Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

REVIEW OF INPATIENT MEDICARE CROSSOVER BAD DEBTS CLAIMED AT SIX HOSPITALS IN CALIFORNIA

JANET REHNQUIST
Inspector General

November 2002
A-09-02-00073

Office of Inspector General

http://oig.hhs.gov

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DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Region IX
Office of Audit Services
50 United Nations Plaza
Room 171
San Francisco, CA 94102

Report Number: A-09-02-00073
November 25, 2002

Mr. Robert E. Brown
Director, Provider Audit & Reimbursement Department
United Government Services, LLC
P.O. Box 9150
Oxnard, California 93031-9150

Dear Mr. Brown:

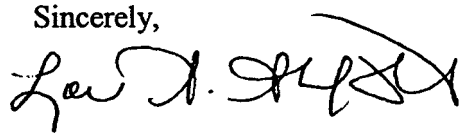
Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled "Review of Inpatient Medicare Crossover Bad Debts Claimed at Six Hospitals in California." A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination taken on all matters reported will be made by the HHS action official. 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 104-321), 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 Report Number A-09-02-00073 in all correspondence relating to this report.

Sincerely,



Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Elizabeth Abbott, Regional Administrator
Centers for Medicare and Medicaid Services, Region IX
Office of the Regional Administrator
75 Hawthorne Street, 4th Floor
San Francisco, CA 94105

cc: Mike Foxx, Audit Manager, Provider Audit Department
United Government Services, LLC

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

REVIEW OF INPATIENT MEDICARE CROSSOVER BAD DEBTS CLAIMED AT SIX HOSPITALS IN CALIFORNIA

(AUDIT PERIOD: FEDERAL FISCAL YEAR 1999)

JANET REHNQUIST
Inspector General

November 2002
A-09-02-00073

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.

DEPARTMENT OF HEALTH & HUMAN SERVICES Office of Inspector General

Region IX
Office of Audit Services
50 United Nations Plaza
Room 171
San Francisco, CA 94102

Report Number: A-09-02-00073
November 25, 2002

Mr. Robert E. Brown
Director, Provider Audit & Reimbursement Department
United Government Services, LLC
P.O. Box 9150
Oxnard, California 93031-9150

Dear Mr. Brown:

This final report provides you with the results of our review of inpatient Medicare crossover[1] bad debts (bad debts) claimed at six hospitals in California. The objective of our review was to determine whether bad debts claimed on federal fiscal year (FFY) 1999[2] cost reports were previously paid as part of a settlement agreement between the Centers for Medicare and Medicaid Services (CMS) and the California Department of Health Services (the State).

Of the six hospitals reviewed, we found that four claimed bad debts totaling $2,220,064 on their Medicare cost reports that was previously paid as part of the settlement agreement. In a prior review (Report Number: A-09-02-00057), a California hospital had a similar error and indicated that their error was caused by confusion over the instructions provided by CMS and United Government Services (UGS) on how to process the prior settlement. The six hospitals in this review were not contacted for comment on this finding.

We recommend that UGS:

- disallow $2,220,064 included on the FFY 1999 Medicare cost reports of four hospitals in California that was identified as previously paid by CMS as part of the settlement agreement, and

- alert staff of the possibility that other hospitals in California may have also claimed the settlement agreement amount as bad debts.

In written response to our draft report, UGS concurred with our finding and recommendations. We summarized UGS' comments at the end of the FINDING AND RECOMMENDATIONS section of this report. In addition, the complete text of UGS' comments is included as an appendix to this report.

[1] Crossover claims are for patients eligible for both Medicare and Medicaid.
[2] A hospital filed a cost report for FFY 1999 if its cost report period began at any time between October 1, 1998 and September 30, 1999.

INTRODUCTION

BACKGROUND

Medicare Requirements for Bad Debts. Medicare has had a long-standing policy that beneficiaries should share in the costs of their own medical care through various deductibles and coinsurance amounts. For example, during calendar year 2002, the Medicare patient was liable for a $812 deductible for each benefit period in which he/she was admitted to a hospital. Also, the patient was liable for $203 coinsurance per day 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. For the amounts the hospitals were unable to collect (bad debts), beginning in 1966, Medicare reimbursed hospitals retrospectively under reasonable cost principles. Beginning in 1983, inpatient hospital care was reimbursed under a prospective payment system (PPS). Under Medicare's PPS, bad debts are paid as pass-through costs and continue to be reimbursed under reasonable cost principles. Hospitals claim reimbursement for these bad debts by submitting annual Medicare cost reports.

Under section 1861(v)(1)(T) of the Social Security Act, the amount of allowable bad debts for cost reporting periods beginning during FFY 1998 was reduced 25 percent. For FFY 1999, the amount of allowable bad debts was reduced 40 percent, and for FFY 2000, it was reduced 45 percent. For the FFYs subsequent to FFY 2000, it will be reduced 30 percent.

United Government Services. The UGS is one of two Medicare fiscal intermediaries in California. Fiscal intermediaries are private companies that have a contract with Medicare to process payments for Part A services provided to beneficiaries. Part A services include inpatient hospital stays, care in a skilled nursing facility, hospice care and some home health care.

Settlement Agreement. The CMS denied reimbursement for bad debts attributable to inpatient crossover coinsurance and deductible amounts in California between May 1, 1994 and April 4, 1999. The CMS determined that Medicare reimbursement for the crossover bad debts identified would be allowed after the State calculated how much of the crossover coinsurance and deductibles Medi-Cal[3] should pay under the State Plan Amendment. In order to determine Medi-Cal's portion, CMS expected the State to perform a claim-by-claim comparison.

To resolve this issue, in July 1999, the State reprocessed inpatient crossover claims from May 1, 1994 to April 4, 1999. The CMS used this information to determine its portion of the settlement paid to the providers for bad debts. Bad debts paid by CMS under the settlement agreement should not have been claimed by the hospitals on their Medicare cost reports. After April 4, 1999, bad debts were to be claimed by the providers on the cost reports and reviewed by the fiscal intermediaries in accordance with standard Medicare policy.

[3] In California, Medicaid is referred to as the Medi-Cal program. In this report, we use the term Medi-Cal to refer to the Medicaid program.

OBJECTIVE, SCOPE AND METHODOLOGY

We performed our audit in accordance with generally accepted government auditing standards issued by the Comptroller General. Our objective was to determine whether bad debts claimed on the FFY 1999 cost reports for selected hospitals in California were previously paid as part of the 1999 settlement agreement between CMS and the State.

As part of a prior audit (Report Number: A-09-02-00057), we determined that a hospital in California claimed $2.4 million of bad debts on its Medicare cost report that was previously paid under the settlement agreement. Based on this prior audit, we selected six additional hospitals in California to determine if bad debts claimed on their FFY 1999 Medicare cost reports were previously paid as part of the settlement agreement. We selected the six hospitals that claimed the highest amount of bad debts in California and submitted Medicare cost reports to UGS. Also, we considered the following ratios: (1) total deductible plus coinsurance to total bad debts claimed, (2) reimbursable bad debts for each Medicare discharge, and (3) percentage of increase in bad debts claimed from FFY 1998 to FFY 1999.

To accomplish our objective, we:

- reviewed Medicare criteria related to bad debts and the settlement agreement between CMS and the State,
- interviewed Medicare fiscal intermediary officials, and
- compared the hospitals' bad debts listed on their FFY 1999 Medicare cost reports to the settlement amounts.

An overall review of UGS' control structure was not necessary to achieve our objective. However, we did review the policies and procedures for conducting audits of bad debts.

Information needed to accomplish our review was provided by UGS and CMS. Our fieldwork was performed from March 2002 through July 2002.

FINDING AND RECOMMENDATIONS

In our review of bad debts reported by six California hospitals, we identified four hospitals that claimed $2,220,064 of bad debts on their FFY 1999 Medicare cost reports that was previously paid by CMS under the settlement agreement. In response to a prior audit, which included this issue, the California hospital under review indicated that their error was caused by confusion over the instructions provided by CMS and UGS on how to process the prior settlement. The six hospitals in this review were not contacted for comment on this finding.

GUIDANCE PROVIDED BY CMS

In March 1999, CMS issued a letter to UGS providing instructions on how to proceed in informing hospital providers of the settlement agreement payments for the bad debts. Also, the instructions included how and when hospital providers should claim the retroactive payments on

the Medicare cost report. These payments were to be reported on Worksheet E, Part A, line 24 "Retroactive Crossover Bad Debt Payment." Additionally, the hospitals were informed that they should not duplicate amounts previously paid.

In April 2002, we discussed with CMS the bad debts finding in our prior audit of a California hospital. Based on this discussion, CMS issued an alert by electronic mail to the fiscal intermediaries making them aware of one instance in California where a provider claimed bad debts in the FFY 1999 Medicare cost report that were also included in the settlement agreement. The fiscal intermediaries were instructed to pay particular attention to this issue in their reviews of cost reports.

SUMMARY OF BAD DEBTS

The six hospitals selected for review claimed $8,790,387 in bad debts on their FFY 1999 Medicare cost reports. Four of the six hospitals claimed $2,220,064 in bad debts that was previously paid as part of the settlement agreement.

The results of the audit for each hospital are summarized below.

Hospital Name	Duplicated Bad Debts
Martin Luther King Jr./Drew Medical Center	$1,344,466
LA County/Olive View Medical Center	859,636
St. Francis Medical Center	14,434
Enloe Medical Center	1,528
Community Hospital of Monterey Peninsula	0
St. Vincent Medical Center	0
Total	$2,220,064

UGS REVIEWS

The UGS reviews the Medicare cost reports for all hospitals for which they act as fiscal intermediary. The level of audit work is based on certain criteria, such as CMS funding, dollars at risk, and prior audit experience. As of the date of our fieldwork, UGS had started audits on two of the six hospitals: LA County/Olive View Medical Center and Martin Luther King Jr./Drew Medical Center. The UGS had not yet reviewed bad debts in either audit. We provided our analysis of the bad debts claimed on the FFY 1999 Medicare cost reports to UGS reviewers in August 2002.

RECOMMENDATIONS

We recommend that UGS:

- disallow $2,220,064 included on the FFY 1999 cost reports of four hospitals in California that was identified as previously paid by CMS as part of the settlement agreement, and

- alert staff of the possibility that other hospitals in California may have also claimed the settlement agreement amount as bad debts.

UGS COMMENTS

In response to our draft report, UGS concurred with our finding and recommendations. The UGS commented that although audit work on bad debts was not completed, the bad debts were disallowed when the tentative settlements were issued.

The complete text of UGS' comments is included as an appendix to this report.

* * * * * *

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Pubic 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 on the Act which the Department chooses to exercise. (See 45 CFR part 5.)

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Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

APPENDIX

PART A INTERMEDIARY NATIONAL FQHC INTERMEDIARY MEDICARE
REGIONAL HOME HEALTH INTERMEDIARY PHONE 805-367-0800

September 23, 2002

Ms. Lori A Ahlstrand
Regional Inspector General
Office of Inspector General
Region IX
2201 Sixth Avenue, MS-RX 80
Seattle, WA 98121

SUBJECT: Draft Report Entitled "Inpatient Medicare Crossover Bad Debts Claimed at Hospitals in California"

Dear Ms. Ahlstrand:

We have reviewed the draft OIG report dated September 12, 2002 and have only two comments:

- On page 2, the third paragraph, it states "United Government Services is one of six, and the largest, Medicare fiscal intermediaries in the State of California." There are only two fiscal intermediaries in California.

- On page 4, under United Government Services Reviews, it should be noted that while the audit work on bad debts is not completed, the bad debts were disallowed when the tentative settlements were issued on the as filed cost reports.

There are no other comments on this draft report.

If you have any questions, please contact me at 805-367-0564.

Sincerely,

Robert E. Brown, Director
Provider Audit Department

ACKNOWLEDGMENTS

This report was prepared under the direction of Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX. Other principal Office of Audit Services staff who contributed include:

Janet Tursich, *Audit Manager*
Jim Okura, *Senior Auditor*
Teri Kirkpatrick, *Auditor*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.