

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF HEALTH CARE FINANCING  
ADMINISTRATION'S REGIONAL  
OFFICE ACCOUNTS RECEIVABLE IN  
REGION X**



**JUNE GIBBS BROWN**  
Inspector General

**FEBRUARY 2000**  
A-10-00-0002

# ***OFFICE OF INSPECTOR GENERAL***

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*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, represents the findings and opinions of the HHS/OIG Office of Audit Services. Final determination on these matters will be made by authorized officials.*



**JUNE GIBBS BROWN  
Inspector General**

**FEBRUARY 2000  
A-10-00-00002**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services  
Region IX

**Memorandum**

**Date** February 23, 2000

**From** Regional Inspector General for Audit Services  
Region IX

**Subject** Report of Review of the Health Care Financing Administration's Regional Office Accounts  
Receivable in Region X (A-10-00-00002)

**To** Linda Ruiz  
Regional Administrator  
Health Care Financing Administration

Attached are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General's report entitled "Review of the Health Care Financing Administration's Accounts Receivable in Region X."

Officials in your office have generally concurred with our recommendations, set forth on page 5 of the attached report and have taken, or agreed to take, corrective action.

We would appreciate your views and status of any further action taken or contemplated on our recommendations within the next 60 days. If you have any questions, please contact me.

To facilitate identification, please refer to Common Identification Number A-10-00-00002 in all correspondence relating to this report.

A handwritten signature in cursive script that reads "Lawrence Frelot".

Lawrence Frelot  
Regional Inspector General  
for Audit Services

Attachments



## Memorandum

**Date** February 23, 2000

**From** Lawrence Frelot  
Regional Inspector General for Audit Services

**Subject** Review of the Health Care Financing Administration's Regional Office Accounts  
Receivable in Region X (A-10-00-00002)

**To** Linda Ruiz  
Regional Administrator  
Health Care Financing Administration

In accordance with an interagency agreement, the Office of Inspector General (OIG) has performed a review of the Health Care Financing Administration's (HCFA) Region X accounts receivable at October 1, 1998 and additional receivable activity for the 6 months ending March 31, 1999. The results of this review will be considered in the preparation of the Fiscal Year (FY) 1999 financial statements for HCFA.

The objectives of our review were to determine whether HCFA Region X's non-contractor accounts receivable balance at October 1, 1998, and receivable activity for the 6 months ending March 31, 1999, was complete, properly supported and accurately reported and to determine if there were adequate policies and procedures necessary for the proper accounting of accounts receivables.

We found that Region X's accounts receivable were overstated by \$4.7 million and that financial adjustments and procedural improvements need to be made or else HCFA's FY 1999 financial statements could be misstated.

The HCFA Region X officials agreed to work with central office to make the appropriate financial adjustments and necessary procedural improvements.

### Background

Medicare accounts receivable primarily represent funds owed by providers to HCFA due to overpayments, as well as funds due from other entities, in instances where Medicare is the secondary payer of claims. The HCFA's contractors, which are Medicare fiscal intermediaries and carriers such as Blue Cross and Blue Shield, are responsible for reporting and collecting the majority of Medicare accounts receivable. These receivables usually are established when a contractor has identified an overpayment that has been made to a

Medicare provider. Once the contractor has determined that it is unable to collect a receivable, the balance is transferred to HCFA for further collection effort. At this point, the balance is considered a non-contractor receivable. The non-contractor accounts receivable are managed by HCFA's Central Office (CO) and Regional Offices (ROs).

For purposes of financial reporting, HCFA's non-contractor accounts receivable are summarized from: (1) Provider Overpayment Reporting (POR) System, (2) the Physician and Supplier Overpayment Reporting (PSOR) System, and (3) the Regional Office Status of Accounts Receivable Report (R751A/B). The POR and PSOR respectively records and tracks Medicare Part A provider overpayments and recoveries and Medicare Part B physician and supplier overpayments and recoveries. Both the POR and PSOR contain accounts receivable at the following non-contractor locations: HCFA's CO and ROs, the Office of General Counsel (OGC), the Department of Justice (DOJ), and the Debt Collection Center (DCC). Region X was responsible for Part A and consequently used the POR.

At October 1, 1998, HCFA CO and ROs reported a total of \$1.57 billion in gross accounts receivable. Of the \$1.57 billion, HCFA Region X was responsible for \$17.7 million in POR receivables. For the 6 months ending March 31, 1999, Region X was responsible for \$14.3 million in POR receivables.

### **Objectives, Scope and Methodology**

The objectives of our review were to: (1) determine whether HCFA Region X non-contractor accounts receivable balance at October 1, 1998, and for the 6 months ending March 31, 1999, was complete, properly supported and accurately reported; (2) recommend necessary adjustments, if any, to fairly present the FY 1999 accounts receivable beginning balance, as well as the first 6 months of FY 1999; and (3) recommend policies and procedures necessary for the proper accounting of accounts receivable.

To accomplish our objectives, we: (1) reviewed the RO's reconciliation of the R751 report to the overpayment spreadsheet maintained by the RO for FY 1998 and the first 6 months of FY 1999; (2) identified contractors which had transferred accounts receivable to HCFA Region X and requested confirmation of the accounts transferred; and (3) reviewed Region X supporting documentation for selected non-contractor location accounts receivable. We did not verify the balances reported by the contractors in their confirmations.

The Seattle RO was responsible for overseeing Part A overpayments of Medicare contractors in the Region X geographical area. The Part B overpayments from the Region X geographical area were assigned to the San Francisco RO and as such were not included in the review of the Seattle RO.

The beginning balance of accounts receivable at October 1, 1998 and the following 6 months of activity included 124 accounts receivable with a total valuation of \$19.6 million. At October 1, 1998, the Region X POR accounts receivable universe

consisted of 108 balances amounting to \$17.7 million. From this universe, we selected and reviewed 45 accounts receivable amounting to \$16.6 million. An account was selected if it exceeded 1 percent of the total receivable balance. For the 6 months ending March 31, 1999, we determined the accounts receivable universe to consist of 16 balances amounting to \$1.9 million. The March 31, 1999 universe represented additions to the POR since October 1, 1998. From the March 31, 1999 universe, we selected, using the same 1 percent criteria discussed above, and reviewed 7 accounts receivable amounting to \$1.8 million.

We did not review the non-POR accounts receivable recorded on the October 1, 1998 R751A report as there were no reported dollar amounts.

Our review was conducted during June 1999 through August 1999 at the HCFA RO in Seattle, Washington in accordance with generally accepted government auditing standards.

## **RESULTS OF REVIEW**

We found that \$4.7 million of the \$19.6 million in HCFA Region X's PORS accounts receivable should be written off as uncollectible. These amounts should be written off because of the age of the receivables and the lack of recent collection activity indicate there is no likelihood of collection. See Appendix A (POR receivables) for detailed adjustments by provider.

Unless improvements are made and appropriate adjustments are recorded, HCFA's FY 1999 financial statements could be misstated. The HCFA CO needs to establish a debt management system to ensure the accuracy of accounts receivable and to meet its obligations to protect assets and minimize losses. An effective debt management system should include written policies and procedures to ensure timely collections and accurate financial reporting.

### **Write-off Closed**

By memorandum dated April 28, 1999, HCFA CO directed the ROs to identify POR/PSOR accounts receivable at selected non-contractor locations to be written off as uncollectible. An account should be written off based on the age of the receivable and lack of recent collection activity. Using HCFA's criteria for write off outlined in the April memorandum, we performed a review of non-contractor accounts receivable to determine which accounts should be written off. We categorized these write-offs as "Write-off Closed," or "Write-off Currently Not Collectible (CNC)." Based on our review, we did not identify any receivables in the write-off CNC category.

We found that \$4.7 million in accounts receivable should be written off as closed. Accounts receivable that fall within this write-off category will not be reported on the financial statements and collection activity and servicing of the debt will be terminated. Documentation and follow-up discussions at the RO also support the decision to write off these receivables.

The majority of our recommended write-offs involve receivables aged 3 years or more for which no collections had been received in the last 12 months.

- For example, one provider with four overpayments (for a total of \$1.2 million) involved receivables aged between 2 and 3 years, for which supporting documentation at the RO showed that the DOJ and OI declined to pursue further collection activity against the provider.
- Another provider, with an overpayment (\$63,420) aged 3 years for which a cost report was never filed, was terminated from Medicare on January 1995 and the owners could not be located. This case was initially referred to HCFA CO in 1997 for collection but was rejected because the provider could not be located.

Our recommendation for \$4.7 million in receivables to be written off as closed included these two cases.

### **HCFA Policies and Procedures**

We attribute the inaccuracy of accounts receivable to HCFA's lack of a debt management system. The Office of Management and Budget (OMB) Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," requires federal agencies to manage credit programs and non-tax receivables to protect the Government's assets and minimize losses. Agencies must ensure that the full range of techniques are used to collect debts, including administrative offset, private collection agencies and litigation. Circular No. A-129 also requires that delinquent debts be written off as soon as they are determined to be uncollectible.

Although the relatively small number of accounts generally allowed Region X to monitor receivables, the RO has not developed formal written policies and procedures for accounts receivable. We noted that the RO personnel generally issued demand letters to providers in a timely manner and also complied with HCFA's current requirements for the quarterly reconciliation of the R751 report. However, we found two cases for which overpayments had been terminated in October 1996, but the RO did not record a closed date. Without closed dates, the overpayments were not deleted from the POR as intended. This oversight was remedied and the overpayments were properly deleted in May 1999.

The HCFA's current policies and procedures related to accounts receivable appear to have been interpreted differently by various ROs and contractors throughout the country. As part of an overall debt management system, HCFA needs to update its written policies and procedures. These policies and procedures should address all aspects of the accounts receivable process, including referrals to other entities, and collections by the RO and others. These procedures also need to establish responsibility for "ownership" of accounts receivable referred from the RO to other entities.

## RECOMMENDATIONS

To improve compliance with OMB Circular A-129 regarding debt management, the OIG is recommending in a separate report that HCFA:

- Implement the adjustments and write-offs of non-contractor accounts receivable identified by our review.
- Establish standardized written procedures for ROs, the CO and contractors concerning non-contractor accounts receivable to ensure timely collection and accurate financial reporting.

We recommend that HCFA Region X:

1. Write-off \$4.7 million in POR receivables as closed. These write-offs are necessary in order to accurately reflect accounts receivable on HCFA's FY 1999 financial statements.
2. Follow HCFA CO's instructions concerning the implementation of the adjustments and write-offs of non-contractor accounts receivable, as well as any other policies and procedures established over the accounts receivable process.

### HCFA's Response

In a response dated January 28, 2000, HCFA Region X officials generally agreed with the recommendations in the report. The HCFA agreed to remove the entire \$4.7 million for uncollectible accounts from its financial records, but also chose to keep approximately \$640,000 categorized as currently uncollectible. In this category, accounts are still subject to certain collection efforts even though the amounts are not included in the reported balance of accounts receivable. This action is acceptable based on HCFA CO's policy guidance provided to the regional offices by memorandum dated April 28, 1999.

The HCFA Region X officials stated they would work with the HCFA CO to implement better procedures for handling accounts receivable. The response is included as Appendix B to this report.

PORS RECEIVABLES AT OCTOBER 1, 1998

Provider No.	Provider Name	Location	O/P Type	Date Cost Report	Date Determined	Age In Years	Principal Balance 10/01/98	OIG Recommendation Write-off Closed	Remain Active	HCFA Write-off Amount
385199	Chehalum Care Center	DCC	H	05/31/92	07/16/92	6.7	27,097	27,097		0
505241	New Seara	DCC	G	12/31/90	07/16/92	6.7	9,808	9,808		0
505241	New Seara	DCC	G	12/31/89	09/12/91	7.6	9,177	9,177		0
505039	Sequim Living Center	DCC	G	12/31/90	08/31/92	6.6	14,667	14,667		0
4 cases	<b>Subtotal for DCC Location</b>						60,749	60,749	0	0
385225	Oakwood Living Center	DJA	PC	12/31/92	12/21/94	4.3	361,798		361,798	0
385225	Oakwood Living Center	DJA	PL	12/31/89	02/15/91	8.1	157,579		157,579	0
385225	Oakwood Living Center	DJA	E	12/31/93	01/16/95	4.2	533,982		533,982	0
135091	Valley Care Center	DJA	G	09/30/94	10/26/95	3.4	176,001		176,001	0
500017	West Seattle Hospital	DJA	PL	06/09/90	02/15/91	8.1		85,988		85,988
500017	West Seattle Hospital	DJA	PC	12/31/93	09/15/95	3.5	1,104,522	1,104,522		1,104,522
6 cases	<b>Subtotal for DJA Location</b>						2,419,870	1,190,510	1,229,360	1,190,510
054084	Alondra Crest Hospital	GCR	G	01/14/94	09/18/96	2.5	278,754		278,754	0
134006	Canyon View Hospital	GCR	H	12/31/96	06/09/97	1.8	289,052		289,052	0
534003	Crest View Hospital	GCR	H	01/02/97	06/03/97	1.8	1,104,271		1,104,271	0
534003	Crest View Hospital	GCR	G	12/31/94	10/16/97	1.5	291,495		291,495	0
154043	Koala Hosp-Columbus	GCR	B	06/30/96	03/28/97	2.0	201,367		201,367	0
154045	Koala Hosp-Indianapolis	GCR	H	11/19/96	04/18/97	2.0	207,259		207,259	0
154027	Koala Hosp-Lebanon	GCR	H	06/30/97	12/08/97	1.3	227,723		227,723	0
154044	Koala Hosp-Plymouth	GCR	H	06/30/97	12/08/97	1.3	121,730		121,730	0
380030	Medical Center Hospital	GCR	H	11/30/90	01/15/91	8.2	470,261	470,261		470,261
380030	Medical Center Hospital	GCR	G	12/31/89	04/18/91	8.0	141,625	141,625		141,625
024003	North Star Hospital	GCR	H	04/30/96	09/01/96	2.6	184,683		184,683	0
374013	Oakcrest Hospital	GCR	H	06/30/97	12/08/97	1.3	124,848		124,848	0
384006	Pacific Gateway	GCR	H	05/31/97	11/10/97	1.4	2,574,417		2,574,417	0
384006	Pacific Gateway	GCR	G	12/31/94	10/16/97	1.5	151,486		151,486	0
385163	Parkrose Nursing Home	GCR	H	10/31/91	02/03/92	7.2	122,798	122,798		122,798
385163	Parkrose Nursing Home	GCR	H	10/31/90	02/01/91	8.2	159,340	159,340		159,340
134003	Pine Crest Hospital	GCR	H	01/15/97	06/03/97	1.8	638,774		638,774	0
054126	Sunnidge Hospital	GCR	H	12/15/96	05/14/97	1.9	413,854		413,854	0
505370	Virginia Manor Convalescent	GCR	G	12/31/94	02/21/96	3.1	524,417		524,417	0
505370	Virginia Manor Convalescent	GCR	A	12/31/95	09/26/97	1.5	122,884		122,884	0
20 cases	<b>Subtotal for GCR Location</b>						8,351,038	894,024	7,457,014	894,024
505241	Dover Living Center	ROA	G	12/31/95	05/15/97	1.9	60,090		60,090	0
134607	Idaho Falls Day Treatment	ROA	H	06/26/95	08/10/95	3.6	88,537	88,537		0
135110	Karcher Estates	ROA	B	12/31/95	04/18/97	2.0	184,282		184,282	0
135110	Karcher Estates	ROA	A	12/31/94	05/17/96	2.9	283,857	283,857		0
135110	Karcher Estates	ROA	E	12/31/94	06/23/95	3.8	283,971	283,971		0
135110	Karcher Estates	ROA	E	12/31/95	01/17/97	2.2	459,696		459,696	459,696
506567	Kitsap Rehab, Inc.	ROA	E	12/31/94	04/03/95	4.0	63,420		63,420	0
385180	Newberg Care Home	ROA	H	03/15/90	05/11/90	8.9	83,484		83,484	83,484
134606	SE Idaho Day Treatment	ROA	G	12/31/94	11/30/95	3.3	424,182	424,182		0
134606	SE Idaho Day Treatment	ROA	J	12/31/95	08/23/95	3.6	559,023		559,023	0
134606	SE Idaho Day Treatment	ROA	E	12/31/94	04/21/95	3.9	172,455	172,455		0
505248	Terrace View	ROA	G	12/31/93	09/17/96	2.5	693,722		693,722	693,722
505248	Terrace View	ROA	G	12/31/95	09/23/97	1.5	1,257,747		1,257,747	0
505248	Terrace View	ROA	H	12/31/96	06/09/97	1.8	458,751		458,751	0
505248	Terrace View	ROA	G	12/31/94	09/17/96	2.5	683,286		683,286	683,286
15 cases	<b>Subtotal for ROA Location</b>						5,756,503	2,602,907	3,153,596	1,983,608
45 cases	<b>TOTAL ALL LOCATIONS</b>						16,588,160	4,748,190	11,839,970	4,068,142

PORS RECEIVABLES AT MARCH 31, 1999

Provider No.	Provider Name	Location	O/P Type	Date Cost Report	Date Determined	Age In Years	Principal Balance 03/31/99	OIG Recommendation Write-off Closed	Remain Active	HCFA Write-off Amount
534003	Crest View Hospital	GCR	A	12/31/95	09/28/98	0.5	259,708		259,708	0
534003	Crest View Hospital	GCR	E	01/02/97	01/13/99	0.2	109,425		109,425	0
154043	Koala Hosp-Columbus	GCR	G	06/30/96	09/21/98	0.5	213,547		213,547	0
384006	Pacific Gateway	GCR	B	06/01/97	01/13/99	0.2	209,444		209,444	0
384006	Pacific Gateway	GCR	A	12/31/95	09/28/98	0.5	802,591		802,591	0
134003	Pine Crest Hospital	GCR	E	01/15/97	01/13/99	0.2	131,938		131,938	0
054126	Sunnidge Hospital	GCR	F	06/30/96	01/25/99	0.2	132,211		132,211	0
7 cases	<b>Subtotal for GCR Location</b>						1,858,864	0	1,858,864	0
7 cases	<b>TOTAL ALL LOCATIONS</b>						1,858,864	0	1,858,864	0



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Health Care  
Financing AdministrationMEMORANDUM  
Region X  
M/S 46  
2201 Sixth Avenue  
Seattle, WA 98121

Date: January 28, 2000

From: Regional Administrator  
Region X, Seattle

Subject: Draft Report of Review of the Health Care Financing Administration's Regional Office Accounts Receivable in Region x (A-10-00-00002)

To: Lawrence Frelot  
Regional Inspector General  
For Audit Services

Our office has reviewed the draft report of the review conducted in the Seattle regional office in June and July 1999. While the primary onsite reviewers commented positively on several of our practices, we find that we have no issue with the report or its recommendations. Our response is outlined below:

- We will work with our Baltimore office to establish written procedures for ROs and contractors to follow to ensure timely collection and accurate financial reporting.
- While your office recommended a write-off closed total of \$4.7 million, our Baltimore office concurred on a write-off closed total of \$4.06 million. The Claims Collection Officer in Baltimore rejected several cases, due to the age, for termination of collection and placed these cases into a new category, Current Not Collectible (CNC). CNC totals are removed from the accounts receivable totals, but are eligible for transfer to the Debt Collection contractor and Department of Treasury offset programs. These receivables were either terminated or moved to a CNC category in September 1999.

The remaining cases recommended for write off, at the DCC location, are outside the regional office's jurisdiction. Any write off activity at the DCC location would fall within the jurisdiction of Central Office staff.

We appreciate the opportunity to review the draft report. If you have any questions regarding our comments, please contact Nancy Shioyama of the Division of Financial Management at (206) 615-2381.

*Linda A. Ruiz*  
Linda A. Ruiz  
Regional Administrator

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With the Financing Administration