



Lawrence F. Alwin, CPA  
State Auditor

A Review of

## Financial Controls over Patient Accounts Receivable and Uncompensated Care at State Medical Institutions

July 30, 2003

Members of the Legislative Audit Committee:

The University of Texas Medical Branch at Galveston (UTMB) and The University of Texas Southwestern Medical Center at Dallas (UT Southwestern) have established adequate processes and systems to identify, record, and collect accounts receivable from patient billings, and their bad debt write-offs appear reasonable. Although UTMB and UT Southwestern write off a large percentage of patient accounts receivable, we found that the factors leading to the write-offs are largely outside of their control.

UTMB and UT Southwestern have developed policies and procedures that appear adequate to ensure that:

- Services provided to patients are entered into the billing system.
- Efforts are made to identify and use available sources of funding for uncompensated care.
- Third-party debt collection agencies are used to pursue delinquent accounts.

All state medical institutions collectively reported \$2.1 billion in patient charges for fiscal year 2002, and they wrote off \$1.4 billion of this amount. Charity care and contractual adjustments constitute 90 percent of all state medical institutions' total write-offs. These reductions are outside of the institutions' control. For instance, Medicaid reimburses a portion of a hospital's billed charges for an eligible claim, but the remaining balance cannot be legally billed to the patient and must be written off. Of the total charges, the medical institutions wrote off 3 percent in controllable reductions, such as bills not processed according to contractual terms, and negotiated discounts, such as those given for professional courtesy. Medical institutions also wrote off 4 percent of billed charges to bad debt expense after exhausting internal and external collection efforts on non-indigent patient accounts.

A critical piece of the collections process on non-indigent patient accounts is getting accurate personal information from the patients when they first come in for treatment. However, patients often arrive needing emergency attention, and the first priority is treatment. If the patient does not provide information at that point or gives inaccurate information, pursuing collection is very difficult. Both UTMB and UT Southwestern have instituted programs to improve the accuracy of this demographic information. We suggest that the institutions continue to look for ways to improve the collection of patients' personal information.

UTMB and UT Southwestern separately account for the financial transactions related to the treatment of patients in Medical Services, Research, and Development Plans (Plans). The Plans are basically self-supporting. They do not receive any funding from the State's General Revenue Fund, and amounts collected that exceed expenses remain in

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the Plans. The excess is typically used for physician bonuses, new equipment, etc. An increase in the amount of accounts receivable collected would go toward that excess. Historically, excess funds in the Plans have not been transferred out for use in other areas of the institutions.

Because of the results of this preliminary work, we believe that the institutions' processes are sufficient and do not pose a risk significant enough to warrant further work in this area. We appreciate the cooperation of UTMB and UT Southwestern. If you have any questions about this report, please contact Susan Riley, CPA, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

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cc: Mr. Mark G. Yudof, Chancellor, The University of Texas System  
Members of The University of Texas System Board of Regents  
Dr. John Stobo, President, The University of Texas Medical Branch at Galveston  
Dr. Kern Wildenthal, President, The University of Texas Southwestern Medical Center at Dallas

**Summary of Objectives, Scope, and Methodology**

Our main objective was to determine whether the state medical institutions have effective controls over patient billings, receivable accounting, and collection processes. Additional objectives included determining whether all available sources are utilized for indigent care, whether the institutions are taking advantage of alternative bad debt collection processes, and whether the institutions report bad debts to the Office of the Attorney General.

Our scope covered the patient billings, receivables, and bad debt expenses that were recorded in fiscal year 2002.

The audit methodology consisted of collecting information about the patient accounting process. The audit was conducted in accordance with standards applicable to performance audits contained in generally accepted government auditing standards.