UT Southwestern Medical Center

Office of Institutional Compliance and Audit Services

Patient Credits and Refunds Audit

Internal Audit Report 26-AS-1124

July 27, 2026

Executive Summary

The Revenue Cycle Cash Management team at UT Southwestern Medical Center (UT Southwestern) is responsible for overseeing the management of patient credits and refunds. The Epic system identifies patient credits, automatically applies them to outstanding balances when possible, and routes accounts requiring further review to designated workqueues. Both system logic and manual processes assess outstanding balances, upcoming appointments, and potential bad debt to determine whether credits should be applied or refunded to the patient.

The Quality Assurance (QA) team reviews refund requests based on defined dollar thresholds and performs random sampling and review of system-generated refund requests.

As of 3/23/2026, there were 69,033 potential outstanding patient credits totaling $11.3M, of which 51,491 (75%) were less than $100.

Engagement Results

The Office of Institutional Compliance & Audit Services (OICAS) conducted an internal audit of Patient Credits and Refunds during the period from March 2026 – May 2026. The engagement identified several strengths that support operational efficiency and compliance, including system logic to identify potential patient credits, apply patient credits to outstanding balances, and initiate patient refunds.

During the engagement, revenue cycle management refined workqueue routing logic and enhanced process automation functionality, making iterative updates as issues were identified to improve accuracy and efficiency.

However, the overall engagement results indicate opportunities to strengthen governance, clarify roles and responsibilities, and enhance existing procedures to address risks associated with the high volume of patient credits and refunds, particularly in the management and timely resolution of aging patient credit balances. These issues may result in regulatory noncompliance due to the volume of outstanding patient credits aged greater than 30 days. They may also lead to patient dissatisfaction from inadequate account balance management and potential reputational damage. Corrective action is warranted to strengthen internal controls and mitigate risk.

A summary of observations is outlined below:

AREA	OPPORTUNITIES	RISK RATING
30-Day Patient Refund Requirement	• Refund Management • Credit Governance Structure	HIGH
Policies & Procedures	• Credit Identification & Monitoring Procedures • Patient Communication • Procedure Documentation Enhancements	MEDIUM

Further details are outlined in the Detailed Observations section. Less significant issues and process improvement opportunities were communicated to management.

Management Response Summary

Management agrees with the observations and recommendations and has developed action plans to be implemented on or before March 1, 2027.

Appendix A outlines the objectives, scope, methodology, stakeholder list, and audit team for the engagement.

Appendix B outlines the Risk Rating Classifications and Definitions.

The courtesy and cooperation extended by the personnel in Revenue Cycle, and the Departments of Ophthalmology, Plastic Surgery, and Dermatology are appreciated.

Natalie A. Ramello

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Office of Institutional Compliance & Audit Services
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DETAILED OBSERVATIONS

1. 30-Day Patient Refund Requirements

Texas Insurance Code §1661.005 and Texas Occupations Code §101.352(h) require any overpayment to be refunded to patients within 30 days of identification (i.e. when there is sufficient information to determine that an overpayment exists such system alert of potential credit). UT Southwestern patient credit balances are not consistently reviewed and resolved within 30 days of entering a workqueue, indicating a need for corrective action to address backlogs and ensure timely refunds. Delays in processing patient refunds increase the risk of noncompliance with Medicare and Texas regulatory requirements and this can expose the organization to potential financial penalties, legal liabilities, and reputational harm.

HIGH

1.1 Refund Management	Recommendations	Management Action Plan
Epic system logic evaluates outstanding patient balances, upcoming appointments, and potential bad debt. The system automatically applies patient credits or routes them for refund processing. When system logic cannot resolve a patient balance, potential patient credits require manual review. An average of 1,505 potential credits requiring manual review are generated weekly, significantly exceeding the capacity of one (1) FTE assigned to the process with a productivity standard of 85 credits per day. Per UT Southwestern's Patient Refund Request Standard Operating Procedure (SOP), workqueues are prioritized from highest to lowest dollar amount unless otherwise directed by management. The quality assurance review	Management should: • Update existing guidance to align process expectations with regulatory requirements (i.e. refund credits with 30 days of identification). • Revise account prioritization criteria to incorporate both credit aging and dollar amount to support timely resolution of outstanding patient credits. • Initiate a targeted remediation project to reduce the backlog of outstanding patient credit balances. • Evaluate the feasibility of implementing additional system automation to reduce volume of credits requiring manual review.	Action Plan Owner: Cindi Donahue Action Plan Executive: Kelly Kloeckler Due Date: 1/31/2027 *Management will:* • *Update the Patient Refund SOP to address process inefficiencies impacting ability to meet regulatory refund requirements.* • *Revise workqueue prioritization criteria to*

process can also add to delays. As a result, potential patient credits are not consistently reviewed and refunded within the required regulatory timeframe of 30 days. As of 3/23/2026: • 47,565 of 69,033 (69%) potential patient credits totaling approximately $7.2 million were aged greater than 30 days • 1,547 (3%) of these accounts have a system note indicating the encounter has not been closed, meaning charges were not fully posted and an accurate determination of whether a credit balance or refund was due could not be finalized.		*incorporate both credit aging and dollar thresholds.* • *Develop a targeted backlog remediation project, including:* ○ *Productivity targets and backlog reduction goals.* ○ *Automation where appropriate to reduce the manual nature of the process.*
1.2 Credit Governance Structure	**Recommendations**	**Management Action Plan**
A centralized Revenue Cycle Management team maintains overall responsibility for the evaluation and resolution of patient credits and refunds; however, many upstream processes that drive these credits are performed by individual departments and external partners (e.g., Children's Medical Center and Parkland Health). At the start of the audit scope period, eight (8) departments maintained decentralized billing operations and managed patient credits and refunds independently; however, several of these departments were centralized on April 1,	Management should: • Strengthen governance over patient credits and refunds by: ○ Establishing clear accountability and standardized processes. ○ Defining backlog management expectations as newly centralized departments transition outstanding credits and refunds to the centralized work queue. ○ Establish oversight expectations for departments that remain	Action Plan Owner: Cindi Donahue Action Plan Executive: Kelly Kloeckler Due Date: 11/30/2026 *Management will:* • *Develop standardized guidance for departments and affiliate partners including clear roles and responsibilities related to*

2026, resulting in the transition of their outstanding credits and refunds to the centralized work queue. The decentralized billing structure has contributed to inconsistent processes and limited visibility, increasing the volume and complexity of outstanding patient credits in these areas. • 6,181 (9%) of 69,033 outstanding potential patient credits are associated with Ophthalmology, which was centralized on April 1, 2026. • Of these, 1,060 (17%) relate to dates of service prior to August 2025, when the Optical shop operated on a separate EHR (Compulink) under a third-party vendor, limiting UT Southwestern's ability to evaluate and resolve these credits. • 12,140 of 69,033 (17.6%) potential outstanding patient credits totaling $535K as of 3/23/26 are associated with Children's Medical Center and therefore the patient payment process is not under the UTSW operations. The patient credit process is however governed by UTSW revenue cycle.	decentralized, with ongoing monitoring by Revenue Cycle. • Work with Ophthalmology to determine appropriate resolution to the outstanding credits associated with the Optical Shop that were generated in the previous EHR.	*refunds and credits, defined expectations for addressing backlog for newly centralized departments, and establish Revenue Cycle oversight for remaining decentralized departments.* • *Work with Ophthalmology to determine and execute an appropriate resolution approach for Optical Shop credits from the prior EHR.*

2. Policies and Procedures

Policies and procedures should establish end-to-end controls over credit identification, monitoring, patient communication, and refund governance; however, key elements are not fully defined or implemented. Specifically, the absence of formal monitoring controls, clear patient-facing guidance, and comprehensive procedural documentation can result in gaps in oversight, transparency, and consistency. Collectively, these deficiencies increase the risk of delayed account resolution, inconsistent practices, and noncompliance with payer requirements and Texas regulatory expectations.

MEDIUM

2.1 Credit Identification & Monitoring Procedures	Recommendations	Management Action Plan
Prior to workqueue deactivation, IT clears routing logic and re-routes existing accounts; however, no Revenue Cycle monitoring control exists to confirm the deactivation was completed correctly or to identify accounts subsequently routed to inactive workqueues, resulting in unaddressed accounts. As a result, patient accounts were identified as assigned to inactive workqueues and had not been timely identified, reviewed, or resolved.	Management should: • Strengthen controls over workqueue routing and account handling by enhancing coordination with IT to implement standardized deactivation protocols that include validating routing logic prior to workqueue closure. • Establish a recurring monitoring control (e.g., system audit or exception report) to proactively identify accounts tied to inactive or invalid routing logic and ensure timely reassignment.	Action Plan Owner: Cindi Donahue Action Plan Executive: Kelly Kloeckler Due Date: 9/30/2026 *Management will:* • *Enhance coordination with IT to ensure controlled deactivation protocols, including validation of routing logic prior to workqueue closure.* • *Implement a recurring system audit or exception report to detect and reassign accounts associated with inactive or invalid routing logic.*

2.2 Patient Communication	Recommendations	Management Action Plan
Limited patient-facing transparency exists regarding the patient credit and refund process, as information is not available via public websites, MyChart, or financial agreements, including how credits may be applied against outstanding balances prior to refund. As a result, patients may receive inconsistent information, which may adversely impact patient experience and institutional reputation.	Management should enhance patient-facing transparency by establishing and communicating clear, consistent guidance on the patient credit and refund process, including the application of credits to outstanding balances, across key patient communication channels.	Action Plan Owner: Michele Glenn Action Plan Executive: Kelly Kloeckler Due Date: 3/31/2027 Management will: • Evaluate and implement appropriate methods to communicate the patient credit and refund process, such as through existing patient-facing materials (e.g., billing FAQs, website, or financial agreements).
2.3 Procedure Documentation Enhancements	**Recommendations**	**Management Action Plan**
While processes are established, existing guidance materials do not outline the following: • Patient credit balance management and refund governance structure • Exception processes (e.g. hearing aids) • Refund approval thresholds or authorization requirements.	Management should update guidance materials to include: • Patient credit balance management and refund governance structure including any decentralized departments • Exception processes (e.g. hearing aids) • Refund approval thresholds or authorization requirement.	Action Plan Owner: Cindi Donahue Action Plan Executive: Kelly Kloeckler Due Date: 11/30/2026 *Management will update internal SOPs and guidance materials to include:*

The absence of defined guidance increases the risk of inconsistent practices, gaps in oversight, and unauthorized or inappropriate refunds. It also heightens the risk of noncompliance with Federal and commercial payer expectations, Texas regulatory requirements, and internal controls, potentially resulting in regulatory and reputational exposure.		• *End-to-end credit and refund governance structure.* • *Defined exception processes (e.g., hearing aids, third-party systems).* • *Refund approval thresholds and authorization requirements aligned with current practices.*

Appendix A

Objective(s), Scope, and Methodology

The objective of this engagement is to evaluate patient credits and refunds, including relevant controls, to determine whether systems and controls are functioning effectively, as intended, and deliver optimal results.

The review included credit balance monitoring, credit balance application, and refund processing for transactions that took place between 7/1/2025 – 12/31/2025 and analysis of potential outstanding credit balances as of 3/23/26. The review did not include insurance refunds and credits, payer adjudication and reimbursement accuracy, front-end registration and point-of-service collections, bad debt write-offs, and unclaimed property/escheat laws.

Our procedures included but were not limited to the following:

- Interviewed key personnel and reviewed relevant organizational policies.
- Examined policies and procedures for alignment with Texas Insurance Code §1661.005 and Texas Occupations Code §101.352(h).
- Analyzed the population of outstanding patient credit balances to understand volume, aging, and trends.
- For a selection of patient credit balances, validated balances were identified and routed to appropriate workqueues.
- For a selection of patient credits:
    - Examined whether credit balances were sufficiently evaluated and validated to be legitimate.
    - Examined whether credit balances were correctly calculated.
    - Examined whether credits were applied to outstanding patient balances in appropriate order and approved.
    - Examined root cause reasons for credit balances (e.g., incorrect estimates, coordination of benefit errors, adjustment miscalculations).
- For a selection of patient refunds:
    - Examined whether refunds were calculated correctly.
    - Examined whether refunds were requested and approved by appropriate personnel.
    - Examined whether refunds were disbursed to the guarantor.
- Analyzed the volume of outstanding credit balances at risk of violating the 30-day regulatory refund requirement.

We conducted our engagement in conformance with the Institute of Internal Auditors' Global Internal Audit Standards™. This report was prepared by the audit team, with some use of AI-assisted tools to support grammar and wording; all content, conclusions, and judgments reflect the work and review of the auditors.

Executive Sponsor:

Mark Meyer, Vice President & Health System CFO

Key Stakeholders:

Jami Armbrester, Department Administrator, Clinical, Dermatology
Cindi Donahue, Assistant Director, Medical Group Revenue Cycle – Cash Management
Michele Glenn, Director, Medical Group Revenue Cycle, Account Resolutions
Carmen Gonzales, Supervisor, Clinic Staff - Dermatology
Beth Guilliams, Manager, Dermatology Clinic
Owen Huett, Associate Vice President Chief Information Officer, Health Systems
Kelly Kloecker, Associate Vice President, Revenue Cycle Operations
Sharon Leary, Assistant Vice President, Accounting & Fiscal Services
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Appendix B

Risk Classifications & Definitions

Each observation has been assigned a risk rating according to the perceived degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management. The following chart is intended to provide information with respect to the applicable definitions, color-coded depictions, and terms utilized as part of our risk ranking process:

Degree of Risk & Priority of Action	
Priority	An issue identified by Internal Audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Southwestern or the UT System as a whole.
High	A finding identified by Internal Audit that is considered to have a high probability of adverse effects to UT Southwestern either as a whole or to a significant college / school / unit level. As such, immediate action is required by management to address the noted concern and reduce risks to the organization.
Medium	A finding identified by Internal Audit that is considered to have a medium probability of adverse effects to UT Southwestern either as a whole or to a college / school / unit level. As such, action is needed by management to address the noted concern and reduce the risk to a more desirable level.
Low	A finding identified by Internal Audit that is considered to have minimal probability of adverse effects to UT Southwestern either as a whole or to a college / school / unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings. Accordingly, others could evaluate the results differently and draw different conclusions. It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact on these risks and controls in ways that this report did not and cannot anticipate.

Appendix C

Potential Credit Balances by Service Area as of 3/23/2026:

Service Area	Count	Potential Credit Amount
UT Southwestern Hospital and Clinics	56,631	$10,713,398.40
Children's Medical Center	12,140	$535,800.09
Parkland Health and Hospital System	127	$10,771.29
Willow Ambulatory (Pharmacy)	92	$2,207.89
JPS-THD	43	$8,337.99
Grand Total	**69,033**	**$11,270,515.66**

Appendix D

Refund Review Requirements

Refunds requested by account adjusters are reviewed by the appropriate authority based on the following dollar thresholds:

Refund Amount Threshold	Approval Authority
Level 1: $0 - $4,999.99	Supervisor Coordinator
Level 2: $5,000 - $9,999.99	Manager / Assistant Director
Level 3: $10,000 and above	Director / VP

A percentage of system-generated refund requests are reviewed by QA based on the following dollar thresholds:

Refund Amount Threshold	QA Review Rate
Under $25	No Review
$25.01 - $50	10% Reviewed
$50.01 - $100	20% Reviewed
$100.01 - $499.99	50% Reviewed
$500 or more	100% Reviewed