



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

OCT 03 2006

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Report Number: A-07-06-01023

Mr. Pete Conway
Billings Area Director
Billings Area Indian Health Services
2900 4th Avenue North
Billings, Montana 59101

Dear Mr. Conway:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General (OIG) final report entitled "Review of Accounts Receivable at the IHS Billings Area Office." The report covers our review of whether the Billings Area Office (Billings) maintained its accounts receivable pursuant to certain Federal requirements for fiscal years 2003-2005.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to contact me at (816) 426-3591, ext. 274 (e-mail Patrick.Cogley@oig.hhs.gov) or your staff may contact Chris Bresette, Audit Manager, at (816) 426-3591, ext. 228 (e-mail Chris.Bresette@oig.hhs.gov). Please refer to report number A-07-06-01023 in all correspondence.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Patrick J. Cogley", written over a horizontal line.

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosures

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ACCOUNTS
RECEIVABLE AT THE IHS
BILLINGS AREA OFFICE**



Daniel R. Levinson
Inspector General

October 2006
A-07-06-01023

Office of Inspector General

<http://oig.hhs.gov>

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

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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 the information 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. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

The Indian Health Service (IHS) manages a unique health delivery system that provides a wide range of medical services to 1.6 million American Indians and Alaska Natives. Twelve Administrative Area Offices (area office) operate the IHS program within designated geographical areas. The area offices oversee local service units, which include hospitals, health centers, and clinics.

IHS receives its revenue from Federal appropriations and collections from third party insurers. Each area office bills third parties, including Medicare, Medicaid, and private insurance, for covered medical services provided at local service units.

Each area office maintains accounts receivable information, which includes the general and subsidiary ledgers, to identify the outstanding balance of collections due at a given date. The subsidiary ledger contains the detailed receivables by client for each third party while the general ledger contains totals due from third parties. Federal guidelines require agencies to reconcile account balances monthly to ensure the validity and integrity of the accounting system.

The general ledger accounts receivable balances for each area office are aggregated and reported in the IHS financial statements. For the fiscal year (FY) that ended September 30, 2003, IHS reported its accounts receivable balance as \$142.8 million, of which \$11.3 million was for the Billings area office (Billings).

OBJECTIVE

Our objective was to determine whether Billings maintained its accounts receivable for FYs 2003-2005 pursuant to certain Federal requirements.

SUMMARY OF FINDING

Billings did not maintain its accounts receivable for FYs 2003-2005 pursuant to certain Federal requirements. Specifically, Billings did not reconcile its general ledger to the subsidiary ledger or perform a thorough investigation of the differences. Additionally, Billings did not include Medicaid accounts receivable in its automated subsidiary ledger. On September 30, 2003, differences between the general and subsidiary accounts receivable balances totaled approximately \$6.1 million. Although the U.S. Department of Health and Human Services (HHS) and IHS had developed policies and procedures to perform the required reconciliation, Billings did not follow them. As a result, Billings did not adequately safeguard the accounts receivable.

RECOMMENDATIONS

We recommend that Billings:

- follow HHS and IHS policies and procedures that require it to reconcile its accounts receivable subsidiary and general ledgers monthly, and
- maintain Medicaid accounts receivable on its automated subsidiary ledger system.

AUDITEE'S COMMENTS

IHS concurred with the audit finding and recommendations. IHS's comments are included in their entirety in the Appendix.

INTRODUCTION

BACKGROUND

Indian Health Service

The Indian Health Service (IHS) manages a unique health delivery system that provides a wide range of medical services to 1.6 million American Indians and Alaska Natives. Twelve Administrative Area Offices (area offices) operate the IHS program within designated geographical areas. The area offices oversee local service units, which include hospitals, health centers, and clinics. IHS receives its revenue from Federal appropriations and collections from third party insurers. Each area office bills third parties, including Medicare, Medicaid, and private insurance, for covered medical services provided at local service units.

The U.S. Department of Health and Human Services (HHS) Departmental Accounting Manual (Manual) is applicable to various offices, including the IHS. In addition, the IHS issued Circular 2001-08 Second Interim Accounts Receivable Policy to ensure the accuracy and timeliness of receivables reporting in the financial statements of the IHS. Also, the Government Accountability Office's "Standards for Internal Control in the Federal Government," issued in 1999, state that effective internal control serves as the first line of defense in safeguarding assets.

Accounts Receivable

Each area office maintains accounts receivable information, which includes the general and subsidiary ledgers, to identify the outstanding balance of collections due at a given date. The subsidiary ledger, known as the Resource Patient Management System, contains the detailed receivables by client for each third party. The general ledger contains totals due from third parties.

The general ledger accounts receivable balances for each area office are aggregated and reported in the IHS financial statements. For the fiscal year (FY) that ended September 30, 2003, IHS reported its accounts receivable balance as \$142.8 million, of which \$11.3 million was for the Billings area office (Billings).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Billings maintained its accounts receivable for FYs 2003-2005 pursuant to certain Federal requirements.

Scope

We reviewed the accounts receivable balances reported for Billings included on the IHS financial statements for FYs 2003-2005.

We limited our review of internal controls to those controls required by HHS and IHS to reconcile the general and subsidiary ledgers and to maintain all accounts receivable on the subsidiary ledger.

We performed fieldwork at the Billings area office in Billings, Montana.

Methodology

To accomplish our objective, we:

- reviewed applicable sections of the Manual and IHS Circular 2001-08,
- discussed accounts receivable policies and procedures with IHS officials in Rockville and Billings to understand Billings's accounts receivable balances and reconciliations, and
- compared Billings's general ledger accounts receivable balance to its subsidiary ledger accounts receivable balance to determine compliance with HHS and IHS policies and procedures.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATIONS

Billings did not maintain its accounts receivable for FYs 2003-2005 pursuant to certain Federal requirements. Specifically, Billings did not reconcile its general ledger to the subsidiary ledger or perform a thorough investigation of the differences. Additionally, Billings did not include Medicaid accounts receivable in its automated subsidiary ledger. On September 30, 2003, differences between the general and subsidiary accounts receivable balances totaled approximately \$6.1 million. Although HHS and IHS had developed policies and procedures to perform the required reconciliation, Billings did not follow them. As a result, Billings did not adequately safeguard the accounts receivable.

Federal Requirements For Accounts Receivable

Chapter 2-40 of the Manual requires agencies to periodically reconcile account balances to ensure the validity and integrity of the accounting system. Chapter 2-40-20(B) of the Manual states: "Each system should provide for (1) regular and routine reconciliation of the detail records to the general ledger . . . accounts [and] (2) thorough investigation of the differences."

Similarly, IHS Circular 2001-08, section 4(E)(2), requires area offices to reconcile the general and subsidiary ledgers monthly. Additionally, IHS Circular 2001-08, section 4(B) states: “The RPMS Subsidiary Ledger must be the primary source of data, documentation, and support for all balances.”

Accounts Receivable Incorrectly Maintained

Billings did not maintain its accounts receivable for FYs 2003-2005 pursuant to certain Federal requirements. Specifically, Billings did not reconcile its general ledger to the subsidiary ledger and perform a thorough investigation of the differences nor did they include Medicaid accounts receivable in its automated subsidiary ledger. On September 30, 2003, the cumulative difference between the general and subsidiary ledger balances by payor was approximately \$6.1 million (see the following table).

Ledger Account Balances

<u>Payor</u>	<u>General Ledger</u>	<u>Subsidiary Ledger</u>	<u>Cumulative Difference</u>
Medicaid	\$4,422,000	\$0	\$4,422,000
Medicare	2,065,000	2,909,000	844,000
Private Insurance	4,564,000	4,933,000	369,000
Others	244,000	669,000	<u>425,000</u>
Total Difference			<u>\$6,060,000</u>

Billings area office officials also confirmed that they did not perform these reconciliations for FYs 2004-2005.

Federal Requirements Not Followed

Although HHS and IHS prescribed policies and procedures to reconcile its accounts receivable and to place all accounts receivable on the subsidiary ledger, Billings did not follow these requirements. However, Billings officials have indicated subsequent to 2005 they have begun to perform these Federally required reconciliations.

Accounts Receivable Not Adequately Safeguarded

Because Billings did not properly reconcile its accounts receivable, investigate the differences between the general ledger and the subsidiary ledger or maintain Medicaid receivables in its automated subsidiary ledger, Billings did not adequately safeguard the accounts receivable.

RECOMMENDATIONS

We recommend that Billings:

- follow HHS and IHS policies and procedures that require it to reconcile its accounts receivable subsidiary and general ledgers monthly, and
- maintain Medicaid accounts receivable on its automated subsidiary ledger system.

AUDITEE'S COMMENTS

IHS concurred with the audit finding and recommendations. Specifically, IHS responded that the Billings office will complete reconciliation between the general and subsidiary ledgers for all third-party accounts by October 1, 2006, and thereafter on a monthly basis. Additionally, IHS stated that all Medicaid bills will be downloaded into the subsidiary ledger for each billing cycle.

APPENDIX



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Indian Health Service
Rockville MD 20852

SEP 7 2006

TO: Inspector General

FROM: Director

SUBJECT: Response to Draft Office of Inspector General Report [A-07-06-01023], "Review of Accounts Receivable at the IHS Billings Area Office," June 2006

The Indian Health Service (IHS) has reviewed the Office of Inspector General (OIG) draft audit report, "Review of Accounts Receivable at the IHS Billings Area Office," and concurs with both OIG recommendations for the reconciliation of accounts receivable.

The Executive Summary of the draft report (Background Section - second and third paragraphs) indicates that the Area Office bills third-parties and maintains the accounts receivable subsidiary ledgers. However, we would like to clarify that IHS service units are responsible for the billing of third-parties and maintenance of the subsidiary ledgers for this activity.

The following are specific responses to each recommendation, including corrective actions that have been implemented and/or completed:

OIG Recommendation: "Follow HHS and IHS policies and procedures that require it to reconcile its accounts receivable subsidiary and general ledgers monthly."

IHS Response: Concur. The Billings Area Office will complete reconciliation between the general and subsidiary ledgers for all third-party accounts by October 1, 2006. This reconciliation is a top priority and will be completed on a monthly basis in accordance with the November 2005 revised comprehensive policy for third-party collections.

OIG Recommendation: "Maintain Medicaid accounts receivable on its automated subsidiary ledger system."

IHS Response: Concur. The Billings Area Business Office and Information Technology staff will download all Medicaid accounts into the Resource Patient Management System Accounts Receivable application (subsidiary ledger) by October 1, 2006. Once completed, and subsequently after each billing cycle, all Medicaid bills will be downloaded into the subsidiary ledger.

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If you have any questions concerning this response, please contact Mr. Les Thomas, IHS Office of Management Services, Management Policy and Internal Control Staff, at (301) 443-2650.

Charles W. Grim, DDS
Charles W. Grim, D.D.S., M.H.S.A.
Assistant Surgeon General