

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

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

(AUDIT PERIOD: FEDERAL FISCAL YEAR 1999)



JANET REHNQUIST
Inspector General

January 2003
A-09-02-00092

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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 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-09-02-00092
January 23, 2003

Mr. Richard Reeves
Director of Medicare
Mutual of Omaha
Mutual of Omaha Plaza
Omaha, Nebraska 69175

Dear Mr. Reeves:

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 Three Hospitals in California." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

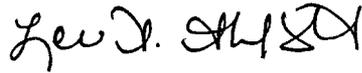
Final determination taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), 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.)

Page 2 – Mr. Richard Reeves

To facilitate identification, please refer to Report Number A-09-02-00092 in all correspondence relating to this report.

Sincerely,



Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Official:

H. Stephen Deering, Acting Regional Administrator
Centers for Medicare & Medicaid Services, Region IX
Office of the Regional Administrator
75 Hawthorne Street, 4th Floor
San Francisco, CA 94105

cc: Bill Lange, Coordinator of Office of Audit Reports
Mutual of Omaha



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Report Number: A-09-02-00092
January 23, 2003

Mr. Richard Reeves
Director of Medicare
Mutual of Omaha
Mutual of Omaha Plaza
Omaha, Nebraska 69175

Dear Mr. Reeves:

This final report provides you with the results of our review of inpatient Medicare crossover¹ bad debts (bad debts) claimed at three hospitals in California. The objective of our review was to determine whether bad debts claimed on federal fiscal year (FFY) 1999² 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 three hospitals reviewed, we found that all three hospitals claimed bad debts totaling \$36,814 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 that was caused by confusion over the instructions provided by its fiscal intermediary and CMS on how to process the prior settlement. The three hospitals in this review were not contacted for comment on this finding.

We recommend that Mutual of Omaha:

- disallow \$36,814 included on the FFY 1999 Medicare cost reports of three 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, Mutual of Omaha generally concurred with our finding and recommendations. We summarized Mutual of Omaha's comments at the end of the FINDING AND RECOMMENDATIONS section of this report. In addition, the complete text of Mutual of Omaha's 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 an \$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.

Mutual of Omaha. Mutual of Omaha is one of two fiscal intermediaries that process Medicare claims for California providers. 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-Cal³ 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 to be 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, the end of the settlement period, bad debts were to be claimed by the providers on

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.

the cost reports and reviewed by the fiscal intermediaries in accordance with standard Medicare policy.

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), it was 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 three additional hospitals to determine if bad debts claimed on the FFY 1999 Medicare cost reports were previously paid as part of the settlement agreement. We selected the three hospitals that claimed the highest amounts of bad debts in California and submitted Medicare cost reports to Mutual of Omaha. 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 Mutual of Omaha's 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 Mutual of Omaha and CMS. Our fieldwork was performed from February through September 2002.

FINDING AND RECOMMENDATIONS

In our review of bad debts for three hospitals, we identified \$36,814 in bad debts claimed by the hospitals on their FFY 1999 Medicare cost reports that was previously paid by CMS under the settlement agreement. In 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 its fiscal intermediary and CMS on how to process the prior settlement. The three hospitals in this review were not contacted for comment on this finding.

GUIDANCE PROVIDED BY CMS

In September 1999, Mutual of Omaha issued a letter detailing instructions from CMS on how hospitals were to process the settlement agreement payments for the bad debts. Also, the instructions included how and when hospitals 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 three hospitals selected for review claimed \$2,748,951 in bad debts on their FFY 1999 Medicare cost reports. The three hospitals claimed \$36,814 in bad debts that were previously paid as part of the settlement agreement.

The results of audit for each hospital are summarized below.

Hospital Name	Duplicated Bad Debts
USC University Hospital	\$30,178
Garfield Medical Center	5,872
Century City Hospital	764
Total	\$36,814

MUTUAL OF OMAHA REVIEWS

Mutual of Omaha reviews the Medicare cost reports for all hospitals for which they act as fiscal intermediary. The level of audit work was based on certain criteria, such as CMS fiscal year budget and performance requirements, and prior audit experience. As of the date of our fieldwork, Mutual of Omaha had started reviews on University of Southern California (USC) University Hospital and Century City Hospital. Bad debts were not specifically tested but were subjected to a general review.

RECOMMENDATIONS

We recommend that Mutual of Omaha:

- disallow \$36,814 included on the FFY 1999 Medicare cost reports of three 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.

MUTUAL OF OMAHA COMMENTS

In response to our draft report, Mutual of Omaha generally concurred with our finding and recommendations. Mutual of Omaha plans to reopen the cost report for USC University Hospital to remove the \$30,178 identified as previously paid. Also, the cost report for Garfield Medical Center is scheduled for a review in FFY 2003. Medicare bad debts is one of the issues selected for review. Because of the size of the dollar amount questioned for Century City Hospital (\$764), Mutual of Omaha believed that it was not cost effective to reopen and revise a cost report for this amount.

Additionally, Mutual of Omaha will remind their staff of the possibility of other California hospitals including bad debts that were part of the settlement agreement on the Medicare cost reports.

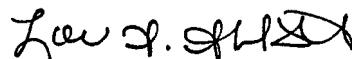
The complete text of Mutual of Omaha's comments is included as an appendix to this report.

* * * * *

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Sincerely,



Lori A. Ahlstrand
Regional Inspector General
for Audit Services

APPENDIX



MUTUAL of OMAHA INSURANCE COMPANY
Medicare Area
P.O. Box 1602 • Omaha, NE 68101
mutualmedicare.com
A CMS Contracted Intermediary

Amended Response

December 12, 2002

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
Office of Inspector General
Office of Audit Services
50 United Nations Plaza, Room 171
San Francisco, CA 94102

Re: CIN A-09-02-00092

Dear Ms. Ahlstrand:

The Office of Inspector General (OIG), Office of Audit Services (OAS), issued a draft report entitled "Review of Inpatient Medicare Crossover Bad Debts Claimed at Three Hospitals in California." In the cover letter, you requested input from Mutual of Omaha, regarding any action taken or contemplated on the OIG/OAS recommendations.

On December 9, 2002, we issued a response and requested OIG/OAS work papers so we could identify the Medicare bad debts that were determined to be deniable by the OIG/OAS. After we reviewed a spreadsheet prepared by OIG/OAS, that reflected the bad debts, we realized the OIG/OAS audits were conducted on the cost reports, covering the providers' fiscal year ended May 31, 2000. Our previous response was based on our settlement activity, for the providers' fiscal year ended May 31, 1999. We are hereby amending our response to the draft report.

We issued Notices of Program Reimbursement (NPR) for Century City Hospital (Provider Number 05-0579) and USC University Hospital (Provider Number 05-0696), pursuant to conducting on-site focus reviews. We have not started the review work for Garfield Medical Center (05-0432).

The draft report indicates a \$764 adjustment should be applied to the bad debts of Century City Hospital. As noted in our previous response, we believe it is not cost effective to reopen and revise a cost report settlement for this amount.

The bad debts claimed on the cost report for USC University Hospital were not scoped for audit. Upon our receipt of your final report, we plan to proceed with a cost report reopening, to remove the \$30,178, found to be deniable by the OIG/OAS audit team.

The cost report for Garfield Medical Center is scheduled for a focus review in Federal Fiscal Year 2003. Medicare bad debts is one of the issues selected for audit. The OIG/OAS final report will be shared with the audit team so the OIG/OAS recommended adjustment may be implemented with the issuance of the NPR. Our audit team may contact your staff to determine if additional audit work on the Medicare bad debts is warranted.



We plan to remind our audit staff of the possibility of other California hospitals including bad debts that were part of the settlement agreement, on the Medicare cost reports.

We apologize for any confusion our first response to the draft report may have caused. Contact me at 402-351-5386, if you have questions or comments.

Sincerely,



William E. Lange
Medicare Finance
Mutual of Omaha

Cc: Ms. Janet Tursich
HHS/OIG/OAS – Region IX
2201 Sixth Avenue, MS-RX 80
Seattle, Washington 98121

ACKNOWLEDGMENTS

This report was prepared under the direction of Lori A. Ahlstrand, Regional Inspector General for Audit Services in 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.