FEATURE ARTICLE

By Don Holdegraver

Revenue Sources in the New Century: Accounts Payable Auditing for Revenue Recovery

In September 1991, health care organizations faced an uneasy future. In the midst of then still-new reimbursement philosophies and trends, new ideas were being explored to assure all possible revenue sources were exploited, and the maximum use was being made of healthcare organization resources on hand. *New Perspectives on Healthcare Auditing* interviewed John Weiss (see photo), managing partner of The Audit Group (TAG), about opportunities to recover funds through a relatively new concept — auditing accounts payable for revenue recovery.

Fast-forward to September 2002. Healthcare facilities continue to face an uneasy future. The need to maximize use of resources and exploit revenue sources continues — if not intensifies. The intervening 11 years have seen unprecedented changes in the healthcare environment, in the economy, and in technology.

What changes have occurred in healthcare accounts payable auditing during the past 11 years? *New Perspectives on Healthcare Auditing* decided to "ask the expert." In this follow-up to his 1991 interview, we explore with John Weiss the changes that have occurred and how environment, economy, and new technology have impacted the world of accounts payable auditing for revenue recovery. We will also gaze into the crystal ball, just a bit, to try to predict where this aspect of maximizing a healthcare organization's resources may go.

John, briefly, what do accounts payable revenue recovery auditors do?

Accounts payable auditors recover funds that the client has incorrectly given its vendors. Depending upon the goals of the organization, this could be as basic as identifying duplicate payments, or as sophisticated as working with management to re-engineer the purchasing and payables process. The middle ground between these two points is to mine deeper into the payables vein to identify situations in which overpayments were made or deductions not taken. Several examples of "middle ground" activity are identifying and recovering pricing overcharges, freight, or perhaps sales tax charged in error, rebates not received, returned goods not credited, or cash discounts not taken.

It is important to note that any revenue recovery firm should be able to not only identify the errors, but to recover them as well. Recovery of funds is often more difficult than identification.

Why is recovery more difficult than identification?

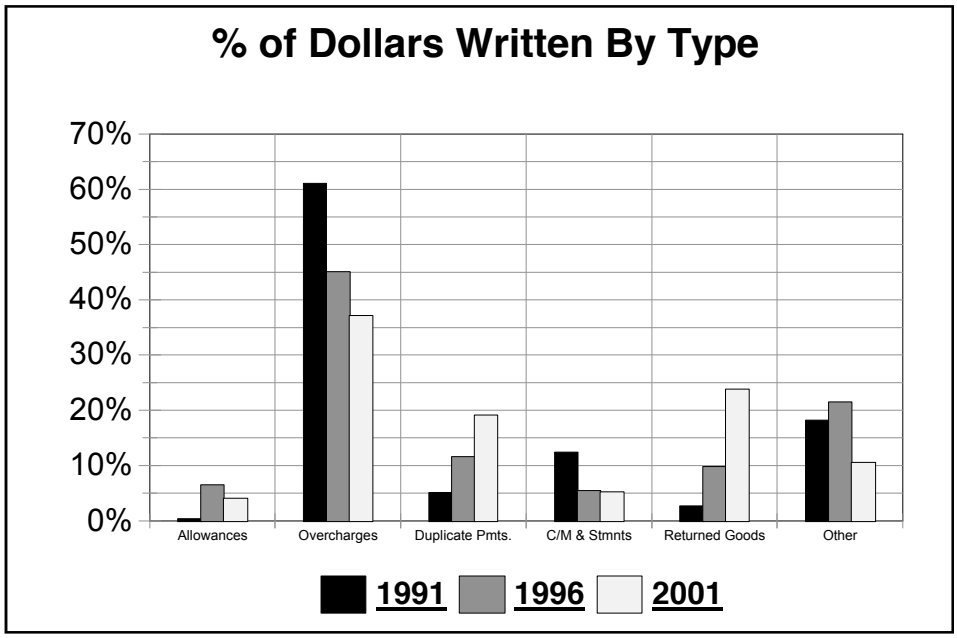
With the extent of technology available today, it is not difficult to download payables data into a database, do a sort by dollar amount, and identify within a few minutes tens of thousands of dollars worth of possible "duplicate payment," or "pricing overcharges." However, possible "dupes" may simply be recurring payments on a monthly lease, or an invoice paid in two equal parts. It is also possible that a dupe did occur, but it was repaid via a check entered into the general ledger rather than the payables ledger. Therefore, it still shows as an outstanding amount. Pricing "overcharges" are commonly due to differences in recorded invoiced quantities; the database shows item pricing fluctuating between $5 and $25 a unit, yet examination of invoices show some invoices were for a UNIT at $5 and some invoices were for a BOX of 5 units at $25. Therefore, no overcharge exists.

One also needs to consider vendor interaction. Vendor follow-up, once you identify the appropriate channels to work through, can be downright exhausting. Time is involved proving your claim via discussions and transfer of information (spreadsheets, invoice copies, check copies, contacts, canceled check copies, etc.). Perhaps most important of all is to realize that the people who work claims on the

vendor side have their normal responsibilities competing against your interests. Resolving claims is rarely a normal responsibility, and issuing a credit or refund is often their lowest priority.

Time is the key element in this very necessary research. To not do the research is to risk upsetting many people, both internal and external, and to bring your credibility into question. This is not a happy place to reside.

We spoke in 1991 about issues that impacted healthcare purchasing, and why accounts payable was such a rich area for potential recoveries. First, what has not changed in the intervening years relative to purchasing and accounts payable?



It is difficult to think of anything that *hasn't* changed over these 11 years. Technology is much more integral, hospitals are evolving into health systems which obviously add complexity to the work process, and work volume is increasing. Unfortunately, with the economy being as it is, vendors are getting increasingly difficult to work with regarding repayment of funds.

If there is one thing that perhaps has not changed, it's the overall environment within which we are working; it's still as "crazy" as ever. Crisis management still has a life within healthcare's walls. Acrimonious acronyms still rule: EMTALA, HIPAA, CMS, HHS, DOJ, FCA! Very powerful letters that present difficulty for all. The biggest impact these outside forces have is in their ability to pull the institution's energy away from areas that need attention, such as the accounts payable and purchasing functions. As a brief aside, a new term has evolved to describe the accounts payable-purchasing process: Supply Chain Management. Very cool…very hip.

What does all this mean in financial terms? It means increasing amounts of dollars are being lost in the cracks of the evolving healthcare Integrated Delivery Network (IDN). Our number one category for recovering dollars in 1991 was overcharges. In 2001, while the percentage of dollars found in this category compared to other claim types is decreasing, it remains the largest category of lost money. Returned goods is an area that is growing quickly in terms of overall findings.

Should we be surprised that this is the case?

Well, yes…and no. I think it's important to emphasize that we are talking about highly complex and evolving systems that few organizations have mastered. When it comes to the supply chain, there aren't even many for-profit organizations that are doing it expertly. These macro systems involve complex interaction between human organizational systems and computer hardware and software systems. This is asking a lot!

I asked Trevor Stripling, Chief Information Officer for TAG, Inc, to review the evolution of computer systems within our clients. What his data showed is that each year from 1996 to 1999, we saw a basic doubling in the number of computer conversions being implemented by our clients. Many organizations were obviously scrambling to get in systems before the "infamous" Y2K. Since 2000, the rate of conversions implemented has been drastically reduced. This could well be due to budgetary constraints and the effects of decreasing reimbursements.

We are seeing a migration from old-style mainframe and mid-range systems to mini and microcomputer based systems. What this is doing is effectively driving management of the information system out of a centralized IS department and into the decentralized end user's environment. To paraphrase a Tale of Two Cities, "…it is the best of ideas; it is the worst of ideas." The best of ideas is that departments are being "empowered" with responsibility for their information needs. The worst of ideas is that departments are ill prepared due to staffing, training, and budgetary limitations, to manage the added responsibility of maintaining data integrity.

Hospitals are implementing (albeit at a lesser rate than pre-Y2K) full-blown, multimillion dollar, Enterprise Resource Planning that have more bells and buzzers than one could ever hope to master. What's happening with the training needed to be able to understand and operate these systems? Generally, the supervisors are sent to user school with the idea that when they return, they will train their staff; i.e. "Train the Trainer."

The reality is not everyone has the skill set to be a teacher, and a one-week seminar certainly isn't going to change that. When the trainers come back to their offices, no one's unloaded the pile of work that has accumulated in their absence, so now not

only do they have their regular full time responsibilities, but also a backlog of work AND the additional responsibility of training a staff in a new technology. What is the expected degree of successful implementation? Not very high… not very soon.

Whoever controls the information, controls the process. That's the past and the future as I see it. With increasingly complex systems being installed, it's difficult to maintain control of the information without adequate levels of staff training. Training costs money and its benefits are not always directly measurable. Therefore, while its importance is acknowledged at all levels of management, the commitment of resources is often marginalized.

Then, what has changed (good and bad) in the past decade?

Any discussion of what has changed in the past decade (good and bad) certainly must include the increasing degree of outsourcing activity within healthcare. I believe it is the sum of the above factors that are influencing this trend.

The Healthcare Financial Management Association and McKesson recently conducted a survey of healthcare executives and "supply chain leaders" to identify the current state of supply chain management in healthcare. Among its findings, executives and managers believe that current staff aptitudes and training, and current information system fragmentation, were limiting what is being done within this sector. (Source: Resource Management: The Healthcare Supply Chain 2002 Survey Results. Healthcare Financial Management Association and McKesson.)

Management realizes that operating a department or specialized function on a "best practices" level requires a significant commitment of resources from throughout the organization: financial management (payroll and benefits), human resources management (staffing, benefits administration, personnel oversight), information systems management (on-going computer support), and operations management (outcomes measurement and operational oversight). Any glitch in any one of these components can produce serious organizational "headaches" (unrealized or delayed revenue generation, incorrect disbursements, unionization, regulatory violations, qui tam and false claims act filings, etc.) that will require even more management resources to identify and correct.

So, the obvious alternative is to contract with external experts who accept the burdens noted above. Management's responsibility under this scenario now is to establish specific operational goals that have measurable results and then provide the management oversight needed to assure the organization that these are being accomplished. Fewer internal resources need to be committed.

Contemporary audit shops focus on adding value

Significant to management is if the agreed upon results are not achieved, the outsourced partner can more easily be replaced than internal "resources."

Can the average (or above average) internal auditor in a healthcare facility today meet the challenge of addressing accounts payable revenue recovery auditing any better than 11 years ago?

In 1991, there was industry discussion regarding the proper role of internal audit in the organization: Should internal audit remain hands off and only report on variances from established controls without providing suggestions for departmental improvement **or** should internal audit's role be more of a consultative nature, risking compromise by providing value added suggestions for process improvement? The IIA's revision of the definition of internal audit addresses the theoretical aspect of internal audit's role. Knowing that in 2002 internal audit has to show its quantitative value to the organization, or risk being minimized, is the practical aspect.

In 1991, when internal audit conducted a review of accounts payable it was usually done from the perspective of examining policies and procedures regarding the payment of invoices. In 2002 we are seeing internal audit departments much more focused on obtaining quantifiable outcomes – value-added activities. Today they are looking for specific duplicate payments and pricing overcharges and bringing these anomalies to the table.

The biggest challenge to internal audit doing an accounts payable audit in 1991 remains in 2002: the challenge of budgeted time. Is there enough time to devote to this project when there are so many other reviews that also need to be accomplished. In 1991, our average audit required about 800 audit hours to accomplish. In 2002, we have several audit teams that are year round, or close to it, with healthcare system clients.

In 1991, most of our review was conducted by looking at paper invoices and purchase orders. In 2002 this review can be more through electronic means than hardcopy review. This trend isn't necessarily good. It is less paper today usually because it has either been destroyed or lost, or may have never been created in the first place.

However, identifying and recovering errors purely from data just isn't feasible. There remain too many data integrity issues that compromise our findings, and that ultimately hurts the institution. If we cannot provide sufficient proof that an error exists, we cannot recover funds from a vendor that has been overpaid – and knows it has been overpaid, but also knows we cannot provide the necessary documentation to refute their responses.

Is there a technology advantage that an internal auditor can employ?

Many new technologies can assist with, but not solve, these issues. One example is

data extraction and analysis software, such as ACL. ACL is a relational database much like Access, Oracle, Lawson, or PeopleSoft. It can easily do the job of identifying anomalies within the purchasing and payment system. But, as previously noted, it is one thing to identify an anomaly, it's quite another to prove it is an error.

E-mail can be a very effective communication tool. It allows us to communicate in black and white simultaneously with vendors and clients regarding potential problems and expected resolutions. It also helps us communicate internally regarding the latest vendor "games." If a vendor has a "policy" that affects a hospital in Florida, it will probably have the same "policy" with its clients in California. Knowing this situation exists and knowing how to resolve it provides us with a tremendous information advantage.

Remember last year when the Star Heating & Cooling invoice scam first hit? I had an audit team in the Northeast first report that via TAG's list serve. Within just a few hours after I had posted this to AHIA's list serve, I was receiving messages from internal auditors across the US that the scam had made it to their facility. Because of e-mail we were able to quickly act on a fraud and substantially reduce its effects.

As noted above, information is power and e-mail aids in the communication of information. It is a beautiful thing.

Other technologies continue to be developed, but they remain tools to an end, not an end in themselves.

What's the future for accounts payable audits, and companies like The Audit Group?

The future of accounts payable audits, as is the future of most things, is evolutionary. As different as it is from ten years ago, so shall it be still more different ten years from now. I believe that accounts payable audits will evolve into system's analysis and integration processes. Today's technology has the ability to identify most–not all, but most– transaction errors. In time it will actually be set up to proactively control the payment process. There will be a need for firms that can review and adjust those process systems.

I see firms such as TAG evolving into organizations that seek to stay ahead of the future error, see it coming, and correct it before it hits the internal payment stream. This is one of the currently unfulfilled promises of the Internet and "e-procurement" programs. TAG will be an information broker: obtaining, maintaining, and controlling data within the healthcare supply chain system. Such results will require the integration of technology and the creative use of brains. We eagerly look forward to these challenges.

1991 versus 2002...the same but different. The opportunity is the same—substantial revenue recovery. The obstacle is the same—time. The impact is the same—efficient, effective use of healthcare institution resources. The methods and approaches—ever changing.

Revenue recovery accounts payable auditing—an area of continuing interest whether managed internally or through outsourcing. ■

New Perspectives on Healthcare Auditing appreciates John Weiss taking the time to re-explore with AHIA members the accounts payable revenue recovery auditing concept. John Weiss, president of The Audit Group, may be reached at 800-383-7963, or by e-mail at jw@mail.theauditgroup.com.

Don Holdegraver is Director of Operations Analysis at the University of Nebraska-Lincoln. Don was a recipient of the 1987 AHIA Founder's Award, and is a past President and past Board member of AHIA, as well as past editor of New Perspectives. He is a frequent resource to AHIA educational programs and publications.

Chairman, continued from page 3

The Website continues to be upgraded so if you haven't visited www.ahia.org recently, I encourage you to take a look. There are many new features and we continue to add new things. We recently updated our mission and vision statements as well as re-worked our committee structure. If you are interested in getting involved in AHIA, there are lots of opportunities to participate in a committee. The charters for all committees are posted on the Web site. If you find a committee you would like to participate in, please contact the Board liaison listed for that committee. In addition to this, you can also watch for a downloadable version of the member directory. Our home page also lists AHIA's newest affiliation with Wiley Publications. If you have suggestions or ideas of other things you would like to see on the Website, please contact Pat Bogusz at ahia@ahia.org.

As promised, 2002 was an exciting year for AHIA and I'm certain that 2003 and beyond will be the same. I would like to thank all of you that have been supportive of our efforts this year and particularly those that took the time to send a message about things you found beneficial. It has been an honor to serve as Chairman of the Board for such a fine organization. As Ken Spence assumes this role next year, I am certain you will continue to see new and exciting things happen in the organization. ■

Laurisa Riggan, CPA
2002 Chairman of the Board

DID YOU KNOW?

- √ AHIA was established in 1981 as the Healthcare Internal Audit Group (HIAG).
- √ In 1982, the first issue of New Perspectives was published and the Audit Library was established.
- √ AHIA's motto -"Excellence Through Sharing" - was adopted in 1984.
- √ In 1989, HIAG was renamed to the Association of Healthcare Internal Auditors.