**DEPARTMENT OF HEALTH & HUMAN SERVICES** **OFFICE OF INSPECTOR GENERAL**

**Office of Audit Services**
**Region II**
**Jacob K. Javits Federal Building**
**New York, New York 10278**
**(212) 264-4620**

September 16, 2002

Our Reference: Common Identification Number A-02-02-01016

Mr. Frank DeGratto
Corporate Vice-President
Patient Financial Services
St. Luke's-Roosevelt Hospital Center
555 West 57th Street, 18th Floor
New York, NY 10019

Dear Mr. DeGratto:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' (OAS) report entitled "Review of Medicare Bad Debts for Hospital Inpatient Services Claimed by St. Luke's-Roosevelt Hospital Center for Fiscal Year Ended December 31, 1999." A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Final determinations 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 issued to the Department's grantees and contractors are made available to members of the press and general public to the extent 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-02-02-01016 in all correspondence relating to this report.

Sincerely yours,

James P. Edert

for Timothy J. Horgan
Regional Inspector General
for Audit Services

2 Enclosures

**Direct Reply to HHS Action Official:**

Mr. Peter Reisman
Associate Regional Administrator
Division of Financial Management
Centers for Medicare and Medicaid Services, Region II
U.S. Department of Health and Human Services
26 Federal Plaza, Room 38-130
New York, New York 10278

Department of Health and Human Services

# OFFICE OF INSPECTOR GENERAL

# MEDICARE BAD DEBTS FOR HOSPITAL INPATIENT SERVICES CLAIMED BY ST. LUKE'S-ROOSEVELT HOSPITAL CENTER FOR FISCAL YEAR ENDED DECEMBER 31, 1999

**JANET REHNQUIST**
**Inspector General**

**SEPTEMBER 2002**
**A-02-02-01016**

# *Office Of Inspector General Notices*

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

## OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS divisions.

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September 16, 2002

Our Reference: Common Identification Number A-02-02-01016

Mr. Frank DeGratto
Corporate Vice-President
Patient Financial Services
St. Luke's-Roosevelt Hospital Center
555 West 57th Street, 18th Floor
New York, NY 10019

Dear Mr. DeGratto:

This final report provides you with the results of our audit of Medicare bad debts for hospital inpatient services claimed by St. Luke's-Roosevelt Hospital Center (Hospital).

The Medicare program reimburses hospitals for bad debts resulting from Medicare deductible and coinsurance amounts that are uncollectible if the bad debts meet Medicare reimbursement criteria. To qualify:

- The debt must be related to covered services and derived from unpaid deductible and coinsurance amounts.
- The hospital must be able to establish that reasonable collection efforts were made.
- The debt must have been actually uncollectible when claimed as worthless and sound business judgment established that there was no likelihood of recovery in the future.

Medicare guidelines also require that allowable Medicare bad debts be reduced by recoveries of previously written-off bad debts.

The objective of this review was to determine if Medicare bad debts for hospital inpatient services claimed by the Hospital on its cost report for fiscal year (FY) ended December 31, 1999 met Medicare reimbursement requirements.

We found that the Hospital generally complied with Medicare bad debt reimbursement requirements in claiming $1,141,841 on its FY 1999 cost report. However, we did find that the Hospital overclaimed $74,412 that we attribute to the following:

- Non-systemic clerical errors in accounting for and claiming Medicare bad debts ($30,950).

- A debt that had a likelihood of recovery was inappropriately written-off ($25,212).

- Adequate documentation to support that reasonable collection efforts were made was not always maintained ($7,831).

- Recoveries for previously written-off bad debts for services provided before 1994 were not properly offset against allowable Medicare bad debts ($10,419).

In addition, we found the Hospital did not establish adequate procedures and accounting controls to assure the proper reporting of Medicare recoveries of previously written-off bad debts for Medicare services provided after 1993.

We recommend that the Hospital:

- Coordinate with the Fiscal Intermediary (FI) to adjust its FY 1999 cost report by $74,412 for overstated inpatient bad debts.

- Strengthen its procedures to assure that allowable Medicare bad debts claimed by the Hospital meet Medicare reimbursement requirements.

- Establish and implement procedures to allocate to Medicare the portion of unidentified recoveries for previously written-off accounts for services provided before 1994.

- Establish and implement procedures and accounting controls to assure the proper reporting of Medicare recoveries of previously written-off bad debts for services provided after 1993.

In response to our draft report (see APPENDIX B), Hospital officials concurred with all our findings and recommendations, except for one specific audit determination.

# INTRODUCTION

## BACKGROUND

Medicare has long had a policy that beneficiaries should share in defraying the costs of inpatient care through various deductibles and coinsurance amounts. For example, during calendar year 2002, the Medicare patient is liable for an $812 deductible for each benefit period in which they are admitted to a hospital. The patient is also liable for a $203 a day coinsurance for the 61st through the 90th day of an extended inpatient stay.

Historically, hospitals have been unable to collect a certain percentage of Medicare coinsurance and deductible amounts from program beneficiaries. Under a policy that costs attributable to Medicare beneficiaries are not to be shifted to non-Medicare patients, Medicare reimburses hospitals for these bad debts. This policy was adopted in 1966 when Medicare reimbursed hospitals retrospectively under reasonable cost principles. Beginning in 1983, inpatient hospital care has been reimbursed under a prospective payment system (PPS). However, under Medicare's PPS, bad debts are pass-through costs and continue to be reimbursed under reasonable cost principles. Hospitals claim reimbursement for these bad debts on their annually submitted cost reports.

As a result of the Balanced Budget Act of 1997, the Medicare program has reduced hospital claims for reimbursement of bad debts by set percentages (75 percent of claimed bad debts for 1998 and 60 percent of claimed bad debts for 1999).

Bad debts resulting from Medicare deductible and coinsurance amounts that are uncollectible from beneficiaries can be reimbursed to hospitals if the bad debts meet Medicare reimbursement requirements.

The Code of Federal Regulations, Title 42, Section 413.80, provides that:

- The debt must be related to covered services and derived from deductible and coinsurance amounts.
- The hospital must be able to establish that reasonable collection efforts were made.
- The debt was actually uncollectible when claimed as worthless.
- Sound business judgment established that there was no likelihood of recovery at any time in the future.

In addition, the Centers for Medicare and Medicaid Services (CMS) Medicare Provider Reimbursement Manual (PRM) requires that:

- The hospital's collection effort be documented in the patient's file, and that listings be maintained of beneficiaries whose uncollected accounts were claimed as bad debts. [PRM Part I, Sect. 310.B]

- Uncollectible Medicare deductible and coinsurance amounts are to be recognized as allowable bad debts in the reporting period in which the debts are determined to be worthless. [PRM Part I, Sect. 314]

- Recoveries of bad debts written-off in a prior period are to be used to reduce allowable bad debts in the reporting period in which the amounts are recovered. [PRM Part I, Sect. 316]

- Hospitals are required to submit certain beneficiary-specific information (such as names and Medicare health insurance number) in a Medicare Bad Debt Log when claiming reimbursement of bad debts on its annual cost report. [PRM Part II, Sect. 140]

## OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our review was to determine if Medicare bad debts for hospital inpatient services claimed by the Hospital met Medicare reimbursement requirements. Our audit covered Medicare bad debts claimed for the cost reporting period January 1, 1999 through December 31, 1999.

To accomplish our objective, we met with Empire Medicare Services FI staff to discuss their procedures for reviewing Medicare bad debts on hospital cost reports, and to review their audit working papers pertaining to the Hospital. Also, we obtained the State Medicaid agency's policies regarding Medicaid reimbursement of Medicare deductibles and coinsurance for Medicare patients who are also eligible for Medicaid.

During our review at the Hospital we:

- Examined and evaluated the Hospital's policies and procedures for the accounting for and collection of patient account balances.

- Selected for review all 55 bad debt accounts in the Hospital Medicare Bad Debt Log greater than or equal to $1,000, which totaled $205,808. In addition, from the remaining 1,390 bad debt entries under $1,000 in the Medicare Bad Debts Log (totaling $940,079), selected for review a random sample of 100 bad debt accounts, which totaled $69,244. The detailed sample results are provided as an appendix to this report.

- Reviewed the seven recovery amounts reported on the Medicare Bad Debts Log, which totaled $4,046.

- For the reviewed Medicare bad debt accounts, performed detailed audit testing of the patient ledger cards, Medicare remittance data, Medicaid remittance documents, and collection activity records.

- Conducted interviews with Hospital patient accounts staff, and obtained general ledger account information to determine what portion of recoveries on previously written-off amounts should have been used to reduce current allowable Medicare bad debts.

In performing our audit work, we relied primarily on substantive testing and, as such, an understanding of internal controls of the Hospital was not required.

The review was conducted in accordance with generally accepted government auditing standards. Fieldwork was conducted at the Provider Audit Unit of Empire Medicare Services in Jericho, New York, during January 2002, and at the Hospital in New York, New York, from March through May 2002.

## FINDINGS AND RECOMMENDATIONS

The Hospital generally complied with Medicare bad debt reimbursement requirements in claiming $1,141,841 on its FY 1999 cost report. However, we did find that the Hospital overclaimed $74,412, which we attribute to the following:

- Non-systemic clerical errors in accounting for and claiming Medicare bad debts ($30,950).

- A debt that had a likelihood of recovery was inappropriately written-off ($25,212).

- Adequate documentation to support that reasonable collection efforts were made was not always maintained ($7,831).

- Recoveries for previously written-off bad debts for services provided before 1994 were not properly offset against allowable Medicare bad debts ($10,419).

In addition, we found the Hospital did not establish adequate procedures and accounting controls to assure the proper reporting of Medicare recoveries of previously written-off bad debts for Medicare services provided after 1993.

Further details concerning our audit findings follow.

**Accounting for and Claiming Medicare Bad Debts**

Medicare guidelines require that bad debts result from deductible and coinsurance amounts that are uncollectible from beneficiaries and are related to Medicare covered services in order to qualify for reimbursement. We found that non-systemic accounting errors resulted in $30,950 being incorrectly claimed as Medicare bad debts. These included:

Bad debts that were neither Medicare deductible nor coinsurance amounts.

- Allowable Medicare bad debts that were charged more than once.
- Bad debt adjustments that were improperly posted.
- Non-Medicare bad debts that were claimed as Medicare bad debts.

  Bad debts for services that were not covered by Medicare (primarily costs for private rooms).

Since none of these bad debts met the Medicare reimbursement guidelines, we consider these bad debts totaling $30,950 to be unallowable.

**Writing Off Debts With a Likelihood of Recovery**

Medicare guidelines require that sound business judgment establish that there is no likelihood of recovery for bad debts claimed for reimbursement. We found that one bad debt account in the amount of $25,212 was written-off when there was some likelihood that it could be recovered from a commercial insurer. We noted that although the Hospital's collection agency was in contact with the insurance company and the patient's family, and there was some indication in the records that the insurance company might pay the deductible and coinsurance amounts, the agency advised the Hospital to write-off the account (the debt was eventually collected in full). Since the documentation showed a likelihood of recovery, we consider this bad debt of $25,212 to be unallowable.

**Documentation of Reasonable Collection Efforts**

Medicare guidelines require that the Hospital be able to establish through adequate documentation that reasonable collection efforts were made. We found that Medicare bad debts totaling $7,831 were not supported by remittance documents. Without these documents, we could not determine if other insurers (such as the State Medicaid agency for patients having both Medicare and Medicaid) were adequately pursued for payment of the deductible and coinsurance amounts. Since proper documentation was not maintained by the Hospital, we consider these bad debts totaling $7,831 to be unallowable.

**Recoveries of Previously Written-off Amounts**

Medicare reimbursement guidelines require that allowable Medicare bad debt be reduced by recoveries of previously written-off bad debts. The Medicare Bad Debt Log contained seven such postings and these amounts were properly used to reduce total allowable bad debt.

However, in reviewing the Hospital general ledger, we noted an entry for recoveries in 1999 of debts involving both Medicare and non-Medicare services rendered prior to 1994. According to Hospital personnel, when the Hospital changed its accounting system in 1994, account information for services rendered prior to 1994 were purged from the system. Because these accounts could not be individually identified and credited to a Medicare or non-Medicare account, Medicare recoveries were not used to reduce allowable Medicare bad debts.

The CMS guidelines provide that when recoveries cannot be specifically identified as Medicare or non-Medicare, allowable Medicare bad debts should be reduced by the amount of total recoveries times the ratio of Medicare bad debts to total bad debts. Thus for services prior to 1994, we calculated an adjustment allocable to Medicare recoveries of $10,419.

In addition, we found the Hospital did not establish adequate procedures and accounting controls to assure the proper reporting of Medicare recoveries of previously written-off bad debts for Medicare services provided after 1993. Hospital procedures provided that recoveries be posted directly to individual patient accounts, and did not require that the Medicare recoveries be recorded in a separate account or log which could be reconciled to other Hospital records. Thus we could not reasonably or readily perform testing to determine if the Hospital reported all 1999 recoveries attributable to previously written-off Medicare debts used to reduce allowable Medicare bad debts.

**Recommendations**

We recommend that the Hospital:

- Coordinate with the Fiscal Intermediary (FI) to adjust its FY 1999 cost report by $74,412 for overstated inpatient bad debts.

- Strengthen its procedures to assure that allowable Medicare bad debts claimed by the Hospital meet Medicare reimbursement requirements.

  Establish and implement procedures to allocate to Medicare the portion of unidentified recoveries for previously written-off accounts for services provided before 1994.

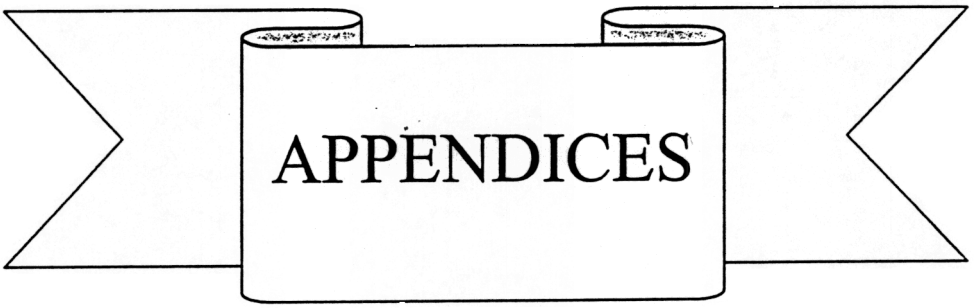
- Establish and implement procedures and accounting controls to assure the proper reporting of Medicare recoveries of previously written-off bad debts for services provided after 1993.

## AUDITEE RESPONSE AND OIG COMMENTS

The Hospital, in its response dated August 27, 2002 (see APPENDIX B), fully agreed with our findings and recommendations, except for one specific audit determination.

In this one instance, the Hospital believed that its write-off of a Medicare debt was made in accordance with its own business practices and existing regulations, and thus was allowable.

We disagree. In this specific case, the records of the Hospital's collection agency indicated that the agency was pursuing another insurer for payment and there was some indication that the amount would be recovered. Nevertheless, the agency advised the Hospital to write off the debt. Medicare reimbursement guidelines state that for a bad debt to be allowable, sound business judgment must establish that there is no possibility of future recovery. While the Hospital may have followed its usual business practices in writing off this debt, we believe the write-off did not meet Medicare reimbursement requirements.


APPENDICES

**APPENDIX A**

## Detailed Sample Results

| | No. of Debts | Amount |
|---|---|---|
| **Bad Debts $1,000 or more (55 tested)** | | |
| **Bad Debts Disallowed** | | |
| Accounting Errors | 15 | $30,950 |
| Debt Written Off Too Soon | 1 | 25,212 |
| No Remittance Documents | 2 | 6,303 |
| Total | 18 | $62,465 |
| **Bad Debts Allowed** | 37 | 143,343 |
| **Total Reviewed** | 55 | $205,808 |
| **Bad Debts Under $1,000 (100 tested)** | | |
| **Bad Debts Disallowed** | | |
| No Remittance Documents | 2 | $1,528 |
| Total | 2 | $1,528 |
| **Bad Debts Allowed** | 98 | 67,716 |
| **Total Reviewed** | 100 | $69,244 |

**APPENDIX B**

Continuum Services

**Continuum Services**
555 West 57th Street
New York, NY 10019

HHS/OIG
OFFICE OF AUDIT
NEW YORK REGIONAL OFFICE

SEP 3 2002

RECEIVED

August 27, 2002

U.S. Dept of Health & Human Services
Office of Inspector General - Audit Services
26 Federal Plaza, Room 3900A
Jacob K. Javits Federal Building
New York, New York 10278

Attn. Tim Horgan - Regional Inspector General Audit Services

With regards to the St. Lukes Roosevelt Hospital Center's, 1999 Inpatient Medicare Bad Debt audit review, we agree with all findings with the exception noted below.

There was one case in where we felt it was a valid bad debt write off. As stated in your audit review, the account had possible recovery due to the collection agency response. We feel that in this case our business practices were followed and in compliance with existing regulations.

The resolution was to accept your findings, but to be allowed to make an audit adjustment in the 2000 Inpatient Medicare Bad Debt Report.

Obviously, we reserve the right to make any appeals that regulations allow.

Respectfully Yours;

Marcella Menlmann
Vice President
Patient Financial Services

# ACKNOWLEDGMENTS

This report was prepared under the direction of Timothy J. Horgan, Regional Inspector General for Audit Services and James P. Edert, Audit Manager. Other principal OAS staff included:

**NEW YORK**

Rafael Vargas, *Senior Auditor*
Jennifer Webb, *Auditor-In-Charge*
Robert Huot, *Auditor*
Brenda Ryan, *Statistical Specialist*

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Marianne Cholakian, *Audit Manager*