



**Office of Audit Services  
Region I  
John F. Kennedy Federal Building  
Boston, MA 02203  
(617) 565-2684**

July 30, 2002

**CIN: A-01-02-00512**

Mr. David Crowley  
Executive Director, Medicare Operations  
Anthem Health Plans of Maine  
2 Gannett Drive  
South Portland, ME 04106

Dear Mr. Crowley:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled "Follow-Up Audit of The Review of Accounts Receivable Amounts Reported by Associated Hospital Service of Maine (Anthem) at March 31, 1999." A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports are made available to members of the public to the extent the information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (See 45 CFR Part 5).

To facilitate identification, please refer to Common Identification Number A-01-02-00512 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink that reads "Michael J. Armstrong". The signature is written in a cursive style with a large, looping initial "M".

Michael J. Armstrong  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Direct Reply to HHS Action Official:**

Ms. Lynda Silva  
Acting Regional Administrator  
Centers for Medicare & Medicaid Services  
U.S. Department of Health and Human Services  
John F. Kennedy Federal Building  
Boston, MA 02203-0003

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**FOLLOW-UP AUDIT OF THE REVIEW  
OF ACCOUNTS RECEIVABLE AMOUNTS  
REPORTED BY ASSOCIATED HOSPITAL  
SERVICE OF MAINE (ANTHEM) AT  
MARCH 31, 1999**



**JANET REHNQUIST**  
Inspector General

**JULY 2002**  
A-01-02-00512

# *Office of Inspector General*

<http://oig.hhs.gov/>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

## *Office of Evaluation and Inspections*

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

## *Office of Investigations*

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

## EXECUTIVE SUMMARY

### Background

The accounts receivable reported to the quarterly HCFA 750/751 by Medicare contractors represent the most visible assets in the Centers for Medicare and Medicaid Services (CMS) annual financial statements. To report accounts receivable information, CMS has established Contractor Financial Reporting Directives. The directives require that Medicare contractors maintain accounting records according to government accounting principles and applicable government laws and regulations. The directives are based on the requirements of the Chief Financial Officers (CFO) Act of 1990. The CFO Act requires Federal agencies to improve systems of financial management, accounting and internal controls to assure the issuance of reliable financial information. Such controls include adequate audit trails to support financial information reported by Medicare contractors.

Our original review of Anthem Health Plans of Maine (Anthem)<sup>1</sup> accounts receivable activity for the period ended March 31, 1999, determined \$17.5 million in unsupported receivables overstated the ending balance for MSP accounts receivable. We also noted that its financial reporting procedures needed to be strengthened. This review was requested by CMS and follows-up on the corrective action taken by Anthem in response to our prior report (A-01-99-00512).

### Objective

The objectives of this review were to determine whether (1) recommended actions in our prior report have been implemented or are in process, and (2) such actions have led or will lead to the resolution of the prior findings.

### Summary of Findings

We found that Anthem had adequately made most of the recommended adjustments and adequately strengthened its financial reporting system by implementing a general ledger system and related controls. However, we noted that Anthem continued to carry forward, on its balance sheet, unsupported MSP receivables from prior periods.

In 1997, Anthem acquired \$17.5 million in unsupported MSP balances from Blue Cross of Massachusetts. Our prior review noted that Anthem continued to carry forward this amount as of March 31, 1999. Our current review of the Medicare financial statements (HCFA750/751) for December 31, 2001, showed a \$7.3 million reduction in unsupported MSP receivables. Our analysis of the \$7.3 million reduction (\$17.5 million less \$10.2 million) concluded that it is reasonable. Specifically, the reduction includes:

---

<sup>1</sup> Anthem, previously Associated Hospital Service of Maine, is located in South Portland, Maine, and maintains field offices in Massachusetts.

- ✓ \$6.5 million in incorrect interest calculations; and
- ✓ \$800,000 in adjustments from an internal scrub of MSP balances.

Although Anthem made these reductions, it continued to carry \$10.2 million in unsupported MSP balances on its financial statements (HCFA 750/751) at December 31, 2001.

### **Recommendation**

We recommend that Anthem adjust the MSP receivable balance reported on the financial statements (M751) downward by \$10.2 million at March 31, 2002. The adjustment should only apply to the principal portion of the MSP receivables (line 5.a of the).

### **Auditee Comments**

Anthem agreed with our recommendation and made the \$10.2 million adjustment on the March 31, 2002 M751. (See Appendix B)

## TABLE OF CONTENTS

	Page
<b>INTRODUCTION</b>	1
Background	1
Objectives, Scope and Methodology	1
<b>FINDINGS AND RECOMMENDATIONS</b>	2
Unsupported MSP Balance	3
Recommendation	4
Auditee Response	4
Appendix A – Prior Audit Recommendations and Corrective Action Taken	
Appendix B – Auditee Response	

## INTRODUCTION

### Background

The accounts receivable balances reported by the Medicare contractors to the quarterly HCFA 750/751 represent the most visible assets in the Centers for Medicare and Medicaid Services (CMS) annual financial statements. To report accounts receivable information in the financial statements (HCFA750/751), CMS established Contractor Financial Reporting Directives that require Medicare contractors to maintain accounting records according to government accounting principles and applicable government laws and regulations. The directives are based on the requirements of the Chief Financial Officers (CFO) Act of 1990. Specifically, the CFO Act requires Federal agencies to improve systems of financial management, accounting and internal controls to assure the issuance of reliable financial information. Such controls should include adequate audit trails to support financial information reported by Medicare contractors.

Anthem Health Plans of Maine (Anthem), previously Associated Hospital Service of Maine (AHS), is located in South Portland, Maine and maintains field offices in Massachusetts. A centralized department is responsible for reporting accounts receivable information to CMS on a quarterly basis.<sup>1</sup> We originally reviewed the accounts receivable activity for the period ended March 31, 1999, and found that the ending balance for MSP accounts receivable of \$53.9 million was overstated by \$17.5 million in unsupported receivables. In addition, we noted that the financial reporting procedures needed to be strengthened. This review was requested by CMS and follows-up on the corrective action taken by Anthem in response to our prior report (A-01-99-00512).

### Objective, Scope and Methodology

The objectives of this review were to determine whether (1) recommended actions in our prior report have been implemented or are in process, and (2) such actions have led or will lead to the resolution of the prior findings.

Our audit was conducted in accordance with generally accepted government auditing standards. A limited review of internal controls was performed since the objectives of this follow-up review were focused on evaluating financial reporting. To accomplish our objectives, we used December 31, 2001, to evaluate the receivable information reported on the financial statements. Our evaluation included the following procedures:

- ✓ Identified the population of accounts receivable transactions at December 31, 2001, for all components that reported accounts receivable balances.
- ✓ Reconciled amounts reported on the financial statements (HCFA750/751 and M751) to the general ledger.

---

<sup>1</sup> HCFA750/751 for non-MSP receivables and the M751 for MSP receivables

- ✓ Selected a sample of 15 MSP receivable balances from the detailed general ledger and traced each one to the MSP database (subsidiary ledger) and supporting case folders.
- ✓ Selected a sample of 15 MSP receivable balances from the MSP database (subsidiary ledger) and traced each one to supporting case folders and the detailed general ledger.
- ✓ Selected a sample of 15 open MSP case folders and traced each one from the MSP database (subsidiary ledger), to the general ledger and finally to the financial statements (M751).

To determine whether Anthem adequately implemented our recommendations made in the prior report, we performed the following procedures:

- ✓ To ensure daily collections are reconciled to the general ledger, we selected a judgmental sample of 26 collection transactions reported on the HCFA751 for the quarter ended December 31, 2001, and traced each one to source documentation (checks and adjustment registers for offsets). We also selected a second sample of 9 checks and adjustments and traced them through to the HCFA751 for the same quarter.
- ✓ Reconciled total periodic interim payments (PIP) for the quarter ended December 31, 2001, to the financial statements (HCFA750/751) to determine whether PIPs are accurately reported. Also, we tested totals and other formulas on the PIP schedules to ensure they were correctly calculated.
- ✓ Reconciled total receivables from the Provider Overpayment Report (POR) for the quarter ended December 31, 2001, to the general ledger and the HCFA750/751.

The review was performed during March 2002, at Anthem in Portland, Maine. Our review included discussions with CMS personnel at the central and regional office. The draft report was issued on June 17, 2002, and Anthem formerly responded to our recommendation on July 16, 2002. (See Appendix B)

## **FINDINGS AND RECOMMENDATIONS**

Our prior review determined that Anthem should have adjusted its Medicare accounts receivable balance and related activity for the period of October 1998 through March 1999 by \$34.9 million. These adjustments should have been made to reflect the appropriate balance on the financial statements (HCFA750/751) for the period ended March 31, 1999. Specifically, we found that:

- ✓ PIP receivables were not reported by one provider audit reimbursement department, resulting in a \$13 million understatement.
- ✓ PIP reporting errors, resulting in a \$4.4 million overstatement.

- ✓ Unsupported MSP receivables, resulting in a \$17.5 million overstatement.

Additionally, we indicated that improvements to the financial reporting procedures of reconciliation, summarization of accounts receivable activity, independent reviews and MSP control files were necessary. Accordingly, we recommended:

- ✓ Collections reported on the H751 are reconciled to source documentation.
- ✓ Provider audit reimbursement departments' overpayments per its internal records are reconciled to the CMS POR on a timely basis.
- ✓ All accounts receivable information, including PIP data and amounts reported as reclassified/adjusted, is properly summarized to support accounts receivable activity.
- ✓ Independent audit or management reviews are performed on a periodic basis to determine whether the accounts receivable data is accurate, and reported in accordance with CMS financial reporting directives.
- ✓ MSP control files and case folders are continually reviewed to assess the validity of the overpayment.

With the exception of the \$17.5 million overstatement in the MSP receivable balance reported in the March 1999 financial statements (HCFA750/751), we found that Anthem had adequately made the recommended adjustments and adequately strengthened its financial reporting by implementing a general ledger system and related controls. Below details our analysis of the \$17.5 million in unsupported MSP balances and Appendix A summarizes corrective actions taken by Anthem since the prior review.

### **Unsupported MSP Balance**

In 1997, Anthem acquired \$17.5 million in unsupported MSP balances from Blue Cross of Massachusetts. Our prior review disclosed that Anthem continued to carry forward this amount of unsupported MSP receivables as of March 31, 1999.

Our current review focused on the most current MSP accounts receivable balance available and related practices for tracking and reporting MSP activity. According to the chart below, MSP accounts receivable at December 31, 2001, was \$26.7 million. We reviewed source documents and determined that \$16.5 million could be supported, leaving an unsupported balance of \$10.2 million, which Anthem continued to carry on its financial statements (HCFA750/751).

MSP balance at 12/31/01	\$26.7 M
Less: MSP balances supported at 12/31/01	(16.5)M
Total unsupported MSP balances at 12/31/01	\$10.2 M
Original MSP overstatement as of 3/31/99	\$17.5 M
Less: MSP overstatement as of 12/31/01	(10.2)M
Total Reduction	\$ 7.3 M

Our analysis also disclosed that the \$7.3 million reduction in unsupported MSP receivables was attributable to:

- ✓ \$6.5 million in incorrect interest calculations. A CMS review performed in September 2000 discovered that Anthem was incorrectly calculating interest and instructed the fiscal intermediary to re-assess its interest calculations. Accordingly, Anthem reduced the MSP interest receivable balance by \$6.5 million; and
- ✓ \$800,000 in adjustments that appears to be part of the scrub Anthem performed on the MSP receivable balances received from Blue Cross of Massachusetts in FY1997. Our analysis noted that Anthem made over \$19 million (including the \$6.5 million in interest above) in adjustments for MSP from March 1999 through December 2001, indicating that the \$800,000 reduction in unsupported MSP receivables is reasonable.

**Recommendation**

We recommend that Anthem adjust the MSP receivable balance reported on the financial statements (M751) downward by \$10.2 million at March 31, 2002. The adjustment should only apply to the principal portion of the MSP receivable (line 5.a of the M751).

**Auditee Response**

Anthem agreed with our recommendation and made the \$10.2 million adjustment on the March 31, 2002 M751. (See Appendix B)

## APPENDICES

## **Prior Audit Recommendations and Corrective Actions Taken**

### **Recommendation:**

Include the \$13 million in unreported PIP receivables in the accounts receivable balance reported in the financial statements (HCFA750/751).

### **Corrective Action Taken:**

Anthem included the \$13 million in the financial statements (HCFA750/751) for the quarter ending June 30, 1999.

### **Recommendation:**

Reduce accounts receivable by \$4.4 million in reporting errors that overstated the March 1999 balance.

### **Corrective Action Taken:**

Anthem reduced accounts receivable by \$4.4 million in the financial statements for the quarter ending June 30, 1999.

### **Recommendation:**

Reconcile collections reported on the HCFA751 to source documentation.

### **Corrective Action Taken:**

Anthem implemented procedures to reconcile cash collections and offsets reported on the HCFA750/751 to source documentation on a monthly basis.

### **Recommendation:**

Reconcile overpayments identified by the provider audit reimbursement departments to the HCFA POR on a timely basis.

### **Corrective Action Taken:**

Anthem implemented Y2K compliant software to facilitate the reconciliation of overpayments from its internal accounting records to the POR.

**Recommendation:**

Summarize all accounts receivable information, including PIP data and amounts reported as reclassified/adjusted.

**Corrective Action Taken:**

Beginning with the quarter ended June 30, 1999, Anthem has estimated PIP receivables and payables. Previously identified calculation and reporting errors were also corrected, including incorrect formulas in electronic spreadsheets.

**Recommendation:**

Perform independent audit or management reviews on a periodic basis to determine whether accounts receivable data is accurate, reliable, and reported in accordance with HCFA financial reporting directives.

**Corrective Action Taken:**

Since the prior review, Anthem's internal audit department has audited its financial reporting process for the HCFA750/751, as well as management's progress in implementing this recommendation. Management has, for example, implemented the procedure of reconciling the POR to internal accounting records prior to reporting the HCFA750/751 to CMS.

**Recommendation:**

Review MSP control files and case folders on a continual basis to assess the validity of any overpayment.

**Corrective Action Taken:**

Since the prior review, Anthem has performed a detailed review of the MSP accounts receivables and has made over \$19 million in documented adjustments. Its MSP department also reviews outstanding receivables for accuracy and has implemented cross checks to determine the validity of each case in order to update and/or close the case if necessary.

**Centers for Medicare  
& Medicaid Services**  
*(formerly Health Care Financing Administration)*

**Medicare**  
Part A Intermediary  
Maine & Massachusetts  
Regional Home Health

RECEIVED

02 JUL 25 AM 10:42

MHS/OIG/OAS  
REGION I

July 16, 2002

Michael J. Armstrong  
Regional Inspector General for Audit Services  
Office of the Inspector General  
Office of Audit Services  
Region I  
John F. Kennedy Building  
Boston, MA 02203

Re: Common Identification Number A-01-02-00512

Dear Mr. Armstrong:

Associated Hospital Service (AHS) has reviewed the Office of the Inspector General June 17, 2002 draft report entitled "Follow-Up Audit of the Review of Accounts Receivable Amounts Reported by Associated Hospital Service Of Maine (Anthem) at March 31, 1999." AHS agrees with the recommendation included in the report and has been instructed by CMS Central Office to include the \$10.2 million adjustment on the March 31, 2002 M751's. AHS has complied with CMS instructions and included the adjustments as directed.

AHS extends its appreciation to OIG audit staff for its suggestions and recommendations on process improvement in our accounting and reporting of accounts receivable. Appropriate recognition of AHS process improvement is cited in your report.

Sincerely,



David C. Crowley  
Executive Director, Medicare Operations

CC: Ava Chung, Associate Regional Administrator, CMS, Region 1  
Wendell Cosgrove, CCMO, DFM, Region 1

**AHS**

ASSOCIATED HOSPITAL SERVICE

1515 Hancock Street  
Quincy, MA 02169-5280  
617-689-2600  
Fax: 617-689-2602

2 Gannett Drive  
So. Portland, ME 04106-6911  
207-822-8585  
Fax: 207-822-7926

50 Salem Street  
Lynnfield, MA 01940-2694  
617-689-2600  
Fax: 617-689-2850