Auditing the Denial Management Process

A Case Study
Welcome & Introduction

We welcome the opportunity to share a case study of a recently completed audit of the Denial Management process at Kaiser Permanente.

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The mission of Internal Audit Services (IAS) is to provide independent, objective assurance and consulting services designed to add value and improve Kaiser Permanente’s operations. By bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes, IAS helps the organization accomplish its objectives of providing quality health care at an affordable price to our members.
Overview of IAS Scope of Work

The scope of work of IAS is to determine whether the organization’s network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees’ actions are in compliance with policies, standards, procedures, and applicable laws and regulations, in coordination with KP’s National Compliance Office.
The scope of work of IAS is to determine whether the organization’s network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization’s control process.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately, in coordination with National Compliance Office.
Opportunities for improving management control, profitability, and the organization’s reputation and image may be identified during audits. They will be communicated to the appropriate level of management.

Internal Audit Services conducts its work in accordance with the International Standards for the Professional Practice of Internal Auditing.
What is Denial Management?

Denials Management:
- a back-end function of the Revenue Cycle
- claims billed by the region to outside payors that have been denied for various reasons, such as lack of medical necessity or the medical service not being pre-authorized
- claims that should be / need to be reprocessed or appealed to avoid a preventable write-off
What is Denial Management?

An effective Denial Management program includes a:

- **Claims Recovery Process**
  - Consistent practices for follow up and resolution of specific claims denials and underpayments to maximize the rate of return on denied claims.

- **Prospective Prevention Process**
  - Operational reports and feedback mechanisms to identify the root cause and establish accountability for resolution and/or prevention.
  - Management tools used continuously to improve operational practices in order to reduce the likelihood of future denials.
What Might Cause a Denial?

Generalized causes and accountabilities for denied claims:

- Data quality issues in membership / eligibility, benefits, or member demographics provided to revenue cycle at time of eligibility / coverage verification
- Registration data issues such as patient demographics, appropriate service location, and patient eligibility that may not have been properly vetted during registration / admitting
- Bundling and unbundling of billed charges, medical necessity denial, level of service denial and coding standard errors
What Might Cause a Denial?

Generalized causes and accountabilities for denied claims:

- Timeliness of filing, a missing authorization or referral, pending receipt of corrected or missing information, and pending receipt of requested documentation
- Data issues with provider credentials (e.g. enrollment and scope of practice / supervision, such as insufficient identification of rendering and supervising providers or non-billable provider type)
Denial Management Audit Approach

Business Objectives*

1. Denials data entered into the system is complete, accurate and posted timely.
2. Denials entered into the system are resolved in a timely manner.
3. Monitoring and review of denials is performed by accountable management.
4. Policies and procedures have been established, documented, and made available to staff and relevant departments.

* Rather than audit objectives
Denial Management Audit Approach

Scope Overview

- The audit included an assessment of applicable business processes, interviews with key staff, and an examination of relevant records.
- The scope included the current regional policies, procedures and reports related to Denials Management.
- Our testing covered denials posted to the system between November 2009 and February 2010.
- Extensive data analysis was employed to determine the existence and effectiveness of controls.
Denial Management Audit Approach

Our audit procedures included the following:

- Data analysis related to business objective #1:
  - Selected sample of manual remittance advices received for January and February 2010 and traced denial information into batches posted to the system for completeness, verifying correct denial codes were used and timely posted
  - Current inventory of the No Payer Response work queues to verify that unpaid claims are being monitored and addressed by management
  - Current denial reason code mapping to appropriate system actions
Denial Management Audit Approach

Our audit procedures included the following:

- Data analysis related to business objective #2:
  - November and December 2009 denials for verification of follow-up, resubmission or appeal within the required turnaround time
  - Denied claims that qualified for an appeal, but an appeal was not performed resulting in a write-off
  - Denial-related work queues to verify they are mapped to appropriate owners for resolution and being addressed in a timely manner
1a: Obtain a listing of manual remittances received and entered into the system within the scope period

- Test the data for completeness by performing an inquiry of personnel working the “No Response” work queues (WQ). Determine if during follow-up, a payor indicated a remittance or denial had been sent, but not received.
- Randomly select 40 remittances/correspondence:
  - For all items selected: Trace remittance information to the information posted to the system.
  - Trace remittance information to the batch and log from which it originated.
  - Verify correct denial codes were used.
  - Determine turnaround time from date the remittance was received in department to the date posted.
1b: Obtain the inventory of the No Payor Response WQ and Aged No Payor Response WQ

- Test the data for completeness by examining the query used to generate the data file to ensure parameters set in the system for the data file accurately queries the No Response WQs.
- Examine data to validate that unpaid claims are being monitored and addressed by management:
  - Document volume of aged unpaid claims.
  - Investigate reasons for long outstanding unpaid claims.
  - Determine the process / tools used to address the unpaid claims.
1c: Obtain listing of all reason codes within the system

- Test the data for completeness by examining the query used to generate the listing to ensure parameters set in the system for the data file accurately queries all denials management reason codes for the scope period.
- Map all reason codes to the related system action within the system:
  - Ensure the mapping of reason codes aligns with the appropriate related system actions
2a: Obtain denied claims for months prior to primary scope period of audit

- Test the data file for completeness by reviewing parameters of query for adequacy.
- Sort / extract denials by payor and determine the required denials response time for each payor using the Timely Appeal Limits guidelines.
- Select a sample of those denials and compare denial post date to denial resolution date.
- For denials resolved beyond the required denials response time, determine if the denial qualified for an appeal but the appeal wasn't performed timely resulting in a write-off and lost revenue.
- For denials with no resolution dates, determine if the denial has aged past its required response date based on the denial post date.
2b: Obtain a data file of all denials management WQs

- Test the data file for completeness by examining query used to generate data file to ensure parameters set in the system for the data file accurately queries all denials management WQs for the scope required.
- Determine if all WQs in data file are on the WQ Build reports. Investigate any variances.
- Classify data file on the "WQ Name". Compare the grouped work queue names to the WQ names on the WQ Build Report and determine if any of them in the data file are not mapped to an owner. Investigate any work queue types that are not assigned to an owner.
Examples of Possible Findings

- Denied claims received through different channels can have different turnaround times for posting, which may then delay follow-up
- Follow-up and resolution of denied claims is not timely resulting in missed resubmissions and/or appeals, and potentially greater write-offs
- Write-offs taken due to untimely follow-up rather than not being recoverable
- Reports and tools not adequate for effective work queue monitoring and workload management
  - Need for metrics, monitoring and quality assurance procedures is critical for revenue maximization
Examples of Possible Findings

- Denial reason codes are not connected to a system action resulting in the denial not being put in a WQ for further follow-up
- Root cause analysis isn’t effective or in place sufficient to ensure upstream systems and processes are amended based on denial reasons actually experienced
- Related communication channels between collectors, posters, and other revenue cycle leadership and staff must be effective also in order to minimize recurring denials
Examples of Corrective Actions

- Manual denials coding and posting should be centralized; all sources of denials routed through one channel, if possible
- Determine if untimely denials follow-up is due to system programming issues, staffing shortages, procedural questions, etc
- Improve denials management reports and dashboards and make them available and consistent across effected departments and staff
- Develop and monitor denials metrics, as well quality assurance / peer reviews of related information and processes
- Review and update P&Ps to redress denials posting timelines, performance and productivity standards, reporting guidelines and remittance code mapping whenever necessary
Examples of Corrective Actions

- Ensure all denial reason codes map to a specific system action and related WQ
- Develop revenue cycle work group to ensure reasons for denials are addressed in upstream systems including improved front end processes primarily (e.g., pre-service and registration/admission processes)
- Improve communications to include cross-departmental work groups and reporting of metrics
  - Including accountability for specific root cause process corrections or adjustments
Open discussion regarding what our audit team learned about preparing for, executing and reporting on a denials related audit, and how that compares and contrasts with experiences from others.
Any other questions for us or clarification we can provide, please don’t hesitate to ask!

Thank you for your time today!