

FILED

DEC 17 2010

CLERK OF THE SUPERIOR COURT
COUNTY OF TRINITY
BY: STACI WARNER, DEPUTY CLERK

**TRINITY COUNTY GRAND JURY
2010-2011**

**Hospital Assessment Committee
HHR2010/2011-003
Final Report**

**Trinity Hospital
Owned and Operated By
Mountain Communities Healthcare District
Hospital Revenue Investigation**

Approved 12/07/2010



**John Hamilton,
Pro-Tem Chairperson**

**2010-2011 Trinity County Grand Jury
Hospital Assessment Committee
Hospital Revenue Investigation**

Summary

The Trinity County Grand Jury elected to review policies and procedures for the principal revenue sources of the Trinity Hospital. Since public funds, through an annual parcel tax, are being used to supplement the Mountain Communities Healthcare District (MCHD), the Grand Jury has authority to investigate matters pertaining to the MCHD's operations. This review specifically covered the procedures for (1) the annual parcel tax income, and (2) patient income. This included, but is not limited to, procedures for billing, collection, follow-up, internal control, and adherence to prescribed policies and procedures.

As reported in the 2009-2010 Grand Jury report on the Hospital, in prior years there had been significant record keeping and procedural problems in these two revenue areas. Overall, the 2010-2011 Grand Jury found a high level of professional competency and significant improvement in the practices and procedures that had been put in place for the proper accounting of revenue in these two areas. There continue to be potential issues, and some areas for procedural improvement, in patient accounts receivable collection and parcel tax collection, that could negatively impact cash flow and profitability of the Hospital.

Background

In 2007 the MCHD was formed. Previously hospital operations had been under the authority of the Trinity County Board of Supervisors. Prior to the 2007 organizational change there had been significant problems in management, finances, and public perception of the Hospital operations. Some of the issues carried forward into the new organization, especially in billing, collections, cash flow, and their impact on the financial viability of the hospital. Major changes have been implemented in management, administrative personnel, systems and procedures with generally positive results. The parcel tax appears to have insured the financial viability of the Hospital during the time of its existence (2007 to present). Including the parcel tax revenue, calendar year 2009 showed income in excess of expenses, and management forecasts the same for 2010.

Method of Investigation

A committee of the Trinity County Grand Jury conducted this investigation. They interviewed the Chief Executive Officer and department heads responsible for the parcel tax and the patient billing and accounting activities. Policy and procedure manuals, analytical reports, original documents, aging reports, and relevant source documents were reviewed and examined.

Discussion

Parcel Tax

After formation of MCHD in 2007, the County voters approved the establishment of an annual parcel tax on property owners within the District boundaries. The tax was approved for five years and expires in 2011. At the time of this investigation, no decision had been made by the MCHD Board of Directors as to the continuation of the parcel tax through a vote by the District voters.

In the first years of the tax, there were numerous instances of errors in billing, collection, and record keeping. In some instances, this resulted in the improper filing of liens on property, double payments and confusion. Hospital personnel stated that as many as 100 invalid liens were filed before control was established over the collection and follow-up procedures. An awareness of this history was a major consideration in the current Grand Jury's decision to investigate the status of parcel tax processing.

With the change in personnel in this area, the following actions were initiated:

- A procedure manual has been developed covering the major processes. It is up-to-date and provides good documentation of the basic aspects of record keeping and processing of parcel tax transactions.
- The Hospital initiated a complete review of prior year billings, collections, and status of uncollected billings. Although additional analysis and action is required, the years 2008/2009 and 2009/2010 transactions have been traced and action taken where warranted. Work continues for the 2006/2007 and 2007/2008 transactions.
- Because of the above efforts, more than 100 invalid liens were found to have been filed. Corrective action was initiated and a procedure was developed with the assistance of the County Recorder's office to correct invalid liens without any fees (previously \$17 fee per lien).
- An outside vendor has been used to record and process parcel tax transactions. An agreement was created to license the relevant software and bring the processing in-house at the Hospital. This results in more efficient processing and a substantial cost savings, without the addition of staff.
- In the 2008/2009 parcel tax billing, many parcel owners were not correctly assessed. Prior to the 2009/2010 billing the difference between hospital data and tax roll data was audited and corrections made to the data. This resulted in \$8,000 additional billing.

There appears to be a high level of competency in place for this important revenue area. There is dramatic improvement from the earlier years of parcel tax processing and accountability.

Patient Billing and Accounts Receivable

Patient billing and collection is a complex aspect of hospital operations. There are numerous inherent time lags between incurring of services, billing, and collection. Therefore, to achieve an accounts receivable aging that is comparable to what one would find in the commercial world (30-60 days) probably is not practical. Medicare, Medi-Cal, health insurance carriers, and other payment entities have varying time cycles between service occurrence, billing, and payment. In some instances, this can result in a 60-90 day or greater spread between the activities. Considering this, we found that for the services covered by reimbursement processing, billing, and collection time spans are reasonable. This would indicate that processing of data for claim payments have greatly improved from the past.

At the time of the investigation, accounts receivable were approximately \$5.0 million. 30% or \$1.5 million of this were receivables from self-pay patients. Accounts representing \$450,000 have payment plans. Many of these do not have fixed schedules, or very small payment provisions. In the past, there has been inadequate documentation and follow-up on these accounts. Now there is a collection process in place, including the turning-over of overdue accounts to a collection agency. In August 2010, \$170,000 in overdue accounts was sent to the collection agency. Although this area is being more effectively controlled, the potential for losses remains. Continued diligence and improvement in collection of these accounts is essential for the healthy cash flow and financial viability of the Hospital.

The 2009-2010 Grand Jury pointed out several accounts receivable recommendations that have been subsequently implemented by the Hospital. That Grand Jury recommended, "The District should continue measurements of performance by the Hospital for collection and billing cycles (aging report). The District should submit the report to the Trinity County Board of Supervisors and the Trinity County Grand Jury on a quarterly and annual basis (Recommendation 5, Grand Jury Report May 4, 2010)." On July 28, 2010, the MCHD Board of Directors and CEO/CFO stated that they would take the reporting aspect of this recommendation "under advisement."

The current process for Claims processing and Patient Statements is as follows:

- a. Onsite mainframe system houses payment information in an application from Healthland.
- b. A "scrubber" application from Data Systems Group (DSG) on a different server verifies the coding and tracks the claims. DSG is also used to generate claims and patient statements.
- c. Payment posting is handled by the charge entry (Data Processing) office.
- d. Admissions are processed off the mainframe in the Healthland system, which integrates to DSG application (scrubber) before any billing to insurance company and other parties.
- e. Disaster recovery for the systems is a nightly backup to a service in Redding.
- f. Secondary claims are done manually but documented in the Healthland system.

Findings/Recommendations

Finding 1:

Present procedures can allow the possibility for one person to control all aspects of parcel tax payments recording and processing.

Recommendation 1:

The Grand Jury recommends the procedures for daily processing of parcel tax payments be modified to include steps that involve different individuals, preferably from separate departments. This would include a process for independent reconciliation of initial payment receipts to deposit records. Good internal control calls for receipts handling that includes check and balance procedures that involve more than one person.

Finding 2:

The physical office set-up for the person handling direct parcel tax inquiries and complaints does not allow for a sense of confidentiality and comfort for the parties involved. While we recognize the merits of an open space office environment, there are instances when parcel taxpayers would be better served by having a private setting for a conversation with the supervisor of this area.

Recommendation 2:

The Grand Jury recommends that a private area outside of the open office administrative area be created for the occasional use by the parties involved in a confidential discussion of parcel tax issues such as delinquency, liens, and billing.

Finding 3:

Private/self-pay accounts receivable constitute approximately 30% of the accounts receivable, representing a significant collection exposure to the Hospital and its cash flow management and financial viability.

Recommendation 3:

The Grand Jury recommends that the Hospital continue to investigate accounts that are past due, have no formal settlement agreement, or appear to be risks for collection. Additional avenues of collection should be pursued and investigated, including additional collection agencies, receivable factoring with a financial institution, or any other means of enhancing the collectability of private pay plans and agreements.

Finding 4:

The Grand Jury has not received any reporting on measurements of performance by the Hospital for collection and billing cycles as requested by the 2009-2010 Grand Jury. However, this remains a critical area for the improvement and the resultant favorable impact on the financial viability of the Hospital.

Recommendation 4:

This Grand Jury recommends that the District submit a report of measurements of performance by the Hospital for collection and billing cycles (aging report) to the Trinity County Grand Jury on a quarterly and annual basis.

Finding 5:

The processing of data for claim payments has greatly improved from the past. While technology has helped with the improvement of Claim Processing and Patient Statement generation systems, there may be additional opportunities for improvement.

Recommendation 5:

The Grand Jury recommends that the Hospital review the existing information technology infrastructure, including hardware and software, for possible cost savings and collection enhancements, through the use of smaller servers or a Software as a Service (SaaS) model, and a set of pre-integrated applications. Healthland, one of the applications currently used, offers such integrated solutions.

Responses Required

In accordance with the California Penal Code 933.05, a response is required as indicated below:

<u>Respondent</u>	<u>Findings/Recommendations</u>	<u>Due Date</u>
Hospital CEO	1, 2, 3, 4, 5	60 days
MCHD Board of Directors	1, 2, 3, 4, 5	90 days

The governing bodies indicated above should be aware that comment or response of the governing body must be conducted subject to the notice, agenda, and open meeting requirements of the Brown Act.



Owned and Operated by
Mountain Communities Healthcare District

P.O. Box 1229
60 Easter Avenue
Weaverville, CA 96093

*Reviewed
2/23/2011
[Signature]*

February 14, 2011

The Honorable James P. Woodward
Judge of Trinity County Superior Court
11 Court Street
Weaverville, CA 96093

Dear Judge Woodward:

In response to the Grand Jury Report – Hospital Revenue Investigation dated December 14, 2010 this is the response by the Hospital CEO:

Response to Finding 1, Recommendation 1

We have separated the duties for better internal control by involving accounting department staff to reconcile payments as prepared by tax department staff.

Response to Finding 2, Recommendation 2

Current space requirements and office availability do not allow for a private area at all times. However, private meeting space can and is often arranged as needed.

Response to Finding 3, Recommendation 3

We continue to pursue additional avenues of collection to reduce this risk.

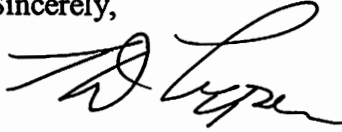
Response to Finding 4, Recommendation 4

We are in the process of determining an appropriate response to this recommendation for future periods.

Response to finding 5, Recommendation 5

We are currently reviewing our entire information technology system and expect significant changes later in 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Pyper". The signature is fluid and cursive, with a large loop at the end.

Thomas D. Pyper, CEO

Copy: Wendy Tyler
Deputy County Administrative Officer

RECEIVED

FEB 25 2011

**TRINITY COUNTY
SUPERIOR COURT**



Owned and Operated by
Mountain Communities Healthcare District

P.O. Box 1229
60 Easter Avenue
Weaverville, CA 96093

Reviewed 2/28/11

February 23, 2011

The Honorable James P. Woodward
Judge of Trinity County Superior Court
11 Court Street
Weaverville, CA 96093

Dear Judge Woodward:

In response to the Grand Jury Report – Hospital Revenue Investigation dated December 14, 2010 this is the response by the Mountain Communities Healthcare District (MCHD) Board of Directors:

Response to Finding 1, Recommendation 1

We have separated the duties for better internal control by involving accounting department staff to reconcile payments as prepared by tax department staff.

Response to Finding 2, Recommendation 2

Current space requirements and office availability do not allow for a private area at all times. However, private meeting space can and is often arranged as needed.

Response to Finding 3, Recommendation 3

We continue to pursue additional avenues of collection to reduce this risk.

Response to Finding 4, Recommendation 4

MCHD financial records are available to the public during regular business hours. As MCHD develops metrics to measure financial matters, those too will be available to the public.

Response to finding 5, Recommendation 5

We are currently reviewing our entire information technology system and expect significant changes later in 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew Hudson". The signature is fluid and cursive, with the first name "Matthew" being more prominent than the last name "Hudson".

**Matthew Hudson, President
MCHD Board of Directors.**

**Copy: Wendy Tyler
Deputy County Administrative Officer**

RECEIVED

MAR 15 2011

TRINITY COUNTY
SUPERIOR COURT



TRINITY COUNTY

TRINITY COUNTY GRAND JURY

P.O. Box 2308

Weaverville, CA 96093

March 15, 2011

Thomas D. Pyper
Chief Executive Officer
Trinity Hospital
P. O. Box 1229
Weaverville, CA 96093

Dear Mr. Pyper:

The Trinity County Grand Jury has reviewed your February 14, 2011 reply to the Grand Jury Report – Hospital Revenue Investigation. Several of your responses were not answered in accord with the California Penal Code, Section 933.05. (b)(2 & 3). This section relates to responses being specific and with timeframes.

Specifically we refer to your responses for the following recommendations:

- Response for Recommendation 3, "We continue to pursue additional avenues of collection to reduce this risk."
- Response for Recommendation 4, "We are in the process of determining an appropriate response to this recommendation for future periods."
- Response for Recommendation 5, "We are currently reviewing our entire information technology system and expect significant changes late in 2011."

Please provide specifics and timeframes for the three above responses. In accordance with the California Penal Code 933.05, a response is required as indicated below:

<u>Respondent</u>	<u>Additional Data for Recommendations</u>	<u>Due Date</u>
Hospital CEO	3, 4, 5	60 days
MCHD Board of Directors	3, 4, 5	90 days

The governing bodies indicated above should be aware that comment or response of the governing body must be conducted subject to the notice, agenda, and open meeting requirements of the Brown Act.

A handwritten signature in black ink, appearing to read "John Hamilton". The signature is fluid and cursive, with the first name "John" and last name "Hamilton" clearly distinguishable.

John Hamilton
Foreperson Pro-Tem
2010 – 2011 Trinity County Grand Jury

Copy: Chair of the Board of Directors, Mountain Communities Healthcare District

RECEIVED

MAY - 4 2011

**TRINITY COUNTY
SUPERIOR COURT**



Owned and Operated by
Mountain Communities Healthcare District

P.O. Box 1229
60 Easter Avenue
Weaverville, CA 96093

*Reviewed
5/5/11*

May 4, 2011

The Honorable James P. Woodward
Judge of Trinity County Superior Court
11 Court Street
Weaverville, CA 96093

Dear Judge Woodward:

In response to the Grand Jury Report – Hospital Revenue Investigation dated December 14, 2010, this is the revised response by the Hospital CEO (as requested by the Grand Jury on March 15, 2011):

Response to Finding 3, Recommendation 3

We continue to pursue additional avenues of collection to reduce this risk. These include a more aggressive review of these accounts begun during first quarter of 2011 and continuing into the future and retaining a new outside collection agency beginning in March 2011.


Response to Finding 4, Recommendation 4

We are in the process of determining an appropriate response to this recommendation for future periods. We plan to report to the Grand Jury quarterly beginning in July 2011.

Response to finding 5, Recommendation 5

We are currently reviewing our entire information technology system and expect significant changes to occur in the latter half of 2011 (exact dates not yet available) in conjunction with our investment in electronic medical records systems as mandated by federal health care reform law. This project is very complex and will be implemented over a twelve to eighteen month period.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Pyper', written in a cursive style.

Thomas D. Pyper, CEO

Copy: Wendy Tyler
Deputy County Administrative Officer

RECEIVED
JUN 15 2011
TRINITY COUNTY
SUPERIOR COURT



Owned and Operated by
Mountain Communities Healthcare District

P.O. Box 1229
60 Easter Avenue
Weaverville, CA 96093

*Reviewed
JMW
6/16/11*

June 15th, 2011

The Honorable James P. Woodward
Judge of Trinity County Superior Court
11 Court Street
Weaverville, CA 96093

Dear Judge Woodward:

In response to the Grand Jury Report – Hospital Revenue Investigation dated December 14, 2010, this is the revised response by the Hospital CEO (as requested by the Grand Jury on March 15, 2011):

Response to Finding 3, Recommendation 3

We continue to pursue additional avenues of collection to reduce this risk. These include a more aggressive review of these accounts begun during first quarter of 2011 and continuing into the future and retaining a new outside collection agency beginning in March 2011.

Response to Finding 4, Recommendation 4

Our goal for days in accounts receivable is 69 days as of September 30, 2011 and 63 days as of December 31, 2011..

Response to finding 5, Recommendation 5

We are currently reviewing our entire information technology system and expect significant changes to occur in the latter half of 2011 (exact dates not yet available) in conjunction with our investment in electronic medical records systems as mandated by federal health care reform law. This project is very complex and will be implemented over a twelve to eighteen month period.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew L. Hudson". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

Matthew L. Hudson, President
Mountain Communities Healthcare District

Copy: Wendy Tyler
Deputy County Administrative Officer