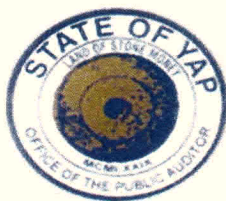


PERFORMANCE AUDIT REPORT

ACCOUNTING FOR ACCOUNTS RECEIVABLE AT DHS

December 20, 2019



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January 17, 2020

Honorable Henry S. Falan, Governor, State of Yap
Honorable Vincent A. Figir, Speaker, Yap State 10th Legislature

RE: Audit of the Department of Health Services' Accounts Receivable

This report presents the results of our performance audit of the Yap State Department of Health Services' accounts receivable. Our audit focused mainly on the outstanding collections of the Business Office at the Department of Health Services (DHS) during the period of January 01, 2017 to December 31, 2018. The objectives of the audit were to determine:

- whether the DHS legislations and policies properly address the effective management and administration of accounts receivable;
- whether the DHS Business Office is following applicable laws, rules, regulations, and best practices in maintaining accounts receivable; and
- the efficiency and effectiveness of the accounting of accounts receivable at DHS.

We conducted this performance audit pursuant to the provisions of Title 13, Chapter 7, § 703 of the Yap State Code, and in accordance with *generally accepted government auditing standards* (GAGAS) issued by the Comptroller General of the United States in 2011.

As the primary health care provider in the State of Yap, the Department of Health Services provides multiple treatments to inpatients and outpatients. Payments for medical and dental services provided by the DHS are collected at the DHS Business Office. The DHS collects the following revenues:

- Outpatients fees
- Inpatients fees
- dental fees
- medical referral fees
- "others"
- insurance

Amounts collected are deposited daily at the Yap State Treasury, Office of Administrative Services. However, our audit discovered that the uncollected patients' fees as at 31 December 2018 totaled \$2,432,492.82, and no evidence noted that follow-up was being carried-out by the DHS on the outstanding fees.

Our audit noted the following deficiencies:

- There was no legislation, regulation or policy guideline authorizing the DHS on the collection of outstanding fees from patients, how it should be collected and length of time that should be given to patients to clear outstanding payments;

- There was no policy with the Office of Administrative Services with regards to the administration, control and reporting of arrears of revenue;
- There was no Board of Directors for the Department of Health Services;
- There was no report on the outstanding patients' fees submitted to the Office of the Administrative Services to be included in the annual Yap State financial statements; and
- There was no monthly report on DHS Collections prepared and submitted to the Fiscal Officer as required in the DHS Business Office Policy.

The general recommendations include:

- Appointment of the DHS Board;
- Review of DHS legislation and policy guidelines and awareness and enforcement of the current policy guidelines; and
- Reporting of Arrears of Revenue to the Office of Administration Services and to be disclosed in the annual Yap State financial statements annually.

In view of the absence of a DHS Board, our audit acknowledges the great work done by the Department of Health Services over the years including the collection of State revenue. The appointment of a Health Services Board will play a vital role in providing direction for improvements of the DHS. Review of its legislation and policies with regards to the reporting, efficiency and effectiveness of its arrears of revenue collection, DHS will further improve its operations to a better level. Our findings and recommendations are described in greater details in the accompanying report.

A copy of the draft report was provided to the DHS Director and the Deputy Director, the contents of which were discussed with the management and key personnel on December 05, 2019.

We would like to take this opportunity to thank the Director and the management and staff of the Yap State Department of Health Services for their assistance and cooperation during the course of our audit.

Respectfully submitted,



Achilles Defngin
Public Auditor
Yap State Government

Copies to:

Department of Health Services
Office of Administrative Services
Office of the Attorney General
COM-FSM Yap Campus Library
Public Library
Office file

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1.0 INTRODUCTION

This report contains findings and recommendations following the performance audit of the Accounting for Arrears of Revenue at the Yap State Department of Health Services (DHS).

2.0 AUDIT OBJECTIVES AND SCOPE

The objectives of this audit are:

1. To determine whether DHS legislations and policies properly address the effective management and administration of Accounts Receivable.
2. To determine whether DHS Business Office are following applicable laws, rules, regulations and best practices in maintaining Accounts Receivable.
3. To determine the efficiency and effectiveness of the accounting of DHS Accounts Receivable.

The audit focused on the outstanding revenue collections of the Business Office at the Department of Health Services during the period of January 01, 2017 to December 31, 2018.

3.0 METHODOLOGY

We conducted this audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States. The standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was conducted using the following methodologies to gather audit evidence.

- Review the existing legislation relevant to operations and Business Office Policy Manual.
- Interview management and accounting staffs of DHS to determine whether they are following and implementing the existing policies.
- Evaluate the process of how DHS are collecting and maintaining their books on Accounts Receivable.
- Review and evaluate other applicable laws, rules, and regulations pertaining to the accounting of Accounts Receivable.
- Analyze the Accounts Receivable balance.

4.0 APPRECIATION

Our sincere appreciation is extended to the Director and staff of the Department of Health Services for their assistance and cooperation throughout our audit. We are looking forward to the continuation of such professional relationship.

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5.0 PRIOR AUDIT COVERAGE

The Office of the Public Auditor (OPA) had previously conducted a performance audit, an evaluation, and an inspection on Yap State Department of Health Services which include the DHS Program Income Performance Audit in 2006, the Mobile Health Clinic Evaluation in 2016, and the Surprise Cash Count Inspection in May 2019. The Program Income performance audit cited the DHS for the lack of comprehensive written policies and procedures for billing and collection of program income while the Mobile Health Clinic evaluation reported non-compliance with contract terms and applicable laws and regulations as a result of inadequate monitoring. The Inspection cited two weaknesses at the Business Office for inadequate safeguarding of the cash funds and the lack of review of Business Office policy and procedures manual.

6.0 CONCLUSION

In view of the absence of a DHS Board, audit acknowledges the great work done by the Department of Health Services over the years including the collection of State revenue. The appointment of a DHS Board will play a vital role in providing direction for the DHS and the review of its legislation and policies with regards to the reporting, efficiency and effectiveness of its arrears of revenue collection will further improve the DHS to a better level.

7.0 BACKGROUND

The Yap State Department of Health Services (DHS) is the sole primary health care provider in the State of Yap, that provides multiple treatments to inpatients and outpatients, while the Community Health Clinics in the State of Yap provides only medical treatment to outpatients.

The Business Office at the DHS has the responsibility, among others, to collect payments for medical and dental services provided by the DHS. The Business Office consist of a Fiscal Officer, an Accountant, a Billing/Coding Specialist, and a Cashier. As per policy and procedures manual, their responsibilities are:

- To ensure that the Fee Schedule lists all services, procedures and supplies that are available to patients and the cost for each, and that the Fee Schedule is updated, authorized and published as required.
- To receive payment and issue receipts for DHS services from outpatients, inpatients and Dental patients.
- To receive payment from patients who have been referred off island for medical care.
- To receive payment from FSM Health Insurance/MiCare for DHS services delivered to insured patients.
- To enter patient's information on Encounter forms into the Health Information System (HIS).
- To follow up with unpaid bills and Promissory Notes.

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- To accurately and honestly handle all DHS funds received from patients/clients and to be accountable for the security of all cash/checks/promissory notes held in the Business Office and the accuracy of all records.
- To ensure that all DHS financial accounts are correctly managed, correctly utilized and correctly recorded to maintain the required human and material resources for effective healthcare outcomes.

The DHS collected the following revenues:

- Outpatients fees
- Inpatients fees
- dental fees
- medical referral fees
- “others”
- insurance

DHS Program Income Collections History

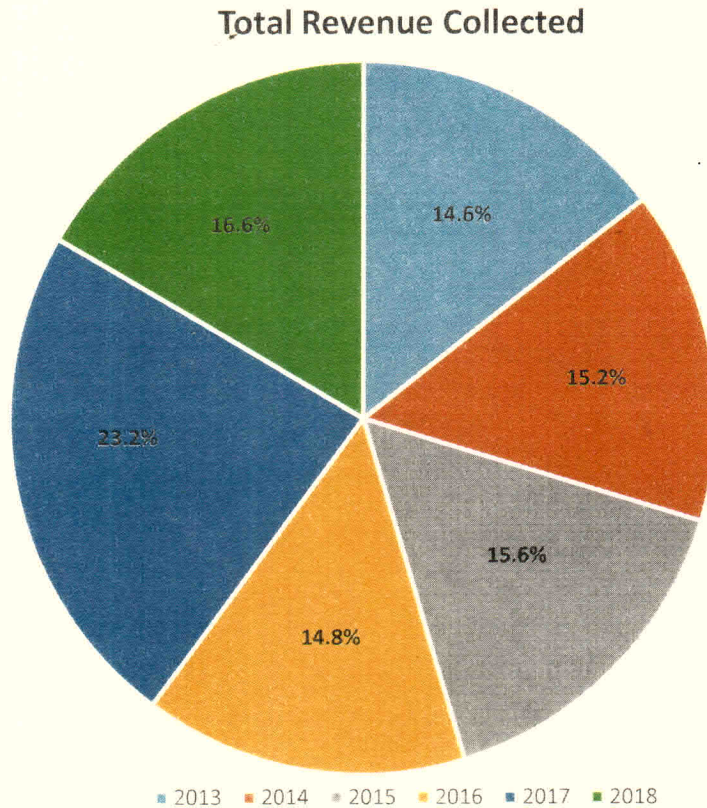
The total revenue collected by the Department of Health Services for the fiscal years 2013 to 2018 was \$2,289,435.02. Refer Table 1.1 and Figure 1.1 below for details.

Table 1.1: DHS Program Income-Fiscal Year 2013 to 2018

Fiscal Year	Hospital Fees (\$)
2013	333,209.79
2014	346,599.99
2015	358,126.56
2016	339,960.92
2017	531,249.51
2018	380,288.25
Total	2,289,435.02

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Figure 1.1: DHS Program Revenue – Fiscal Year 2013 to 2018



8.0 FINDINGS AND RECOMMENDATIONS

8.1 Review of Legislations and Policies

The FSM Code Title 41, Section 110 of Chapter 1 requires imposing individual or group fees for all medical and dental services provided by the Government of the Trust Territory in accordance with schedules and regulations recommended by the Director of Health Services and approved by the High Commissioner, except for such services as the High Commissioner determines shall be free in order to best serve the public interest. No one in need of medical care shall be denied such care because of inability to pay all or any part of any fee established. There shall be no distinction in treatment or care based upon nonpayment or the amount of payment.

While the FSM Code states that the Department of Health Services cannot stop the citizens from using the hospital services, there is no legislation, regulation or policy guideline authorizing the DHS on the

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collection of outstanding fees from patients, how it should be collected and length of time that should be given to patients to clear outstanding payments.

Furthermore, audit noted that there is also no policy with the Office of the Administrative Services (OAS) with regards to the administration, control and reporting of arrears of revenue.

The issue was further aggravated by the absence of a Board for the Department of Health Services.

Cause and Effect

Without any DHS Board and legislation or regulation on the collection of outstanding hospital fees, there is no direction or control by DHS over the collection of outstanding hospital fees from patients. As a consequence, the arrears of revenue from the outstanding hospital fees continued to accumulate.

Recommendations

- The DHS should propose for the review of the current legislation and draw up a regulation governing the payment of hospital fees in relation to the FSM Code Title 41 and to consider in-patient fees to be charged according to the patients' annual combine household income.

For example, for those patients whose family with a combined annual household income of less than \$6,000 shall be exempted from paying hospital in-patient fees or paying only 50% of the total fees.

- The DHS should liaise with the Office of Administrative Services to develop a policy or regulation to include a debt recovery procedure.
- DHS should follow-up with the Governor on the appointment of DHS Board.

DHS Response

- We find it difficult to determine accurate rates of household incomes in Yap and therefore it would pose an issue for our department to carry out this recommendation.
- Yes, we will work with OAS to develop this.
- DHS Director will follow-up on this planned endeavor.

8.2 Arrears of Revenue Balance

A **statute of limitations** is a law passed by a legislative body in a common law system to set the maximum time after an event within which legal proceedings may be initiated. When the period of limitation prescribed in a statute elapses, a claim against an overdue debt may no longer be enforced by legal actions and may go uncollected.

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A total of \$2,432,492.82 was recorded by DHS as arrears of revenue as at 31 December 2018.

Table 1.2: Arrears of Revenue as at 31/12/18

Calendar Year	Amount (\$)
2008	99,417.66
2009	234,781.82
2010	216,515.44
2011	274,759.00
2012	224,516.90
2013	210,690.00
2014	246,042.70
2015	237,121.00
2016	223,256.80
2017	280,898.10
2018	184,493.40
Total	2,432,492.82

It was revealed by DHS that a large portion of this arrears of revenue comprises of in-patient outstanding hospital fees. However, no actual revenue breakdown for out-patients and in-patients were provided to audit.

There was no evidence of follow up being carried out by the DHS on these outstanding patients' fees noted during our audit.

Cause and Effect

Lack of follow up and payment of outstanding fees will lead to the accumulation of outstanding fees and subsequent write-offs as outstanding amounts become uncollectible pursuant to the statutes of limitations.

Recommendations

- The DHS should continuously follow up on outstanding hospital fees with the assistance of the Office of Administrative Services.
- The DHS should review the schedule of outstanding hospital fees, determine the uncollectible amounts, and provide proper justifications for write-offs.

DHS Response

- We will create a protocol together when we develop the joint policy as mentioned above.
- We will first work with OAS to determine how best to collect and then create a way for write-off as a last resort.

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8.3 Reporting of Arrears of Revenue to Office of Administrative Services

The Department of Health Services collects and deposits the Department's revenue on a daily basis at the Office of Administrative Services."

However, audit noted that the details of the outstanding patients' fees have not been reported to the Office of Administrative Services for subsequent disclosure in the annual Yap State financial statements. The total outstanding patients' fees as at 31 December 2018 was \$2,432,492.82. Refer to Table 1.2 above for details.

Cause and Effect

There was no policy at the DHS nor at the Office of Administrative Services that requires DHS to report on the details of outstanding patients' fees to the Office of Administrative Services.

Consequently, there was no guidance on the accounting and reporting of outstanding patients' fees; the Office of Administrative Services was not aware of the outstanding patients' fees, and the accounts receivable was annually understated in the Yap State financial statements.

Recommendations

- The DHS in consultation with OAS should draw up a guideline/regulation for the accounting and collection of outstanding fees that requires the submission of quarterly arrears of revenue return to the Office of Administrative Services within one month after the end of each quarter.
- The DHS should consider adopting the Arrears of Return form (*Appendix 1*) or similar for reporting the arrears of revenue to the Office of Administrative Services.

DHS Response

- We will use your recommended template to provide a regular report and include this in the joint policy as a standard practice.

8.4 No Monthly Report on DHS Collection

The DHS Business Office Manual Policy requires the Cashier to submit a monthly report of the DHS collections to the Fiscal Officer. The Cashier documents and submits the Business Office monthly report to the Fiscal Officer with the following information:

- total OPD collection
- total inpatient collection
- total dental collection
- total medical referral collection

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- total “others” collection
- total insurance collection
- a list of “in kind” contributions
- total collections for the month.

Our audit revealed there was no monthly report on the DHS collections prepared and submitted to the Fiscal Officer.

Cause and Effect

The lack of awareness and enforcement of the provisions of the DHS Business Office Manual Policy contributed to the failure to report regularly on the collections.

Monthly report of the revenue collections is vital for the DHS informed decision-making on improving and strengthening the collection efforts and the monitoring of the DHS operations.

Recommendations

- DHS management and the Business Office staff should familiarize themselves with the provisions of the manual and comply with the requirements.
- Monthly report of revenue collections should be prepared and tabled in the DHS monthly meetings.

DHS Response

- We expect our Quality Assurance staff will assist us in this area as is their regular work.
- DHS Business Office will prepare a report to share with DHS administration for better planning and maintaining of operations; frequency to be determined.

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APPENDIX 1 – ARREARS OF REVENUE RETURN FORM

**QUARTERLY RETURNS ON ARREARS OF REVENUE BY
 DEPARTMENT OF HEALTH SERVICES (DHS)**

Report for Quarter Ending _____

1. Quarterly Arrears Reported by DHS				
Arrears Reported as at 09/30/19	Arrears Reported as at 12/31/19	Arrears Reported as at 31/01/19	Arrears Reported as at 03/31/20	Arrears Reported as at 06/30/20
2. Composition of Arrears and reasons for outstanding amounts.				
Revenue Type	Amount	% of Total	Comments	
Out-Patients				
In-Patients				
3. Provide the Aging of Debtors				
Age of Debts	Amount	% of Total	Reasons for Non-Recovery	
3 Months				
6 Months				
9 Months				
Less than 1 year				
1 – 2 years				
2-3 years				
3-4 years				
4-5 years				
5-6 years				

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More than 6 years			
4. Has DHS Identified Arrears Deemed Irrecoverable? Provide details and Justification.			
Nature of Revenue	Amount	Debtor (s)	State recovery measures undertaken by the agency and the outcomes.
5. What are the constraints/challenges faced by DHS regarding the administration of revenue and recovery of arrears.			
6. Additional Information or Comments			
Please ensure that all supporting documentation is provided to substantiate the information provided.			
Prepared By: _____	_____ Director of Health Services		

To be submitted to

Office of the Administration Services