DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

NOV 5, 2001

CIN: A-04-01-03003

Mr. Joe Wright
Vice President – Chief Financial Officer
Palmetto Government Benefits Administrator
17 Technology Circle
Columbia, South Carolina 29203

Dear Mr. Wright:

We have enclosed two copies of our report on the United States Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, ***Palmetto Government Benefits Administrator's President's Council on Integrity and Efficiency Debt Collection Initiative***. We reviewed the Palmetto Government Benefits Administrator's (PGBA) financial statements for the period ending September 30, 2000 to determine if the amount of non-tax delinquent debt owed to Medicare existed as of September 30, 2000 and to assess the collectability of the delinquent debt at PGBA for the same time period.

The HHS action official will make the final determination as to actions taken on all matters we have reported. 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 (Public Law 90-23), 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 Code of Federal Regulations Part 5.) As such, within 10 business days after the final report is issued, it will be posted on the World Wide Web at http://www.hhs.gov/progorg/oig.

We appreciate the cooperation your staff provided to us during this audit. They contributed greatly toward the successful completion of this audit.

To facilitate identification in all correspondence related to this report, please refer to the Common Identification Number (CIN) A-04-01-03003.

Sincerely yours,

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosure

HHS ACTION OFFICIAL:
Rose Crum-Johnson, Regional Administrator
Centers for Medicare & Medicaid Services
U.S. Department of Health and Human Services

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

PALMETTO GOVERNMENT BENEFIT ADMINISTRATOR'S PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY DEBT COLLECTION

JANET REHNQUIST
Inspector General

NOVEMBER 2001
A-04-01-03003

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Mr. Joe Wright
Vice President – Chief Financial Officer
Palmetto Government Benefits Administrators
17 Technology Circle
Columbia, South Carolina 29203

Dear Mr. Wright:

This final report provides you with the results of our audit entitled, *Palmetto Government Benefits Administrator's President's Council on Integrity and Efficiency Debt Collection Initiative.*

We reviewed Palmetto Government Benefits Administrators' (PGBA) financial statements for the period ending September 30, 2000 to determine if the amount of non-tax delinquent debt owed to Medicare existed as of September 30, 2000 and to assess the collectability of the delinquent debt at PGBA for the same time period.

To complete our audit objectives, we reconciled the accounts receivable balances reported on the CMS H750/751 to the contractor's subsidiary records for the period ending September 30, 2000. We sampled case files containing documentation supporting the accounts receivable balances in two general categories: non-Medicare Secondary Payor (MSP) and MSP. For non- MSP, we tested 100 randomly sampled Part A accounts receivable transactions. For MSP, we tested 45 randomly sampled Part A accounts receivable transactions.

In addition, we judgmentally tested Part A non-MSP and MSP accounts receivables that were transferred to the regional office (RO) to ensure the contractor maintained support to justify the transfer of these receivables. We also identified and tested the largest single Part A MSP transfer to the RO to ensure this receivable was not included in the ending balance on the M751 at September 30, 2000.

The accounts receivable balances PGBA reported to CMS H750/751 for financial statement purposes for the period ending September 30, 2000 for Part A (non-MSP and MSP) accounts receivable was $1,280,443,717 and reconciled to PGBA subsidiary records.

Our tests of the 100 randomly sampled Part A non-MSP accounts receivable transactions showed that all were recorded, supported, complete, properly valued and existed at September 30, 2000. Our tests also showed one accounts receivable for $390,883 had a status code that did not agree

with the supporting documentation. We concluded PGBA's efforts to collect 25 of the 100 Part A non-MSP accounts receivable balances did not comply with the collection requirements of the Debt Collection Improvement Act (DCIA) of 1996. We also concluded the remaining 75 Part A non-MSP accounts receivable balances did comply with the DCIA. Subsequent to our audit period, PGBA implemented a tracking system to facilitate mailing letters timely, monitoring Extended Repayment Schedules (ERS), and ensuring status codes are accurate.

Our tests of the 45 Part A MSP accounts receivable balances showed that 40 Part A accounts receivable balances were recorded, adequately supported, complete, properly valued and existed. We determined that three Part A accounts receivable balances totaling $10,488 were unsupported and that two Part A accounts receivable balances totaling $152 had payments applied incorrectly (see Appendix A).

Our tests showed that the Part A non-MSP and MSP accounts receivable transferred to the CMS Region IV Office were adequately supported in PGBA's case files. We also concluded the largest single Part A MSP transfer to the RO was not included in the ending balance on the M751 at September 30, 2000.

We recommend that PGBA reduce the accounts receivable balance: to reflect the three unsupported accounts receivable balances for Part A MSP totaling $10,488 and to reflect the two improperly applied payments for accounts receivable balances for Part A MSP totaling $152.

We issued a draft report to PBGA on September 13, 2001 and we requested them to provide us with their comments on the draft report, which they did. The PBGA officials concurred with the recommendations in the report and agreed to take corrective action to reduce the accounts receivable balance we identified in the report. We have included the entire text of the auditee's comments as Appendix B.

INTRODUCTION

BACKGROUND

Medicare accounts receivable primarily represent funds owed to the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, due to: (1) Medicare overpaying providers for a variety of reasons; and (2) other entities who should have paid the claims as primary insurers when Medicare was the secondary payor. The first is referred to as non-MSP) and the second is commonly called MSP.

Non-MSP Accounts Receivable Balances

Medicare contractors pay physicians and other entities for services and supplies provided to beneficiaries. In some instances, providers submit claims and receive payments for services and supplies for which they are not entitled. Instances such as these usually result in overpayments. The contractors record these overpayments as accounts receivable.

The CMS utilizes the Provider Overpayment Reporting system (POR) to record and track amounts associated with Medicare Part A accounts receivable and the Physician Supplier Overpayment Reporting system (PSOR) to record and track Medicare Part B accounts receivable. The CMS relies on these two systems as a uniform method for tracking and reporting overpayments and receivables data and also for compiling information for managements' use. The contractors categorize the receivables in these systems using codes that indicate the physical location of the receivables, such as those at contractor locations, those at various locations within the CMS, and those at the Department of Justice (DOJ). With the exception of Currently Not Collectible (CNC) debt, the contractor reports these POR/PSOR balances to CMS on the H751. The contractor does not report the CNC debt on the financial statements, because of the likelihood the debt will be not be collected.

However, the contractor reports some receivables on the H751 that are not accounted for on the POR/PSOR. The contractor uses ad hoc systems to account for these receivables that include:

- Credit Balance Receivables - A credit balance receivable results from an improper or excess payment the contractor made to a provider due to either patient billing or contractor claims processing errors. The CMS requires providers to report these receivables to the contractor quarterly using a CMS-838 form. The CMS uses this form specifically to monitor the identification and recovery of "credit balances" that are due to the Medicare program.

- Periodic Interim Payments (PIP) Receivables - The contractor usually makes PIPs biweekly based on the total estimated Medicare costs a provider will incur during a reporting period and uses an Excel spreadsheet or similar method to accumulate the receivable data. The spreadsheet contains information for comparing: (1) the PIPs the contractors made to providers for the current fiscal year to the claims the providers submitted during the year as reported on the Provider Statistical Report (PS&R); and (2) those claims for services the providers rendered, but had not submitted to the contractor.

Carry-Over Adjustment Receivables (i.e. claims adjustments) - A carry-over adjustment receivable results from a change the contractor makes to a previously submitted claim. The contractor records these types of overpayments as a receivable in their systems. In most cases, the contractor offsets the carry-over adjustments within a short period of time. However, in the case of an inactive provider, a change in provider number, a terminated provider or a change in fiscal intermediary (FI), the carry-over adjustment can remain outstanding for a significant period of time.

MSP Accounts Receivables

Until 1980, Medicare was the primary payer for all health care costs for beneficiaries eligible for Medicare benefits. Beginning in 1980, Congress passed a series of statutory provisions that require private insurers to pay in certain instances the claims for health services provided to covered beneficiaries before the contractors pay them on behalf of Medicare. As a result of these provisions, Medicare is the secondary payer to the insurers for the working aged (employed Medicare beneficiaries and their spouses who have insurance through their employment), for beneficiaries with either liability or automobile insurance and for those with end-stage renal disease.

In practice, Medicare contractors either should not pay claims as primary insurer when known MSP situations exist or should pay claims as primary and subsequently seek recovery from the other insurer. The contractors should account for the MSP debts that result and report the balances to CMS on the CMS 751 on a quarterly basis.

Managing Accounts Receivable Balances

Managing the accounts receivable balances are a joint responsibility between the Medicare contractors and the CMS RO and Central Office (CO).

Medicare contractors are responsible for managing the majority of the accounts receivable balances for CMS. Inherent in those responsibilities are identifying, collecting, accounting and reporting the results of their management to CMS on a quarterly basis. For financial reporting purposes, CMS requires the contractors to use the Contractor Financial Reports' (CMS 750/751) to capture and report accounts receivable information.

The CMS' ROs and CO are jointly responsible for managing the remaining accounts receivable balances. These balances are taken from the: (1) POR system; (2) PSOR system; and (3) RO Status of Accounts Receivable Reports (CMS Forms R751A and R751B).

Generally, the process is the contractors notify the ROs that they want to transfer their responsibility for certain balances to the RO after satisfying themselves they have performed all the due diligence requirements on certain aged balances. The contractors initiate this action by referring those balances to the ROs. After verifying the contractors have performed all the due diligence requirements on the referrals, the ROs notify the contractors that the ROs either:

(1) accept the contractors' referrals which indicate the ROs accept the responsibility for accounting and reporting those balances to the CO; or (2) reject the contractors' referrals because ROs are not satisfied that the contractors have performed all of the due diligence requirements on certain balances, and the responsibility for collecting, accounting and reporting remains with the contractor.

For those balances the ROs accept as transferred from the contractors, the contractors must record the principal amounts of the accounts receivables and any interest as a write-off/transferred amount on the CMS 751. In reporting the transfers, the contractors must distinguish on the CMS 751 between balances recorded on CMS' POR/PSOR and those not recorded on CMS' POR/PSOR. In either case, the balances the contractors transfer to the RO should no longer be in the ending accounts receivable balance on the CMS 751.

The CMS uses the POR/PSOR and the R751 to report accounts receivable transactions that the contractor transferred to the ROs. Specifically, CMS uses the POR/PSOR to report accounts receivable activity for the following non-contractor locations:

- CMS R/Os;
- Office of Inspector General/Office of Counsel to the Inspector General (OIG/OCIG);
- DOJ; and
- Central Office/Debt Collection Center (CO/DCC).

The location status code on the POR/PSOR indicates the location of each receivable.

OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES

Our primary audit objectives were to: (1) determine the amount of non-tax delinquent debt that existed at September 30, 2000; and (2) assess the collectability of the delinquent debt at the Medicare contractor level for the same period.

The specific objectives at the contractor level were to determine whether the:

(1) accounts receivable balances the contractor reported to CMS on the "Contractor Financial Reports" (750/751) were supported, complete, properly valued and existed at September 30, 2000;

(2) contractor appropriately implemented CMS' instructions for reporting non-MSP CNC Debt; and

(3) contractor appropriately implemented procedures that complied with the requirements of the DCIA.

SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform our audit to obtain reasonable assurance that CMS' financial statements are free of material misstatement and that CMS, as well as Medicare contractors such as PGBA, have complied with applicable laws and regulations.

We performed our audit from January 2001 through July 2001 at PGBA and the Office of Audit Services (OAS) offices in Columbia, South Carolina and OAS offices in Atlanta, Georgia.

To accomplish our objectives, we did the following:

1. Reviewed applicable laws and regulations;

2. Interviewed Contractor officials;

3. Identified the population of accounts receivable for:

    - audit reimbursement (system for tracking audit reimbursements and provider overpayment reporting);

    - credit balances (carryover adjustments); and

    - MSP (CMS Data Match, Subrogration and Clearwater Reports).

4. Reconciled accounts receivable balances reported on the quarterly Contractor Financial Reports (CMS 750/751) to source documentation;

5. Tested 100 randomly sampled Part A non-MSP accounts receivable transactions to determine whether they were recorded, supported, complete, properly valued, existed and whether the contractor followed appropriate procedures to collect the debt and/or transfer the debt to the RO;

6. Judgmentally tested non-MSP accounts receivables that were transferred to the RO to ensure the contractor maintained support to justify the transfer of these receivables;

7. Tested 45 randomly sampled Part A MSP accounts receivable to determine whether they were recorded, supported, complete, properly valued, existed and whether the contractor followed appropriate procedures to collect the debt and/or transfer the debt to the RO;

8. Reviewed the largest single Part A MSP transfer to the RO to ensure it was not included in the ending balance on the M751; and

9. Judgmentally tested MSP global settlements to ensure there was support in the case folders to justify their transfer to the RO as global settlements.

We issued a draft report to PBGA on September 13, 2001 and requested them to provide us with their written comments on the draft report, which they did. The PBGA officials concurred with the recommendations in the report and agreed to take corrective action to reduce the accounts receivable balance we identified in the report. We have included the entire text of the auditee's comments as Appendix B.

FINDINGS AND RECOMMENDATIONS

At September 30, 2000, PGBA was responsible for $1,280,443,717 in Part A non-MSP and MSP accounts receivable balances.

Our tests of the 100 randomly sampled Part A non-MSP accounts receivable balances were comprised of 30 Part A non-MSP accounts receivable balances totaling $4,470,834 that were 180 days or less delinquent and 70 Part A non-MSP accounts receivable balances totaling $8,534,070 that were greater than 180 days delinquent.

PART A NON-MSP ACCOUNTS RECEIVABLE BALANCES

We determined that all of the 30 Part A non-MSP accounts receivable balances that were 180 days or less delinquent were recorded, supported, complete, properly valued, existed and the status codes depicting location agreed with the supporting documentation. We concluded that PGBA's efforts to collect 18 of the 30 accounts receivable balances complied with the collection requirements of the DCIA. However, we determined that PGBA did not: (1) send original demand letters, as CMS required, for five of the 30 accounts receivable balances; and (2) follow appropriate procedures, as the DCIA required, in its efforts to collect 12 of the 30 accounts receivable balances.

We determined that all of the 70 Part A non-MSP accounts receivable balances were recorded, supported, complete, properly valued and existed. We noted one instance totaling $390,883 where the status code for the accounts receivable balance did not agree with supporting documentation. We have determined through discussions with PGBA officials that the status code regarding this accounts receivable balance has been changed to reflect the correct status code. We concluded that PGBA generally complied with the collection requirements of the

DCIA; however, PGBA did not follow DCIA-required procedures in its efforts to collect 13 of the 70 accounts receivable balances.

As stated earlier, our audit determined that PGBA did not always follow the appropriate DCIA requirements. However, subsequent to our audit period we have noted that PGBA has implemented an access database as of February 2001 to provide adequate and timely tracking of its collection activities, including sending demand letters to ensure compliance with the DCIA requirements, monitoring Extended Repayment Schedules, and ensure the status code is accurate.

We judgmentally selected and tested 10 non-MSP receivables to ensure adequate support was in the case files to justify transferring these receivables to the RO. We determined that the 10 non-MSP transfers contained adequate support in the case files justifying the transfers.

In addition to the tests described above, we determined that the proper interest rate was applied for all non-MSP accounts receivables when applicable to the Part A non-MSP accounts receivable balances that we tested.

PART A MSP ACCOUNTS RECEIVABLE BALANCES

We determined that 40 of the 45 Part A MSP accounts receivable balances we tested, were recorded, adequately supported, complete, properly valued and existed in the case files. However, we concluded that three accounts receivable balances totaling $10,488 were unsupported and the remaining two accounts receivables balances totaling $152 had the payment incorrectly applied (see Appendix A). In addition, we judgmentally selected 25 MSP Part A receivables and tested them to ensure the case files included adequate support that justified transferring the case files to the RO. From our review we determined that the 25 MSP transfers were not duplicated and adequate support was in the case files justifying the transfers.

We also selected and tested the largest single accounts receivable balance totaling $22,093 that PGBA transferred to the RO throughout the year to ensure this receivable was not included in the ending balance on the M751 at September 30, 2000. We concluded the $22,093 was not included in the ending balance on the M751 at September 30, 2000.

Recommendations

We recommend that PGBA:

- reduce the accounts receivable balance to reflect the three unsupported accounts receivable balances for Part A MSP totaling $10,488.

- reduce the accounts receivable balance to reflect the two improperly applied payments for accounts receivable balances totals $152.

AUDITEE'S RESPONSE:

The PBGA officials concurred with the recommendations in the report and agreed to take corrective action to reduce the accounts receivable balance we identified in the report. We have included the entire text of the auditee's comments as Appendix B.

OAS RESPONSE:
The auditee's comments do not necessitate a response by OAS auditors.

To facilitate identification with any correspondence related to this report, please refer to Common Identification Number (CIN) A-04-01-03003.

Sincerely yours,

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Unsupported MSP Accounts Receivable

#	Report ID	Insurer Name	Balance at 09/30/2000
1	78227	BCBS SC	$5,112.00
2	73361	Aetna Life Ins Co	$5,049.00
3	000654537	Employers Insurance	$327.00
4	**R200015838938**	**N/A**	**$69.00**
5	**R200021631803**	**N/A**	**$83.00**
			$10,640.00

* Items in Bold totaling $152.00 had the payment applied incorrectly and will be written off.

Medicare
Palmetto GBA
Post Office Box 100134
Columbia, South Carolina 29202-3134

Joe Wright
Vice President and Chief Financial Officer

October 13, 2001

Mr. Charles J. Curtis
Regional Inspector General
Office of Inspector General, Region IV
61 Forsyth Street, SW
Room 3T41
Atlanta, Georgia 30303-8909

CIN: A-04-01-03003

Dear Mr. Curtis,

We have reviewed the draft report entitled, Palmetto Government Benefits Administrators President's Council on Integrity and Efficiency Debt Collection Initiative. According to the report, you determined that Palmetto GBA was responsible for $1,280,443,717 in Part A Medicare Secondary Payer (MSP) and non-MSP accounts receivable balances. This report recommended that Palmetto GBA reduce the Part A MSP accounts receivable balance to reflect the three unsupported accounts receivable balances totaling $10,488 and to reflect the two improperly applied payments totaling $152.

Palmetto GBA concurs with the above recommendations and will take corrective action to reduce the accounts receivable balance for the above entries for the period ending September 30, 2001.

If you have any questions, please contact Debbie Dickson, at (803) 735-1034, extension 26220. I may be reached at extension 35544.

Sincerely,

Joe Wright

cc:
Ray Bair
Debbie Dickson
Bruce Hughes