



Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

August 26, 2010

Report Number: A-04-09-04033

Ms. Julie Feasel
Chief Executive Officer
Kindred Healthcare Bay Area - Tampa
4555 South Manhattan Avenue
Tampa, FL 33611

Dear Ms. Feasel:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Medicare Part A Bad Debts at Kindred Healthcare – Bay Area for Fiscal Year Ended August 31, 2005*. We will forward a copy of this report to the HHS action official noted below. In addition, we will provide a copy to Kindred Healthcare Bay Area – St. Petersburg.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-04-09-04033 in all correspondence.

Sincerely,

/Peter J. Barbera/
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

Ms. Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, MO 64106



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August 26, 2010

Report Number: A-04-09-04033

Ms. Pam Riter
Chief Executive Officer
Kindred Healthcare Bay Area – St. Petersburg
3030 6th Street South
St. Petersburg, FL 33705

Dear Ms. Riter:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Medicare Part A Bad Debts at Kindred Healthcare – Bay Area for Fiscal Year Ended August 31, 2005*. We will forward a copy of this report to the HHS action official noted below. In addition, we will provide a copy to Kindred Healthcare Bay Area – Tampa.

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Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE PART A BAD
DEBTS AT KINDRED HEALTHCARE –
BAY AREA FOR FISCAL YEAR ENDED
AUGUST 31, 2005**



Daniel R. Levinson
Inspector General

August 2010
A-04-09-04033

Office of Inspector General

<http://oig.hhs.gov>

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Notices

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

INTRODUCTION

BACKGROUND

The Centers for Medicare & Medicaid Services (CMS) is the Federal agency within the U.S. Department of Health & Human Services that administers the Medicare program and provides Federal oversight of State Medicaid programs for every State in the nation.

Medicare Fiscal Intermediaries and Administrative Contractors

CMS contracts with Medicare fiscal intermediaries¹ and administrative contractors to, among other things, process and pay claims submitted by Medicare providers. Fiscal intermediary and Medicare administrative contractor responsibilities include determining reimbursement amounts, conducting reviews and audits, and safeguarding against fraud and abuse. Fiscal intermediaries and Medicare administrative contractors use the Medicare cost report for final settlement of Medicare reimbursement due to or from providers.

Medicare Bad Debt Policy

Section 1813 of the Social Security Act (42 U.S.C. § 1395e) mandates that beneficiaries share in defraying the costs of inpatient care through various deductibles and coinsurance amounts. This policy was adopted in 1966 when 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 (defined below) are pass-through costs and continue to be reimbursed under reasonable cost principles. Hospitals claim reimbursement for these bad debts on their annual Medicare cost reports.

Medicare bad debts are amounts considered to be uncollectible from accounts and notes receivable that were created or acquired in providing services for Medicare patients. The Medicare program reimburses hospitals for bad debts associated with uncollectible Medicare deductible and coinsurance amounts if the bad debts meet Medicare reimbursement criteria. Federal regulations (42 CFR § 413.89(e)) provide that, to be eligible for reimbursement, the hospital must show that: (1) the bad debts are related to Medicare covered services and derived from unpaid deductible and coinsurance amounts, (2) reasonable collection efforts were made, (3) the debts were actually uncollectible when claimed as worthless, and (4) sound business judgment established there was no likelihood of recovery at any time in the future. Furthermore, Federal regulations (42 CFR § 413.89(f)) require hospitals to reduce their bad debts by the amount that they recover from previously written off bad debts. Because Federal regulations (42 CFR § 413.89(h)) reduced reimbursement for Medicare bad debts by 30 percent in fiscal year (FY) 2005, Medicare reimbursed 70 percent of the bad debts claimed.

¹ Effective October 1, 2005, Congress amended the Social Security Act to require that CMS contract with Medicare administrative contractors instead of fiscal intermediaries (Part A) and carriers (Part B) by October 2011. Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173 § 911, Social Security Act, § 1816 and 1842, 42 U.S.C. §§ 1395h, 1395u and 1395kk-1.

Kindred Healthcare – Bay Area

The Kindred Healthcare - Bay Area (Kindred) is a 155-bed long-term acute care hospital with locations in Tampa and St. Petersburg, Florida. A long-term acute care hospital specializes in the treatment and rehabilitation of medically complex patients who require an extended stay in a hospital setting. The hospital provides specialized services 24 hours per day, 7 days a week. The patients are typically referred from intensive care units at acute care hospitals. Some of the specialized services include life support (mechanical ventilation); physical, speech, and occupational therapies; advanced wound care; and intravenous therapy. On Kindred's combined hospital cost report for September 1, 2004, through August 31, 2005, Kindred claimed \$1,661,902 (\$1,163,331 reimbursement) for Medicare inpatient bad debts (bad debts).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether bad debts claimed on Kindred's FY 2005 hospital cost report were allowable under Medicare regulations and were reduced by bad debt recoveries.

Scope

Kindred claimed \$1,661,902 in bad debts on its FY 2005 hospital cost report. Our review was limited to the 95 bad debts over \$5,000 totaling \$1,508,129. We also reviewed the accuracy and completeness of bad debt recoveries reported by Kindred during FY 2005.

We limited our review of Kindred's internal controls to those controls applicable to Kindred's managing and reporting of its bad debts.

We conducted our fieldwork from November 2008 through August 2009 at Kindred in both Tampa and St. Petersburg, Florida.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidance;
- held discussions with CMS officials regarding Medicare bad debt program guidance;
- evaluated Kindred's policies and procedures regarding the collection of deductibles and coinsurance amounts;
- obtained a list of bad debts claimed in FYs 2004 and 2005;

- verified that Kindred claimed no duplicate bad debts on its FY 2005 cost report;
- validated the population of FY 2005 bad debt write offs;
- reviewed the patient accounting financial records, Medicare remittance documents, Medicaid remittance documents, and collection activity records for the 95 bad debts reviewed; and
- reviewed financial records for bad debt recoveries to determine the accuracy and completeness of bad debt recovery amounts used to reduce bad debts.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

RESULTS OF REVIEW

Kindred claimed bad debts on its FY 2005 hospital cost report that were allowable under Medicare regulations and were reduced by bad debt recoveries. Therefore, we are making no recommendations.

For all 95 of the bad debts reviewed: (1) the bad debts were related to Medicare covered services and derived from unpaid deductible and coinsurance amounts, (2) Kindred made reasonable collection efforts, (3) the debts were actually uncollectible when claimed as worthless, and (4) sound business judgment established there was no likelihood of recovery at any time in the future. In addition, Kindred reduced its bad debts by amounts recovered from previously written off bad debts.