

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE INPATIENT
BAD DEBTS AT
UNITED HOSPITAL CENTER,
CLARKSBURG, WEST VIRGINIA
FOR CALENDAR YEAR 1999**



**JANET REHNQUIST
INSPECTOR GENERAL**

**JULY 2002
A-03-01-00022**

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July 30, 2002

Our Reference: Common Identification Number A-03-01-00022

Douglas Coffman, Vice President of Finance
United Hospital Center
Three Hospital Plaza, Route 19 South
P.O. Box 1680
Clarksburg, West Virginia 26302-1680

Dear Mr. Coffman:

This final report provides you with the results of our audit entitled, "Review of Medicare Inpatient Bad Debts at United Hospital Center, Clarksburg, West Virginia for Calendar Year 1999." We performed this review in conjunction with a nationwide audit of Medicare inpatient bad debts. The objective of our audit was to determine if Medicare inpatient bad debts claimed by United Hospital Center (UHC) on its cost report for calendar year (CY) 1999 met Medicare requirements. For CY 1999, the UHC claimed inpatient bad debts of \$511,421.

Our audit found that UHC generally claimed inpatient bad debts on its CY 1999 cost report that met Medicare reimbursement requirements. However, we noted some exceptions and are questioning \$42,328 in bad debt claims. Based on the results of a statistical sample of claims valued at \$768 or less, we found that at least \$26,148 in bad debts claimed were unallowable. Of the 200 sample items reviewed, we found that 33 claims either did not adhere to UHC stated collection policies or did not support the amount claimed. We reviewed all 11 claims (totaling \$48,293) with a value greater than \$768. We questioned \$5,530 for 2 claims that did not support the amount claimed.

We also identified an adjustment for \$10,650, for external collection efforts made during the year, that were not reported by UHC as an offset to bad debts claimed. We are recommending that UHC: (1) coordinate with the Fiscal Intermediary (FI) to adjust its CY 1999 cost report by \$42,328 for overstated inpatient bad debts, (2) ensure that future claimed bad debts are written-off in accordance with UHC's bad debt policies and that accurate supporting documentation be retained for each claim, (3) adjust its cost reports for recoveries made by external collection and have the collection agency identify the type of accounts (inpatient, outpatient, and skilled nursing facility (SNF)) being collected,

and (4) use the results of our audit to stress to its employees the need to use correct data in generating Medicare claims.

By letter dated July 16, 2002, UHC responded to a draft of this report. The UHC stated it does not dispute the audit findings. To improve its procedures with respect to the recovery of a patient's debt prior to writing it off as worthless, the UHC stated it would:

- Coordinate with the FI to adjust its CY 1999 cost report by \$42,328.
- Include the bad debt process in its Business Office quality analysis process that is performed on a quarterly basis. The UHC also stated that it revised its Charity Care Policy to ensure the gathering of appropriate documentation to support the amount calculated as qualifying for charity care and to ensure that the patient's total resources will be considered when determining charity eligibility.
- Adjust its future cost reports for recoveries made by external collection agencies and will work with its outside collection agencies to have the agencies identify the type of account being collected.
- Use the results of the audit to educate and stress to the UHC employees the need to use correct data in the generation of Medicare Claims. Also, UHC stated that it notified the executive management of the hospital regarding the conclusions and recommendations noted in the report.

We believe that the actions reported by UHC in its response to our draft report, if implemented, represent positive steps to correct the deficiencies noted. We have included the UHC response in its entirety as Appendix C of the report.

INTRODUCTION

BACKGROUND

Medicare policy is that beneficiaries should share in defraying the costs of inpatient care through various deductibles and coinsurance amounts. For example, during CY 2002 the Medicare patient is liable for an \$812 deductible for each benefit period in which he/she is 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 collected a certain percentage of Medicare coinsurance and deductible amounts from program beneficiaries.

Under policy, costs attributable to Medicare beneficiaries are not to be shifted to non-Medicare patients. 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 are 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 debt for cost reporting periods beginning during Fiscal Year (FY) 1998 was reduced 25 percent. For FY 1999 the amount of allowable bad debt was reduced 40 percent and for FY 2000 it was reduced 45 percent. For the FYs subsequent to FY 2000 it will be reduced 30 percent.

Bad debts resulting from Medicare deductible and coinsurance amounts that are uncollectible from beneficiaries can be reimbursed to hospitals if the bad debts meet the following criteria:

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

Many Medicare beneficiaries have a third-party responsible for deductibles and coinsurance liabilities. Under certain circumstances, a State Medicaid agency may be responsible for individuals eligible for both Medicaid and Medicare, as well as other low income individuals. If the State Medicaid agency appropriately processes and denies payment on the Medicare deductibles and coinsurance, the provider is not required to exert further collection efforts upon the individual.

The Medicare Provider Reimbursement Manual (PRM), Section 310.B, requires that the provider's collection effort be documented in the patient's file, and PRM, Part II, Section 1102, requires that listings be maintained of beneficiaries whose uncollected accounts were claimed as bad debts. Allowable bad debts must relate to specific deductibles and coinsurance amounts. Under the terms of PRM, Part I, Section 314, uncollectible deductible and coinsurance amounts are recognized as allowable bad debts in the reporting period in which the debts are determined to be worthless.

The UHC was established in 1970 as a result of a merger between St. Mary's and Union Protestant hospitals. The UHC merged with West Virginia University Hospitals in 1997 to form the West Virginia United Health System, which is a regional health care network. Today, UHC is a 284-bed acute-care community hospital located in Harrison County West Virginia and provides services to a 9 county area with a population of approximately 200,000.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether Medicare inpatient bad debts claimed by the UHC on its CY 1999 cost report met Medicare requirements. Our audit of inpatient bad debts was made in accordance with generally accepted government auditing standards. The audit was performed as part of a nationwide audit of Medicare inpatient bad debts.

The UHC provided us with a disk containing computerized listings of patients to support bad debts claimed. We limited our review to inpatient claims. The UHC identified two categories of inpatient claims: (i) Medicare Inpatient Bad Debts and (ii) Medicare Inpatient Charity. In CY 1999, UHC claimed 691 inpatient bad debts totaling \$511,421, as follows:

<u>Categories</u>	<u>Claims</u>	<u>Claim Value</u>
Inpatient Bad Debts	240	\$193,099
Inpatient Charity	<u>451</u>	<u>318,322</u>
Total:	691	\$511,421

To accomplish our objective, we:

1. Selected a statistical sample of inpatient bad debt claims with a claim value equal to or less than \$768. The value of these claims was \$464,740¹. (See Appendices A and B for sample details) The sample contained 200 inpatient bad debt claims totaling \$138,035.
2. Selected and reviewed all inpatient bad debt claims with a value greater than \$768. The value of these claims was \$48,293.
3. Examined the following documentation for each sampled claim:
 - Patient account history,
 - Billing documentation,
 - Medicare remittance information,
 - Patient statement notices,
 - Patient contact notes,
 - Medicaid remittance information (if applicable), and

¹ The value of these claims reported by UHC was \$463,128 and included three claims for credit amounts of \$1,612. We removed these three claims from our sample universe resulting in a revised claim value of \$464,740 for our sample universe.

- Patient Statement of Income and Expense (if applicable).

In addition to the documentation we obtained at UHC, we reviewed Medicare bad debt criteria and UHC policies and procedures for writing off bad debts. We also contacted representatives of the FI (United Government Services, LLC.) that performed annual reviews of UHC cost reports. A detailed review of internal controls was not performed because the objective of our review was accomplished through substantive testing.

We conducted our audit between September and December 2001.

FINDINGS AND RECOMMENDATIONS

Based on our review, we are questioning \$42,328 of the \$511,421 claimed as inpatient bad debts by UHC on its CY 1999 cost report. The questioned cost consisted of:

- \$26,148 associated with a projection resulting from our statistical sample of claims with a value of \$768 or less,
- \$5,530 associated with claims with a value greater than \$768, and
- \$10,650 associated with recoveries that were not offset against bad debts claimed on the cost report.

UHC's Bad Debt Policies and Procedures

The UHC established adequate policies and procedures for identifying and writing off bad debts. The UHC maintained a patient account history and billing documentation for each bad debt claimed. From the account history we could verify the collection effort from the inception of the debt to the time it was determined to be uncollectible. We could identify (1) billings sent to Medicare, (2) Medicare remittance amount, and (3) the amount owed by the patient.

Under its policy, UHC was to: (i) send four statements to a patient notifying him/her of the debts, (ii) make two phone contacts with the patient and (iii) have a collection effort of at least 120 days before a debt was written-off as worthless. A shorter collection effort was permitted for patients eligible for Medicaid or eligible for charity based on the patient's income and expense information. For these claims, the collection process would terminate upon receipt of Medicaid remittance information or upon determining the patient was eligible for charity. These collection efforts resulted in bad debts being written-off in less than 120 days and with less than all required statements and contacts being made.

Overall, UHC procedures were adequate to attempt recovery of a patient's debt prior to writing it off as worthless. However, these procedures were not always followed and,

therefore, resulted in bad debts claimed by UHC, on its CY 1999 cost report, being overstated.

OIG Believes That UHC
Overstated Its Claim for
Bad Debts by \$42,328

Sampled Claims

Our review of a sample of 200 bad debt claims with a value of \$768 or less, indicated that 33 claims totaling \$11,234 did not meet reimbursement requirements.

We questioned:

- ✓ Nine claims totaling \$6,892 because UHC did not follow its policy of contacting the patient prior to writing off the debt.
- ✓ Twenty-one claims totaling \$4,296 because UHC did not maintain documentation to support the amount calculated as qualifying for charity write-off. The documentation supported an amount that was lower than the amount written-off by UHC. We also found that UHC did not always consider the patients' total resources when determining charity eligibility.
- ✓ Three claims totaling \$46 because UHC used an incorrect deductible amount. We only questioned the difference between what should have been written-off and the amount actually written-off.

Based on the results of our statistical sample, we estimate with 90 percent confidence that at least \$26,148 claimed as bad debts for claims that were less than \$768 was unallowable.

Our review of 11 bad debt claims with a value greater than \$768 showed that UHC did not have adequate documentation to support the amount written-off for 2 claims. The documentation supported an amount lower than the amount written-off by UHC. We adjusted the amount written-off by \$5,530 for the two claims.

Recoveries Not Offset

The UHC does not routinely adjust its bad debt logs for recoveries made by external collection agencies. Using the same methodology employed by the FI, we determined that bad debts claimed on the CY 1999 cost report should have been reduced \$10,650. The adjustment was based on a percentage of inpatient bad debts to total bad debts (inpatient, outpatient, and SNF bad debts) reported by UHC on their CY 1999 cost report. We applied the percentage to the total amount reported as recovered by the collection agency, \$18,441, and found inpatient bad debts should be adjusted by \$10,650. This

allocation was necessary because the collection agency does not provide to UHC a break down of recoveries by type of claim. They provide summary information of recoveries by month with no identifying account information. Thus, we were unable to determine if any of these recoveries applied to the claims in our sample population.

CONCLUSIONS AND RECOMMENDATIONS

Our audit showed that UHC generally claimed inpatient bad debts on its CY 1999 cost report that met Medicare reimbursement requirements. The UHC established adequate policies and procedures for identifying and collecting bad debts. However, we noted some exceptions that resulted in bad debts being overstated by \$42,328.

We, therefore, recommend that UHC:

1. Coordinate with the FI to adjust its CY 1999 cost report for inpatient bad debts by \$42,328.
2. Ensure that future claimed bad debts are written-off in accordance with UHC's bad debt policies and that accurate supporting documentation be retained for each claim.
3. Adjust its cost reports for recoveries made by external collection agencies and have the collection agency identify the type of accounts (inpatient, outpatient, and SNF) being collected.
4. Use the results of our audit to stress to its employees the need to use correct data in generating Medicare claims.

UHC Response

By letter dated July 16, 2002, UHC responded to a draft of this report. The UHC stated it does not dispute the audit findings. To improve its procedures with respect to the recovery of a patient's debt prior to writing it off as worthless, the UHC stated it would:

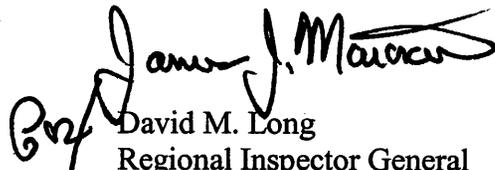
- Coordinate with the FI to adjust its CY 1999 cost report by \$42,328.
- Include the bad debt process in its Business Office quality analysis process that is performed on a quarterly basis. The UHC also stated that it revised its Charity Care Policy to ensure the gathering of appropriate documentation to support the amount calculated as qualifying for charity care and to ensure that the patient's total resources will be considered when determining charity eligibility.
- Adjust its future cost reports for recoveries made by external collection agencies and will work with its outside collection agencies to have the agencies identify the type of account being collected.

- Use the results of the audit to educate and stress to the UHC employees the need to use correct data in the generation of Medicare Claims. Also, UHC stated that it notified the executive management of the hospital regarding the conclusions and recommendations noted in the report.

OIG Comment

We believe that the actions reported by UHC in its response to our draft report, if implemented, represent positive steps to correct the deficiencies noted.

Sincerely yours,


David M. Long
Regional Inspector General
for Audit Services

APPENDICES

SAMPLING METHODOLOGY

Objective:

The objective of our sample was to determine if Medicare inpatient bad debts claimed by United Hospital Center (UHC) on its cost report for calendar year (CY) 1999 met Medicare requirements.

Population:

The UHC claimed \$511,421 inpatient bad debts on its CY 1999 cost report. The population is shown below:

<u>Strata</u>	<u>Number of Bad Debts</u>	<u>Dollar Amount of Bad Debts</u>
Equal to or Less Than \$768	677	\$464,740
Greater than \$768	11	48,293
Credit amounts	<u>3</u>	<u>(1,612)</u>
Total	691	\$511,421

Sample Unit:

The sample unit was a bad debt claim equal to or less than \$768 resulting from unpaid coinsurance and deductible amounts

Sample Design:

A simple random sample was used for reporting the results of our review.

Sample Size:

A sample size of 200 units was used for claims equal to or greater than \$768. All claims greater than \$768 were reviewed in their entirety.

Estimation Methodology:

For all items that were unsupported or unallowable we determined a dollar value. The dollar value was used to establish and project the dollar value of all unsupported or unallowable bad debts claimed by the United Hospital Center.

APPENDIX B

SAMPLE RESULTS AND PROJECTIONS

Results of Sample:

The results of our review of 200 sample items (inpatient bad debt claim) are as follows:

<u>Sample Size</u>	<u>Value of Sample</u>	<u>Number of Non-zero Errors</u>	<u>Value of Errors</u>
200	\$138,035	33	\$11,234

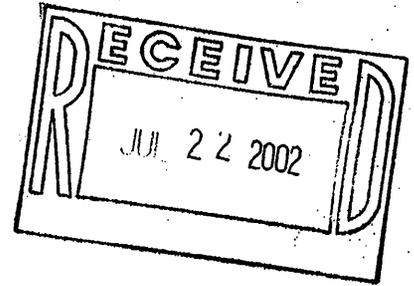
Variable Projections:

Point Estimate	\$38,027
Standard Deviation	\$178.90
90% 2-Sided Confidence Interval	
Lower Limit	\$26,148
Upper Limit	\$49,907



July 16, 2002

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Common Identification Number: A-03-01-00022

Dear Mr. Long:

I have reviewed the draft of the report providing United Hospital Center, Inc. (UHC) with the results of your audit entitled, "Review of Medicare Inpatient Bad Debts at United Hospital Center, West Virginia for Calendar Year 1999" dated June 26, 2002. The report provided the background of Medicare bad debts as a pass-through cost, the objective, scope, and methodology of the engagement, the findings and recommendations of the engagement, and the conclusions and recommendations of the engagement. Based on my review of the report, you have requested UHC do the following:

1. Coordinate with our Fiscal Intermediary (United Government Services, LLC) to adjust the UHC 1999 cost report by reducing the inpatient bad debt by \$42,328.
2. Insure that future claimed bad debts are written-off in accordance with the UHC Bad Debt Policy and that accurate supporting documentation be retained for each claim.
3. Adjust future UHC cost reports for recoveries made by external collection agencies and have the collection agency identify the type of account (inpatient, outpatient, or SNF) being collected.
4. Use the results of the audit to educate and stress to the UHC employees the need to use correct data in the generation of Medicare claims.

Based on my review of the draft report, UHC does not dispute the findings disclosed therein. As stated in the report, UHC has established adequate policies and procedures for identifying and writing off bad debts. In addition, the report notes that, overall, the procedures actually performed by UHC were adequate attempts at recovery of a Medicare patient's debt prior to writing it off as worthless. As a result of the audit, UHC will or has done the following to further improve its procedures with respect to the recovery of a patient's debt prior to writing it off as worthless:

1. UHC will coordinate with our Fiscal Intermediary (United Government Services, LLC) to adjust the UHC 1999 cost report by reducing the inpatient bad debt by \$42,328.
2. To insure that future claimed bad debts are written-off in accordance with the UHC Bad Debt Policy and that accurate supporting documentation be retained for each claim, UHC has done the following:
 - UHC has included the bad debt process in its Business Office quality analysis process which is performed on a quarterly basis.
 - UHC has revised its Charity Care Policy to ensure the gathering of appropriate documentation to support the amount calculated as qualifying for charity care and to ensure that the patient's total resources will be considered when determining charity eligibility
3. UHC will adjust its future cost reports for recoveries made by external collection agencies and will work with its outside collection agencies to have the agencies identify the type of account (inpatient, outpatient, or SNF) being collected.
4. UHC will use the results of the audit to educate and stress to the UHC employees the need to use correct data in the generation of Medicare claims. Executive management of the Hospital has also been alerted regarding the conclusions and recommendations noted in the report.

United Hospital Center, Inc. will implement all of the recommendations contained herein and is committed to compliance with Medicare rules and regulations. If I can be of any further assistance, please do not hesitate to contact me.

Sincerely,



Douglas M. Coffman
Vice President of Finance