiannually on the audited entity's compliance with OPA's recommendations. OPA will make contact with CHCC again in June and December until all recommendations are resolved.

As required by law and the auditing standards, all audit reports issued by OPA are made public and can be found on OPA's website at www.opacnmi.com.

Sincerely,

Michael Pai, CPA
Public Auditor

MP/db/gt
Enclosures

Cc: Honorable Ralph DLG. Torres, Governor
David Blake, OPA

Office of the Public Auditor

Commonwealth Healthcare Corporation

Patient Revenue Cycle Management

OPA Report No.
AR-17-01

Table of Contents

Results in Brief

The Commonwealth Health Center is the only hospital and emergency care facility in the Northern Mariana Islands. It serves a clientele of more than 50,000 residents. At its inception on October 1, 2011, the Commonwealth Healthcare Corporation (CHCC), which manages the health center, already faced significant institutional challenges. It had inadequate financial resources, as well as insufficient organizational planning and information technology (IT) infrastructure to be successful. CHCC had neither the technical expertise, nor the experience to manage a multimillion-dollar corporation, as evidenced by its initial months of delayed or postponed payroll, utilities, and tax payments, as well as a questionable contract with a stateside billing and collection firm. Adding to these complications, the Centers for Medicare and Medicaid Services (CMS) conducted a 2014 survey that identified seven areas of noncompliance related to quality of health care, which could potentially risk termination of the Commonwealth Health Center's hospital provider agreement with CMS, extended a third time until 2017. Without CMS certification, CHCC will be unable to claim reimbursement for medical treatment provided to its CMS-covered patients.

Although CHCC has managed to meet its last few years of payroll obligations, its utility and tax payments continue to lag. Furthermore, the independent auditor could not express an opinion on the financial statements for three consecutive years due to the absence of sufficient accounting records and departure from standard accounting principles and practices.

We found that CHCC did not have sufficient internal controls in place to manage patient revenues effectively. In addition, CHCC did not comply with procurement regulations when it continued to use an independent billing and collection firm despite the contract's expiration. CHCC also has not reconciled all forwarded accounts and payments received from the contractor to identify any discrepancies and potential losses. We believe these issues have occurred for various reasons, including an inefficient billing and accounting system, inadequate staff training, a growing backlog in billing and collection, and a lack of policies. Further, there have been six changes in the chief financial officer position since 2011—a situation that prohibits CHCC from making financial progress and which, in turn, may impact health care available to residents.

CHCC's existing financial constraints are well known to its management. In fact, CHCC hired a consultant, funded through a Department of the Interior grant, to evaluate and improve the revenue cycle. This project is ongoing but, once complete, may provide practical solutions to resolve some of the findings presented in this report. Full implementation of our recommendations may help improve CHCC's revenue cycle, while minimizing its risk of potential losses from bad debt. At some time in the future, CHCC must replace its current IT system with a more robust, efficient one. As changes occur often in health care, management's continuous review of its internal control system while keeping up with health care industry changes is critical to financial sustainability.

Introduction

Objective

The Office of the Public Auditor (OPA) reviewed Commonwealth Healthcare Corporation's (CHCC) patient revenue cycle management to evaluate the adequacy of internal controls pertaining to its revenue cycle, the accuracy and timeliness of its billings, and the effectiveness of its collection efforts. We limited our review to the processes carried out at the Commonwealth Health Center located on Navy Hill, Saipan. Appendix 1 provides further details of our scope and methodology.

Background

CHCC is a public corporation of the Commonwealth of the Northern Mariana Islands (CNMI) Government. It oversees the Commonwealth Health Center, CNMI's only full service hospital, an 86-bed, Medicare-certified facility that provides a wide range of comprehensive health care services, complemented by private providers, insurers, a private pharmacy, and other service providers offering care to more than 50,000 residents. CHCC also oversees the Kagman Community Health Center, the Rota Health Center, and the Tinian Health Center.

CHCC, formerly the Department of Public Health (DPH), was formed as a public corporation to coordinate the delivery of quality health care to all Commonwealth residents in a financially responsible manner by Public Law (PL)16-51 on January 15, 2009. The law also established a seven-member advisory board of trustees to guide and assist the corporation. CHCC is headed by a Chief Financial Officer (CEO), nominated by the board of trustees and appointed by the Governor to a four-year term in office.

Prior to CHCC receiving corporation status, the central Government's Department of Finance processed and managed the hospital's accounting records, except for patient records, billing, and collection. As a result, hospital financials were part of the Government's financials, causing any shortfall in revenues to be subsidized by CNMI's General Fund. These subsidies decreased from about $37 million in fiscal year (FY) 2011 to $4.7 million in FY 2012, with further reductions in the following years.

After receiving corporation status, CHCC received an audit disclaimer of opinion for three consecutive years, as shown in the financial statements from FY 2012 to 2014. A disclaimer of opinion is used when the independent auditor is unable to obtain sufficient appropriate evidence to form an opinion. In addition, as found in the most recent audit report for FY 2014,[1] the independent auditor cited 15 financial statement findings and 30 Federal awards findings with questioned costs of $653,621.

PL 17-55 appropriated $5 million in seed funds to the hospital in its first year of operation in FY 2012. Out of this sum, only $4.7 million was recorded. In the same fiscal year, CHCC management noted that, during its first year of operation, the hospital faced three major challenges: (1) finances, (2) planning and/or development of a strategic plan, and (3)

[1] The FY 2015 audited financial statements have not been completed.

management's inexperience in dealing with the magnitude of financial shortfalls and problems resulting from lack of planning. Court documents filed in a suit involving CHCC illustrate the financial shortfalls. The documents showed that CHCC accumulated approximately a $14.6 million utility bill. To address this debt, CHCC signed a Net Metering Intergovernmental Cooperative Agreement with the Commonwealth Utilities Corporation until all outstanding amounts are paid.

As of March 14, 2016, CHCC had 628 employees, of which 477 receive compensation from local funds and 151 from Federal funds. CHCC's primary source of operating revenue is hospital services, but it also generates revenues through non-hospital service fees and contributions. As illustrated in Figure 1, the organization reported an operating loss each year from its inception in FY 2012 to 2014.

	FY 2012	FY 2013	FY 2014
Operating Revenues	$29,651,097	$44,315,127	$47,942,629
Less: Bad Debts	-	$14,706,505	$9,434,557
Operating Expenses	$34,075,575	$35,221,811	$42,592,687
Operating Loss	**($4,424,478)**	**($5,613,189)**	**($4,084,615)**

Figure 1: Comparison of CHCC's statement of revenues, expenses, and changes in net assets.
(Source: Financial Statements and Independent Auditor's Report for Years ended September 30, 2012 to 2014.)

Despite operating at a loss each year, CHCC has received non-operating income from legislative appropriations, Federal grant contributions, and settlements. In addition, the Marianas Public Land Trust granted CHCC a $3 million line-of-credit to aid its operational activities and $328,655 for its Electronic Health Records Project. Furthermore, the transfer of capital assets from the central Government took place in FY 2014, bringing its year-end net position back to a positive amount as presented in Figure 2. These have helped reduce the reported impact of CHCC's operating losses on its net position.

	FY 2012	FY 2013	FY 2014
Operating Loss	($4,424,478)	($5,613,189)	($4,084,615)
Net non-operating income	$4,623,213	$3,763,111	$1,792,567
Capital contribution	-	-	$39,916,090
Change in net position	**$198,735**	**($1,850,078)**	**$37,624,042**

Figure 2: Comparison of CHCC's statement of revenues, expenses, and changes in net assets.
(Source: Financial Statements and Independent Auditor's Report for Years ended September 30, 2012 to 2014.)

CHCC's Sliding Fee Scale Program was implemented to assist patients whose extenuating circumstances make it difficult to pay for medical services. Such circumstances consist of inadequate income and lack of medical insurance coverage. The Sliding Fee Scale Program is a patient's final option for the payment of medical services, and only applies to medical services or items provided by CHCC facilities. CHCC absorbs all related costs of this program. At this time, data was not available to determine total historical costs because patients eligible for the Sliding Fee Scale Program were categorized as self-pay prior to June 2016.

Findings

Previous audits, both prior to and after the creation of CHCC as a corporation, have shown the hospital's recurring inability to manage patient revenues effectively. Revenue shortfalls significantly impact CHCC's ability to pay for critical services and supplies. Also, without the data necessary to analyze overall financial health, the hospital risks future losses and could jeopardize health care quality for Commonwealth residents and tourists.

Due to inadequate oversight and monitoring by CHCC management, we found several internal control deficiencies that hinder the effective management of patient revenues. In addition, CHCC has not complied with its procurement regulations, having continued to use an independent billing and collection agency despite the contract's expiration. Moreover, CHCC has not reconciled all forwarded accounts, billings, and collections received from the contractor to identify any discrepancies and minimize the risk of fraud or potential losses.

Managing Patient Accounts Receivable

In FY 2014, CHCC wrote off $203 million in accounts receivable. This amount represented accounts receivable incurred in FY 2011 and prior to the inception of the corporation. In FY 2014, CHCC estimated that $24 million, or nearly 50 percent, of its total $42.9 million in accounts receivable may be uncollectible. This amount may be larger as receivables for the Rota Health Center and the Tinian Health Center were not recorded in the audited financial statements and their collectability is unclear.

For any hospital, managing patient accounts receivable is critical to maintaining financial sustainability. This management process begins from the time a patient schedules an appointment to the time the bill is fully paid. The revenue cycle includes all administrative and clinical functions that contribute to the capture, management, and collection of patient service revenue. See Appendix 2 for CHCC's revenue cycle process. We interviewed those involved with the revenue cycle function and analyzed a sample of 142 patient visits at the Commonwealth Health Center in FY 2015 through the second quarter of FY 2016. In our review of CHCC's revenue cycle procedures, we found that:

- Insurance coverage and eligibility are not always verified;
- Upfront payments are not always collected;
- Billings are not timely;
- Follow-up procedures are not performed;
- Claim denials are not effectively managed; and
- Poor documentation and inadequate review of third party reimbursements occur.

Insurance coverage and eligibility are not always verified

Early verification of a patient's insurance coverage and eligibility is key to avoiding potential denials from insurance companies and further delays in collection. This verification is vital especially as patients are required to assume increased financial responsibility for their medical care. For instance, most insurance plans have a deductible at the beginning of each year that the patient meets before the plan makes any payments. These deductibles vary by plan and range

anywhere from a few hundred dollars to thousands of dollars. If a patient has not met the deductible at the time of a visit or has a copayment, the patient is responsible for the full bill until he or she meets the deductible.

CHCC's clinical attendants, who are responsible for patient registration, do not always perform insurance verification. Instead, insurance verification is often performed when, or if, patients proceed to the cashier for payment. In our interview with one cashier, we learned that cashiers can immediately verify coverage over the telephone, except for mainland-based insurance companies that require long distance call access. Lack of internet access by relevant staff further complicates the insurance verification process.

Relevant staff also must verify if specific programs under CHCC's insurance coverage category of "Guarantors" cover payment for medical services or procedures. Visits that qualify under these programs are billed to the guarantors, not the patient. Programs under "Guarantors" include the Breast and Cervical Screening Program and CHCC's employee screening program. In one sample, CHCC received the bill as the guarantor, although we verified with the Human Resource (HR) Department that the patient was not a CHCC employee at the time of the visit. As coverages tend to change more often for some people, insurance verification should be conducted each time a patient is seen.

In addition, where patients have multiple coverage, clinical attendants must be able to identify a patient's primary and secondary insurance providers in order for the billing staff to properly bill primary insurance providers first. Billing the wrong insurance first creates inefficiency and more delays in billing and collection. Clinical attendants have neither accessibility, nor adequate training to verify and properly sequence insurance coverage. Billing and collection staff have attested that bills or claims have been returned by the insurance company so that CHCC can bill the correct provider. In one of our samples, we found that it took CHCC 137 days to bill the correct insurance provider and an additional 10 to 49 days to collect payment. At the completion of OPA's review, CHCC had not billed the secondary insurance provider for the same visit, causing further delays in billing and collection and a potential for loss of revenue.

Upfront payments are not always collected

Collection of hospital revenue should be made at the earliest possible time. Given CHCC's track record of delayed billing and collection, CHCC should collect what is due from the patient on the same day. Collection should be made from all patients, even those with insurance coverage, unless it is certain that the insurance or guarantor will pay the bill in full.

During our review, we found that CHCC collects upfront payments from self-insured and insured patients only 11 percent of the time. In our interviews with staff, we found that collecting upfront payments is challenging, as some patients walk out without stopping by the cashier's window. Also, if the doctor has not completed notes, the bill also cannot be estimated. This trend decreases CHCC's chances of collecting payment for services rendered.

Billings are not timely

Hospital billings should be prepared as soon as possible. Once coding has been completed, the billing department prepares the primary bills and sends them to primary insurance providers. The collection department then posts the payments, including adjustments, received from primary insurance providers and prepares the secondary bills for any remaining balance to be sent to the secondary insurance provider or the patient.

We found that CHCC staff takes an average of 156 days to mail out a primary bill, and another 210 days to mail out a secondary bill after payment is received from the primary payer. This suggests that a bill takes at least a year to go through the billing cycle. The processing of private insurance and Medicare billings are prioritized because of their prompt payment and the private insurances' and Medicare's strict enforcement of its 1-year billing submission policy. Ten, or 20 percent, of the visits we reviewed have not been billed to insurance, and eight out of the ten have already exceeded 365 days, after which revenues may no longer be realized. Moreover, unprioritized bills are prepared as needed, only after the priority billing has been completed. See Figure 3 below, which shows the number of unbilled visits, with Medicaid and self-pay being the highest and the oldest.

Insurance Type	Sample Visits	Not Billed	Percentage Not Billed (by type)	Oldest Visit in Samples Not Billed
Self-pay	34	18	53	11/16/14
Private	51	10	20	12/03/14
Medicaid	48	29	60	10/07/14
Guarantor/Sliding Fee	9	-	-	-
Total	142	**57**	**40**	

Figure 3. Sample visits by coverage type unbilled as of September 30, 2016.
(Source: OPA analysis of sample universe data provided by CHCC.)

We believe the delays in billing continue to occur because CHCC has not properly addressed an already large backlog and continues to operate under an inefficient billing system. We recognize that CHCC has taken steps to address its backlog, but management reports show that the backlog continues. In a three-month period, CHCC spent an estimated $27,000 for overtime work performed by coders, billers and collection staff. Nevertheless, we could not determine the amount of catch-up accomplished by the money spent. Considering current staffing levels, it remains unclear when all coding, billing and collection functions will be caught up.

In a report provided by the coding supervisor as of April 2016, the number of uncoded inpatient and outpatient discharges are 10,000 and 140,000, respectively. The numbers are high because they comprise self-pay and Medicaid visits either not prioritized or not recorded in the billing system.[2]

According to a report provided by CHCC, the total amount billed for FY 2015 was $45.9 million, of which $9.3 million was collected and $11.4 million was adjusted for claim denials

[2] Self-pay visits were outsourced to a contractor to perform coding, billing and collection services. CHCC has not performed a reconciliation to determine if all related visits were recorded in CHCC's billing system.

and contractual adjustments. The two largest payers are private insurance and Medicare (see Figure 4). This is not surprising as billings to Medicare and private insurances receive priority over Medicaid and self-pay. It is important to note that CHCC is currently backlogged in billing and posting payments and adjustments. Therefore, the data provided by CHCC does not reflect total revenues for any given period.

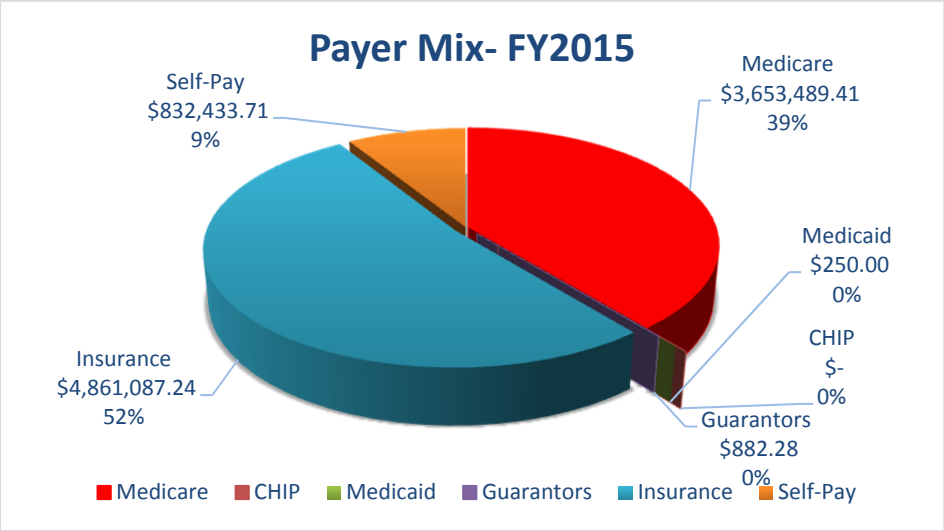
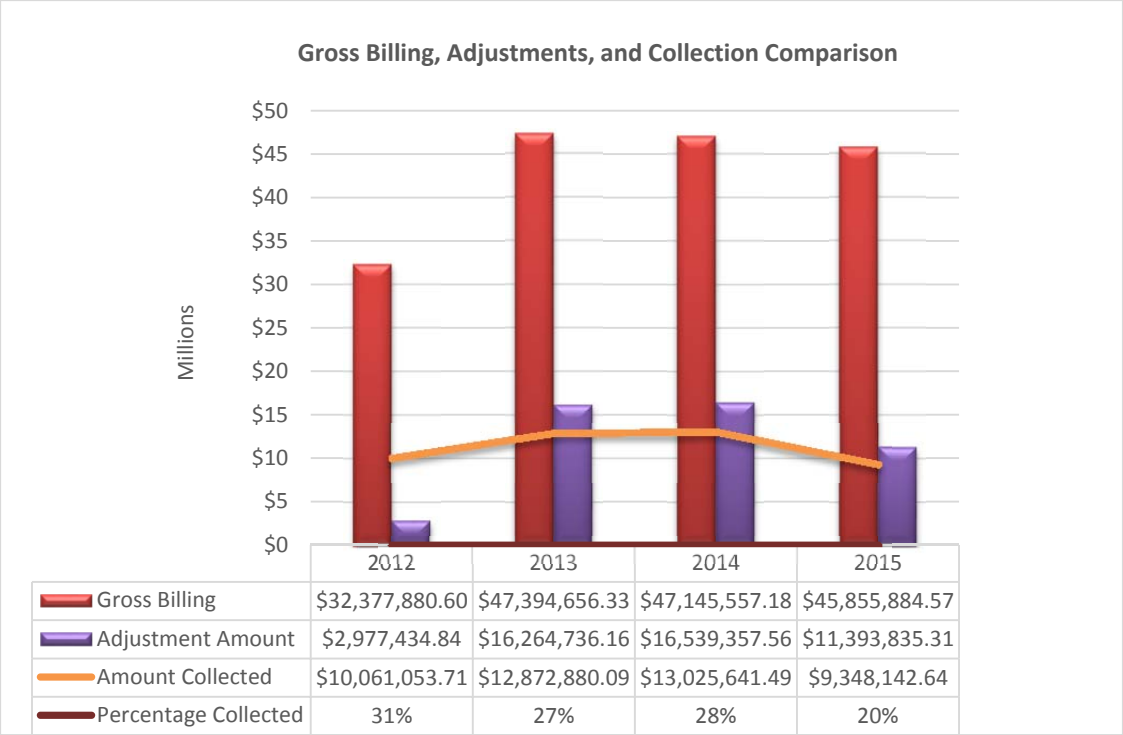


Figure 4: CHCC's Payer Mix for FY 2015.
(Source: CHCC listing of all Bills for all billing sources with visit dates from October 1, 2014, to September 30, 2015.)

In the collection department, the backlog is also growing rapidly, causing a delay in the preparation of secondary billings and collection of related revenues. The backlog in posting hospital payments grew from $20 million to $26 million in a 9-month period from November 2015 to August 2016, and does not include payments from guarantors. With a backlog this big, it is impossible to determine actual revenues and receivables at any given time. Moreover, CHCC needs more than overtime assistance to resolve its backlogs.

Posting payments is not an efficient process either, since CHCC does not record hospital payments in the billing system at the time of collection. This occurs because the current billing system does not have a cash receipts module that directly records payments in a patient's account. Instead, CHCC issues cash receipts using the CNMI Tax System Release 6.0 software, which is not linked to the hospital's billing system and thus requires duplicate work to document payments received. These inefficiencies promote untimely secondary billings, resulting in poor collection and a potential for revenue losses due to bad debt.

According to a report generated from the billing system, CHCC's collection rate ranged from 20 to 30 percent during the last 4 years, as illustrated in Figure 5. This report does not include the unrecorded payments as previously discussed. It also excludes billings that have not been prepared and recorded in the billing system. Until all functions are up to date, the true financial condition of the hospital cannot be assessed.



	2012	2013	2014	2015
Gross Billing	$32,377,880.60	$47,394,656.33	$47,145,557.18	$45,855,884.57
Adjustment Amount	$2,977,434.84	$16,264,736.16	$16,539,357.56	$11,393,835.31
Amount Collected	$10,061,053.71	$12,872,880.09	$13,025,641.49	$9,348,142.64
Percentage Collected	31%	27%	28%	20%

Figure 5: Comparison of gross billings, adjustments and collection for FYs 2012 thru 2015.
(Source: CHCC Listing of All Bill for All Billing Sources with Visit Dates for FYs 2012 to 2015.)

Although our review of the current billing system and its information technology (IT) infrastructure was limited, we believe the current system is inefficient and not designed to manage the revenue cycle effectively.

In addition, the design of the current billing process allows each bill to be sent separately, unless multiple bills for the same patient are ready for transmittal at the same time. Unlike bills that have to be sent to private and Medicare insurers in a specific format, a simple billing statement sent to a patient could summarize all bills that require payment at a certain point in time.

Follow-up procedures are not performed
Once a patient fails to pay a bill, payment reminders or follow-up notices should be sent. The current backlog prevents the billing and collection staff from performing follow-up procedures, therefore increasing the risk of revenue loss. We determined, through our testing and inquiries with the billing and collection staff, that even though no payment of a formal bill occurs within the requested number of days, a follow-up letter is not prepared. Simply providing a billing statement and payment reminders at the time of registration should improve follow-up efforts and collection.

Claim denials are not effectively managed
Key performance indicators such as claim acceptance/rejection claims and claim denial rates are one way to track progress and identify issues within the revenue cycle processes. CHCC does not effectively manage claim denials that result in potential revenue loss. Based on information provided by the billing department, we found more than $200,000 in claims rejected due to the attending physician, and more than $4 million rejected due to billing errors from April 2015 to

May 2016. In our sample, we found three instances where Medicare paid for a facility bill but then denied or rejected the related professional bill (pro-fee bill) because the rendering provider was not certified. The billing staff indicated that a pro-fee bill is not paid by Medicare if the provider does not have a valid Provider Transaction Access Number (PTAN).[3] The HR Department ensures that providers submit an enrollment application with Medicare at the time of hire. However, HR did not monitor the process in 2015, which resulted in numerous claim denials.

In addition, we found that an insurance program denied payment for a procedure code considered to be inclusive of another paid procedure. A proper recourse or solution has not been identified to address this issue. Thus, CHCC increases its risk of lost reimbursements for unpaid claims.

Poor documentation and inadequate review of third-party reimbursements
Good internal controls state that quality information should be internally and externally communicated to achieve an entity's objectives. Up to the present, CHCC has operated under contracts executed by the former entity, the Department of Public Health (DPH), which included an automatic renewal clause. We obtained copies of some of these contracts directly from the insurers as CHCC could not provide them. In addition, a February 2013 memorandum from the former CEO gave discounts as high as 50 percent to local insurance companies for room-and-board charges and a 10 percent discount for all other procedures regardless of prompt payment. At the time of the 2013 memorandum, a new contract negotiation had begun but had not been executed. As of 2016, CHCC still has not signed a new contract with the insurance companies, and the same discounts continue to apply. Nevertheless, billing and collection staff had no knowledge of these discounts since many had not seen the former CEO's memorandum or any of the third party contracts.

For example, a patient covered under private insurance entered the hospital for 26 days, then received a discharge in January 2015. CHCC finalized the bill of $63,650 on November 2015, submitting it to the insurance company for collection. Total discounts amounted to $21,267, with about 90 percent attributable to the room-and-board discount. CHCC collected $42,297 from insurance in February 2016. CHCC sent the patient's final bill in August 2016 for an amount less than $100.

Insurance companies use various fee schedules undetected by CHCC, causing the reimbursement amount to be lower than expected. This occurred because CHCC did not provide staff adequate training and relevant information to review third party reimbursement effectively. For example, we reviewed a claim reimbursed by private insurance, which used two different sets of fee schedules implemented in 2007 and 2012. However, the collection staff did not identify this inconsistent application of fees until we inquired with the insurance company. The insurance company indicated that it used the 2007 fee schedule because it could not find the procedure code in the 2012 fee schedule. Another procedure in the same claim went unpaid because both the 2007 and 2012 schedules did not have the code. Our sample review showed that the current fee schedule lacked 19 procedure codes. Another insurance company used a fee schedule, effective April 2014, but we could not find a copy of this schedule in the Commonwealth

[3] PTAN is a Medicare-only number issued by a Medicare Administrative Contractor upon enrollment to Medicare.

Register or match it to the 2012 schedule. We also reviewed the billings and compared them to the current fee schedules, finding price differences in six procedure codes.

CHCC could have mitigated this situation had it provided staff with the information and training necessary to carry out their duties. At the same time, we found that the current fee schedule had not been properly adopted in the Commonwealth Register, and is found neither on CHCC's website nor in the Northern Mariana Islands Administrative Code.

Recommendations

We recommend that CHCC:

1. Develop and implement policies and procedures to promptly verify patient's insurance coverage and eligibility; discuss payment requirements, payment reminders and options with patients at the time of registration.

2. Collect upfront payments from all patients regardless of coverage, unless it is certain that the insurance or guarantor will pay the bill in full. If patients are unable to make payment, CHCC should discuss payment options with the patients and ensure that follow-up procedures are performed.

3. Where applicable, require that doctors and nurses prepare the information necessary to estimate a bill at the time a patient is discharged.

4. Develop a plan of action that is effective and timely, and addresses the current backlog related to coding, billing, collection, and posting payments.

5. Seek technical assistance that would result in the assessment of the current IT structure and the acquisition of a comprehensive accounting and billing system.

6. Develop and implement policies and procedures effectively to address claim denials and rejections.

7. Provide staff with relevant documentation and training; and develop and implement policies and procedures effectively to review third party reimbursements.

8. Properly adopt and publish a listing of all procedures and related fees in one complete schedule.

9. Update contracts with insurance companies.

Noncompliance with Procurement Regulations in CHCC's Use of an Independent Billing and Collection Firm and Inadequate Reconciliation of Forwarded Accounts

Against procurement regulations, CHCC continues to use an independent contractor to perform billing and collection services. Under DPH, an independent billing and collection agency received a five-year contract, which continued through the establishment of the new corporation and expired on October 31, 2015. CHCC continues to use the contractor to bill and collect from visits that occurred prior to November 1, 2015. A provision in the old contract allowed continued collection from the contractor through already established payment agreements with patients, but anything more than this would suggest the need for a new contract. We believe management did not perform due diligence in complying with its regulations.

We suspect that part of CHCC's backlog in coding make up those visits already coded and billed by the contractor, using its billing software. Since CHCC's billing system did not record these accounts receivable, collections received from the contractor relating to those accounts could not be posted by CHCC. Only in late 2014 did CHCC provide the contractor with access to CHCC's billing system so that bills prepared by the contractor were being created and recorded. Nevertheless, CHCC has not performed adequate reconciliation to identify any issues with the contractor's billing and provide confidence that all monies are being collected and deposited into the bank trust account. In a report provided by CHCC, the total billed for self-insured visits amounted to about $9.9 million and $9.5 million in FY 2014 and 2015 respectively, but collections were only recorded at below 10 percent. See figure 6 below for details.

Self-Insured Billings	FY12	FY13	FY14	FY15	3rd Qtr. FY16
Total Billed	$5,644,880	$11,002,193	$9,974,186	$9,568,178	$5,803,226
Total Recorded Collections	740,595	1,288,927	586,904	832,434	237,983
Percentage of Collection	13%	12%	6%	9%	4%

Figure 6: Total billed and collected from self-insured billings by fiscal year.

Without adequate account reconciliation and timely posting of payments, we cannot determine how much of the $18 million for FY 2014 and FY 2015 was billed and collected by the contractor, and whether any amount remains unrecorded. We believe this situation occurred because CHCC did not adequately review the contractor's work to ensure the adequacy of billings and collections, as well as their timely deposit into the bank trust account.

Recommendations

We recommend that CHCC:

10. Reconcile all billings created and payments received from the contractor. Any discrepancy should be resolved and the overall effect be analyzed and documented.

11. Comply with CHCC's Procurement Regulations when seeking the services of an outside billing and collection agency.

Conclusion and Recommendations

At the onset, CHCC faced significant challenges associated with financial self-sufficiency. CHCC spun off from a fiscal environment that relied heavily on subsidies and appropriations no longer supported by the central Government. In addition, CHCC continues to use the Department of Finance's accounting software and cash receipt system, which is not linked with CHCC's billing system. Without a comprehensive system that links accounting and billing, CHCC is unable to effectively obtain the information needed by management and interested parties to make informed decisions. Furthermore, problems occurring early in the revenue cycle have significant ripple effects. The further an error travels through the revenue cycle, the costlier revenue recovery becomes. CHCC should monitor all functions of the revenue cycle to address bottlenecks, improve efficiency, and monitor potential risks in a timely manner.

In addition to the recommendations presented below, OPA would like to stress the importance of having a competent Chief Financial Officer on board and that the position should be maintained with minimal turnover. This is especially important as CHCC gears up to establish a strong accounting and revenue function. At the same time, although the initial investment will be costly, a billing system that is robust and efficient is also necessary. Funding sources should be explored as CHCC's current financial resources are limited. Lastly, continuous monitoring by management of the internal control system is necessary to ensure the achievement of revenue cycle goals and objectives.

Recommendation Summary

We recommend that CHCC:

1. Develop and implement policies and procedures to promptly verify patient's insurance coverage and eligibility; discuss payment requirements, payment reminders and options with patients at the time of registration.

2. Collect upfront payments from all patients regardless of coverage, unless it is certain that the insurance or guarantor will pay the bill in full. If patients are unable to make payment, CHCC should discuss payment options with the patients and ensure that follow-up procedures are performed.

3. Where applicable, require that doctors and nurses prepare the information necessary to estimate a bill at the time a patient is discharged.

4. Develop a plan of action that is effective and timely, and addresses the current backlog related to coding, billing, collection, and posting payments.

5. Seek technical assistance that would result in the assessment of the current IT structure and the acquisition of a comprehensive accounting and billing system.

6. Develop and implement policies and procedures effectively to address claim denials and rejections.

7. Provide staff with relevant documentation and training; and develop and implement policies and procedures effectively to review third party reimbursements.

8. Properly adopt and publish a listing of all procedures and related fees in one complete schedule.

9. Update contracts with insurance companies.

10. Reconcile all billings created and payments received from the contractor. Any discrepancy should be resolved and the overall effect be analyzed and documented.

11. Comply with CHCC's Procurement Regulations when seeking the services of an outside billing and collection agency.

CHCC Response

OPA provided a draft copy of the audit report to CHCC on January 25, 2017. We received comments on February 27, 2017.

OPA acknowledges CHCC's recent recruitment of additional staff, in particular, the Chief Financial Officer (CFO), the Comptroller, and the Revenue Cycle Director. OPA is hopeful that the CFO, through the support of the staff and management team, can address the weaknesses in the accounting and revenue function.

In its letter, CHCC itemized four concerns with the audit report, which we discuss below. See Appendix 3 for a copy of CHCC's response.

Auditor Response

By law, audited entities are required to submit a response explaining whether the entity agrees or disagrees with OPA's findings. The law further states that recommendations shall be implemented unless otherwise agreed on by the Public Auditor. CHCC's response did not address any of OPA's specific findings or recommendations.

While CHCC did not to address any of these specific findings or recommendations, it did have several non-specific concerns. OPA addresses these comments below to provide CHCC with clarification. We address them in the order in which CHCC listed them in their correspondence.

OPA is mandated to report on audited agencies' compliance with our recommendations. Before publication of this report, however, OPA plans to conduct a follow-up review to determine if CHCC has taken corrective action to address the findings and recommendations we provided.

OPA Detailed Response to Auditee Concerns

1. As OPA noted in the report's objective (page 3), its primary goal was an evaluation of CHCC's internal controls as they are related to the revenue cycle. Therefore, OPA will not comment on a recommended staffing level for CHCC, which is CHCC's responsibility to determine.

2. CHCC's concern is on a micro, cash availability basis, while OPA's concern is internal controls. Regardless of how the hospital is reimbursed and from whatever source, billings should be prepared in a timely manner and payments should be posted promptly. This is not being done.

3. See response 1. One of the primary principles of internal controls addresses the use of quality information to achieve an entity's objectives. Quality information is defined as appropriate, current, complete, accurate, accessible and timely.

   The data on patient revenues, accounts receivable, and contractual adjustments does not meet this definition. As a result, management has no way to make informed

decisions regarding monitoring and evaluating performance to ensure the achievement of revenue cycle goals and objectives.

4. We intend Appendix 2 to provide a general overview of the revenue cycle process. We understand that CHCC makes adjustments at the end of the process. We discuss adjustments on pages 7 through 9 of our report. Indeed, adjustments are part of healthcare finances. To improve understanding of Appendix 2, we will add adjustments to the step that describes payments.

Appendix 1. Scope and Methodology

The scope of the audit covered billings and collections for patient visits that occurred in fiscal years (FY) 2015 to the second quarter of FY 2016 at the Commonwealth Health Center. To achieve our objective, we performed the following:

- Gained an understanding of:
  - Laws and regulations, policies and procedures applicable to CHCC's business organization; including industry standards, benchmarks, or best practice related to the revenue cycle. Confirmed the existence of policies and flowcharts for key processes in the revenue cycle;
  - Other revenue sources; and
  - CHCC's reports for FY 2015 through the second quarter of FY 2016.

- Interviewed staff and conducted a walk-through of CHCC's processes and internal control procedures in the following departments:
  - Patient Registration;
  - Coding;
  - Billing; and
  - Collection.

- Reviewed controls currently in place to ensure that:
  - Claim denials and payer remittances are reviewed and trended for follow-up;
  - Appropriate correction and resubmission occurs timely; and
  - Payments are reviewed in accordance with contracts and/or expected reimbursements.

- Randomly selected 15 dates from FY 2015 thru the second quarter of FY 2016. From those dates, we selected 10 patient visits. Of the 150 visits sampled, eight were misclassified; and 142 were reviewed and the related claims were tested for accuracy and timeliness of billing and collection.

- Summarized audit results.

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 objective.

Appendix 2. CHCC Revenue Cycle Process

Source: CHCC staff interviews.

Appendix 3. CHCC Response

Commonwealth Healthcare Corporation
Commonwealth of the Northern Mariana Islands
1 Lower Navy Hill Road Navy Hill, Saipan, MP 96950

OFFICE OF THE PUBLIC AUDITOR
02/27/17
SIGNATURE
1:23A

CEO -L17- 154

February 24, 2017

Michael Pai
Public Auditor
Office of the Public Auditor
Saipan MP 96950

Dear Mr. Pai,

Subject: Response to Audit Findings

Please see below our responses to the findings conducted by your office on CHCC's revenue cycle:

The Commonwealth Healthcare Corporation (CHCC) was established in October 2011, to coordinate the delivery of quality healthcare to all Commonwealth residents in a financially responsible manner. With this responsibility, funding in the last five (5) years has been inadequate to coordinate the delivery of quality healthcare in the CNMI that resulted in the termination status handed by the Centers for Medicare & Medicaid Services (CMS) to CNMI's sole hospital, the Commonwealth Health Center. The removal of this status by providing quality healthcare remained the top priority of CHCC over the last five years of its existence, especially, since the majority of the funding CHCC receives is from reimbursement from CMS.

CHCC acknowledged gaps in business side of healthcare and it is why recruitment of Chief Financial Officer that is knowledgeable in healthcare finance remained our top priority. Unfortunately, the complexity of healthcare finance and the lack of knowledge and experience in healthcare finance resulted in CFO turnovers.

Thus, the strategy of hiring individuals who are knowledgeable and experienced in the different aspects of healthcare finance was pursued. A Revenue Cycle Director was hired at the beginning of FY 2017 and a Comptroller is hired this month. Both individuals will focus on the two (2) of the most critical areas of healthcare finance that will strengthen and support the CFO's roles and responsibilities moving forward.

While we appreciate the audit and the report, the following are details of our concerns with the report:

P.O. Box 500409 CK, Saipan, MP 96950
Telephone: (670) 236-8201/2 FAX: (670) 233-8756

1. **The report failed to acknowledge and even recommend the staffing number required to run a revenue cycle operation. The report provided no best practices that even suggested the number of trained employees required to perform the exact duties where we failed to perform. Having adequate number of Full-time equivalent (FTE) employees is necessary to run an operation as big as what CHCC runs. Omitting this fact is unjust to the overall audit.**
2. **CHCC's priority is removing the termination status from CMS and yet the report did not discuss in detail the billing methodology of Medicaid and the details of the cost report and Medicare billings. The report revealed little knowledge and understanding of the auditors on these two subjects even though both ensures cash availability for CHCC's operations.**
3. **The report failed to provide adequate reporting of revenues from Medicare & Medicaid, which is significant to the overall report that would have recognized why inadequate FTEs and inadequate funding contribute to the issues affecting CHCC revenues.**
4. **Appendix 2 failed to recognize adjustments and allowances as a step in the cycle, as required and as if such are not even allowable in healthcare finance.**

Despite the weaknesses of the report and the audit process, again, we appreciate the time spent to reaffirm our understanding of the issues. We must express that none of the work of a revenue cycle process can be done effectively without people and therefore, it is critical that CHCC hire not only the CFO, as the report only suggested, but other critical staff that are focused on every step of the revenue cycle.

We are pleased that CHCC is heading in the right direction already since we have the CFO, Revenue Cycle Director, Comptroller, and additional revenue cycle and accounting staff on board to address the gaps.

Sincerely,

Esther L. Muña

Esther L. Muña
Chief Executive Officer

cc: Chief Financial Officer
Director of Revenue Cycle

P.O. Box 500409 CK, Saipan, MP 96950
Telephone: (670) 236-8201/2 FAX: (670) 233-8756

Appendix 4. Status of Recommendations

No.	Recommendation	Status
1	Develop and implement policies and procedures to promptly verify patient's insurance coverage and eligibility; discuss payment requirements, payment reminders and options with patients at the time of registration.	Unresolved
2	Collect upfront payments from all patients regardless of coverage, unless is it certain that the insurance or guarantor will pay the bill in full. If patients are unable to make payment, CHCC should discuss payment options with the patients and ensure that follow-up procedures are performed.	Unresolved
3	Where applicable, require that doctors and nurses prepare the information necessary to estimate a bill at the time a patient is discharged.	Unresolved
4	Develop a plan of action that is effective and timely, and addresses the current backlog related to coding, billing, collection, and posting payments.	Unresolved
5	Seek technical assistance that would result in the assessment of the current IT structure and the acquisition of a comprehensive accounting and billing system.	Unresolved
6	Develop and implement policies and procedures effectively to address claim denials and rejections.	Unresolved
7	Provide staff with relevant documentation and training; and develop and implement policies and procedures effectively to review third party reimbursements.	Unresolved
8	Properly adopt and publish a listing of all procedures and related fees in one complete schedule.	Unresolved
9	Update contracts with insurance companies.	Unresolved
10	Reconcile all billings created and payments received from the contractor. Any discrepancy should be resolved and the overall effect be analyzed and documented.	Unresolved
11	Comply with CHCC Procurement Regulations when seeking the services of an outside billing and collection agency.	Unresolved

Commonwealth Healthcare Corporation, Patient Revenue Cycle Management
Report No. AR-17-01, March 2017

CONSTITUTIONAL MANDATE

Article III, Section 12 of the CNMI Constitution and the Commonwealth Auditing Act (1 CMC, 2301, 7812 et. seq. of the Commonwealth Code) established the Office of the Public Auditor as an independent agency of the Commonwealth Government to audit the receipt, possession, and disbursement of public funds and to perform such other duties as required by law.

REPORTING FRAUD, WASTE, AND ABUSE

- Call the OPA HOTLINE at (670) 235-3937
- Visit our website and fill out our online form at www.opacnmi.com
- Contact the OPA Investigators at 322-3937/8/9
- OR visit our office on 1236 Yap Drive, Capitol Hill