

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

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



JUNE GIBBS BROWN
Inspector General

MARCH 2000
A-09-99-00087

OFFICE OF INSPECTOR GENERAL

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

Office of Evaluation and Inspections

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

Office of Investigations

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units which investigate and prosecute fraud and patient abuse in the Medicaid program.

Office of Counsel to the Inspector General

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. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

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

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://www.hhs.gov/progorg/oig>

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 information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

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

MARCH 2000
A-09-99-00087

**Memorandum**

Date March 31, 2000

From Lawrence Frelot 
Regional Inspector General for Audit Services

Subject Review of the Health Care Financing Administration's Regional Office Accounts
Receivables in Region IX (A-09-99-00087)

To Elizabeth Abbott
Regional Administrator
Health Care Finance 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 IX accounts receivable beginning balance at October 1, 1998 and additional receivable activity for the 6 months ended March 31, 1999. The results of our 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 IX's non-contractor accounts receivable beginning balance at October 1, 1998, and receivable activity for the 6 months ended 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 IX's accounts receivable were overstated by a net \$123.1 million, and that financial adjustments and procedural improvements need to be made or else HCFA's FY 1999 financial statements could be misstated. The \$123.1 million is the net of total overstatements of \$143.2 million offset by \$20.1 million of unrecorded transfers from Medicare contractors.

The HCFA Region IX officials agreed to remove \$99.2 million of the \$123.1 million from its accounting records, follow central office instructions to improve procedures, and improve regional procedures for handling accounts receivable. The regional officials stated they are researching the underreported balances of \$20.1 million to determine the appropriate action to be taken and that the remaining overstated balances of \$44 million should be the responsibility of the central office. We believe that the regional office continues to have primary responsibility for these cases.

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) the 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).

At October 1, 1998, HCFA CO and ROs reported a total of \$1.57 billion in gross accounts receivables. Of the \$1.57 billion, HCFA Region IX RO was responsible for \$232.1 million (\$213.2 million in POR receivables and \$18.9 million in PSOR receivables). For the 6 months ended March 31, 1999, HCFA Region IX was responsible for \$85.7 million in receivables (\$83.8 million in POR receivables and \$1.9 million in PSOR receivables).

Objectives, Scope and Methodology

The objectives of our review were to: (1) determine whether HCFA Region IX non-contractor accounts receivable balance at October 1, 1998, and for the 6 months ended 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 Region IX's internal log of non-contractor accounts receivable by location (i.e., Regional Office, General Counsel, and Department of Justice); (2) identified contractors which had transferred accounts receivables to HCFA Region IX and requested confirmation of the accounts transferred; (3) reviewed Region IX supporting documentation for non-contractor location accounts receivable; and (4) obtained additional documentation from OGC personnel. We did not verify the balances reported by

the contractors in their confirmations. We limited our review of the internal controls to those necessary to meet our specific objectives.

The beginning balance of accounts receivable at October 1, 1998 and the following 6 months of activity included 1,165 accounts receivable with a total valuation of \$317.8 million. At October 1, 1998, HCFA Region IX POR/PSOR accounts receivable universe consisted of 982 balances valued at \$232.1 million. The Region IX PSOR universe also included balances from Regions VIII and X, as Region IX was also responsible for these geographic areas. From this universe, we selected and reviewed 156 accounts receivable balances amounting to \$167.2 million. An account was selected if it exceeded 1 percent of the total receivable balance. For the 6 months ended March 31, 1999, we determined the accounts receivable universe to consist of 183 balances valued at \$85.7 million. The March 31, 1999 universe represented additions to the POR/PSOR since October 1, 1998. From the March 31, 1999 universe, we selected, using the same 1 percent criteria discussed above, and reviewed 36 accounts receivable amounting to \$65.6 million.

We also identified three Medicare contractors whose transferred accounts receivable were not included in Region IX's POR/PSOR balances as of October 1, 1998 and March 31, 1999. We did not review the non-POR/PSOR accounts receivable recorded on the October 1, 1998 and March 31, 1999 R751A/B reports as the reported dollar amounts were insignificant.

Our review was conducted during the period May 1999 through August 1999 in accordance with generally accepted government auditing standards and was performed at the Region IX HCFA and OGC offices in San Francisco, California.

RESULTS OF REVIEW

We found that HCFA Region IX's POR/PSORS accounts receivable of \$317.8 million were overstated by a net amount of \$123.1 million (\$116.2 million at October 1, 1998 and \$6.9 million for the 6 months ended March 31, 1999). The \$123.1 million is the net of total overstatements of \$143.2 million offset by \$20.1 million of unrecorded transfers from Medicare contractors (see Exhibit A).

During our review, we determined that \$125,441,026 in accounts receivable should be written off. The recommended write-offs consist of (1) \$15,503,489 for receivables that, under HCFA's criteria, should be closed, and (2) \$109,937,537 for receivables that, due to age and lack of recent collection activity, indicated that collection was unlikely. In addition, the accounts receivable were also misstated in that HCFA Region IX did not (1) coordinate the transfer of \$20,100,630 of receivables from Medicare contractors, (2) adjust for technical overpayments of \$16,259,521 related to late filed cost reports, and (3) record Medicare contractor adjustments and collections of \$700,876 at October 31, 1998 and \$756,408 for the 6 months ended March 31, 1999.

Unless the appropriate financial adjustments and procedural improvements are made, 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 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. In addition, HCFA Region IX also needs to consider making certain procedural improvements.

Write-Offs Of Uncollectible Accounts Receivable

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. We are recommending that, in accordance with the criteria that HCFA established for writing off accounts receivable, Region IX write off a total of \$125,441,026 in POR/PSOR accounts receivable. The write-offs consisted of \$117,305,446 at October 1, 1998 and \$8,135,580 for the 6 months ended March 31, 1999 (see Exhibit A).

We used HCFA's write-off criteria to categorize our recommended \$125,441,026 of non-contractor accounts receivable write-offs as, "Write-Offs Closed" or "Write-Offs Currently Not Collectible (CNC)."

Write-Offs - Closed. We found that \$15,503,489 in POR/PSOR accounts receivable should be written off as closed (see Exhibit A). According to HCFA's instructions, accounts receivable that fall within this write-off category will not be reported on the financial statements and all collection activity and servicing of the debt will be terminated. Accounts receivable in this category are generally 6 years or older with no payment, recoupment or offset activity within the last 12 months. Exceptions are bankruptcy, fraud and abuse investigation, and pending appeal at any level. Other accounts receivable, regardless of age which have no payment activity in the last 12 months, can be written-off as closed if evidence or witnesses necessary to prove the claim are unavailable. Accounts receivable aged 2 to 6 years which would normally be classified as currently not collectible, can also be classified as write-off closed with justification.

Write-Offs - CNC. We found that \$109,937,537 in POR/PSOR accounts receivable should be written off as CNC (see Exhibit A). Per HCFA's instructions, accounts receivable that fall within this write-off category will not be reported on the financial statements. However, CNC debts will remain in the contractors' systems for possible future offset and interest accruals. These debts will be eligible for referral for cross servicing and the Treasury Offset Program. Accounts receivable in this category are generally aged 2 to 6 years, with no payment recoupment or offset activity within the last 12 months. Exceptions are debts in bankruptcy, under fraud and abuse investigation and where an appeal is pending at any level.

Adjustments to Accounts Receivable

We determined that the Region IX PORS/PSORS accounts receivable at October 1, 1998, and for the 6 months ended March 31, 1999, required additional adjustments. The adjustments consisted of unrecorded contractor transfers, unadjusted technical overpayments associated with unfiled cost reports, and unrecorded adjustments and collections

Contractor Transfers to Region IX. Periodically, the Medicare contractors will refer uncollectible accounts receivable to HCFA ROs. The HCFA ROs review the documentation submitted by the contractor and decide whether or not to accept the receivable as a transfer.

We identified three Medicare contractors whose transferred accounts receivable of \$20,100,630 were not included in the HCFA Region IX's PORS/PSOR balances as of October 1, 1998 and March 31, 1999. As a result, the HCFA Region IX beginning balance of accounts receivable was understated by \$18,060,982 and the 6 month's activity ended March 31, 1999 was understated by \$2,039,648 (see Exhibit A).

Unadjusted Technical Overpayments. We found that HCFA Region IX's PORS accounts receivable at October 1, 1998 were overstated by \$16,259,521 as a result of technical overpayments for six providers who had failed to file cost reports (see Exhibit A). When a provider fails to file a cost report by the prescribed filing date, all outstanding interim payments to the provider are considered technical overpayments and are recorded in PORS. Once a delinquent cost report is received by a contractor, the technical overpayments are no longer treated as an account receivable. However, existing HCFA procedures do not provide guidance for eliminating technical overpayments as an accounts receivable once a provider files its overdue cost report.

Unrecorded Adjustments and Collections. As a result of unrecorded collections and adjustments, we found that HCFA Region IX had overstated the POR/PSOR accounts receivable by \$700,876 (\$539,991 of unrecorded collections and \$160,885 of unrecorded adjustments) at October 1, 1998 and by \$756,408 (unrecorded adjustments of \$756,498 less \$90 of over recorded collections) for the 6 months ended March 31, 1999 (see Exhibit A). According to one of the contractors, certain payments had been received or adjustments had been made by its staff to eight accounts receivable, but the transactions had not been posted by HCFA Region IX. Region IX needs to strengthen its internal control procedures over collections and adjustments made by contractors to ensure that transactions are recorded timely and to minimize the potential risk of loss of Government assets.

HCFA Policies and Procedures

We attribute the inaccuracy of accounts receivable to HCFA's lack of a debt management system. 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.

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.

In Region IX, we found the following specific problems with policies and procedures that it should consider addressing prior to the development of an overall debt management system.

--The HCFA Region IX has not developed written procedures that would provide general guidance on transfers from contractors, demand letters, referrals to OGC and DOJ, bankruptcies and the R751 reconciliation. The regional office had a copy of the Regional Office Manual issued by HCFA Central Office, but did not use it because it was considered obsolete for handling accounts receivable. Based our review, we also found the manual to be out of date and incomplete.

--The HCFA Region IX had not developed written procedures to provide an adequate system for managing the accounts receivable case folders. Of 192 case files that we requested for our review, the regional office was unable to provide 48 case files, or 25 percent, of the total. Although we were able to confirm 46 of the 48 receivables through other agencies or the Medicare contractors, we were not able to determine what actions the regional office had taken on the balances. For the remaining two receivable balances totaling \$146,371 (see Exhibit A), we were not able to confirm the balance with the contractor. If HCFA is unable to find supporting documentation for these two balances, it should consider writing off the amounts.

--Without an adequate file system, it was difficult for HCFA specialists to locate certain accounts receivable case folders. We also observed that documentation in the case folders did not always indicate the referral of a receivable to the DCC or CO, although the PORS location code indicated such a referral had been made. The HCFA Region IX also did not maintain a log of cases transferred to other agencies or other regions.

--Follow-up work with Regional General Counsel personnel indicate that there was a lack of coordination once a receivable had been referred. For example, the Regional General Counsel maintains case files by the owner's name whereas HCFA maintains

cases by provider name. We found that 21 of 28 cases that had been closed as uncollectible by General Counsel had not been communicated to the HCFA regional office and therefore resulted in overstated receivables. The Regional Attorney indicated that the attorney handling these cases had left and no one was available to cover her workload.

--The HCFA Region IX did not have procedures to ensure that outstanding receivables reported on the PSOR and PSORS, which are the basis for reporting accounts receivable on HCFA's financial statements, are reconciled to its internal log and supporting documentation.

Until HCFA CO establishes a debt management system, Region IX should consider making specific improvements in such areas as developing written procedures for processing accounts receivable, improving its maintenance of case files, and providing better coordination with Regional General Counsel on referred cases, and reconciling the PORS and PSORS to its internal log and supporting documentation.

RECOMMENDATIONS

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

- Implement the adjustments and write-offs of non-contractor accounts receivable identified by our review.
- Adjust the PORS account receivable balance to eliminate technical overpayments for financial reporting purposes.
- 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 IX:

1. Adjust the Region IX POR/PSOR accounts receivable at October 1, 1998, and for the 6 months ended March 31, 1999, to reflect a net \$123.1 million related to receivables that should be written off as closed or CNC, or collected and adjusted by the contractor, subsequently eliminated by filed cost reports, transferred by the contractor. These adjustments and 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.

3. Consider improving its processes regarding reconciliation of the PORS and PSORS to supporting records, reporting of collections and adjustments by Medicare contractors, development of written procedures for handling of accounts receivable, maintenance of case files, coordination of cases referred to Regional General Counsel, and reconciliation of the PORS and PSORS to supporting records.

4. Consider writing off \$146,371 of unsupported accounts receivable if it is unable to find adequate documentation to determine ownership, valuation and collectibility of the accounts.

HCFA's Response

In a response dated February 16, 2000, HCFA Region IX officials generally agreed with the recommendations in the report. The HCFA agreed to remove \$99.2 million of the \$123.1 million from its financial records. The remaining net balance of \$23.9 million consists of (1) balances totaling \$44 million that, based on the location code in the PORS or PSORS, are under the jurisdiction of the HCFA CO and therefore should not be included in this report and (2) underreported balances totaling \$20.1 million that the HCFA regional office is still reviewing to determine the appropriate action to be taken.

The HCFA Region IX officials agreed with our procedural recommendations and stated they would follow CO instructions and policies established for the accounts receivable process. Regional officials also agreed that it can strengthen its current processes for debt collection activities in the recommended areas of reconciliations, developing procedures for handling accounts receivable balances and case transfers, improving case management, and improving coordination with Regional General Counsel and the Department of Justice.

Regarding our recommendation on \$146,371 of unsupported accounts receivable, HCFA officials stated they had recommended \$90,000 to be removed from the financial records and stated the remaining \$56,371 should be removed from the report as location code on the PSORS indicates its under the jurisdiction of the HCFA CO.

The response is included as Appendix B to this report.

OIG Comments

We do not believe that the balance of \$44 million should be removed from this report. Although these cases had a location code related to the HCFA CO at the time of our review, there was little or no support for the balances at HCFA CO and the preponderance of supporting information was located at the regional office. Accordingly, our scope of work was revised to review these balances at the regional office level. In addition, the responsibility for maintaining the supporting case files for the balances continues to reside with Region IX even though the location code related to current collection responsibility may subsequently change.

REVIEW SUMMARY
HCFA REGIONAL OFFICE ACCOUNTS RECEIVABLE
AT OCTOBER 1, 1998 AND MARCH 31, 1999
REGION IX - SAN FRANCISCO

	<u>10/01/98</u>	<u>03/31/99</u>	<u>Totals ¹</u>
Universe Balances	\$232,143,450	\$85,682,311	\$317,825,761
Selected Balances	\$167,234,755	\$65,581,133	\$232,814,294
Overstated Balances			
<u>Write Offs - Closed:</u>			
PORS	\$10,496,001	\$ 456,461	
PSORS	<u>\$ 4,551,027</u>	<u>0</u>	
	\$15,047,028	\$ 456,461	<u>\$15,503,489</u>
<u>Write Offs - CNC ²:</u>			
PORS	\$ 98,875,131	\$7,679,119	
PSORS	<u>\$ 3,383,287</u>	<u>0</u>	
	\$102,258,418	\$7,679,119	<u>\$109,937,537</u>
Write-Offs (Closed & CNC)	\$117,305,446	\$8,135,580	\$125,441,026
<u>Technical Overpayments:</u>			
PORS	\$16,259,521	\$ 0	
PSORS	<u>0</u>	<u>0</u>	
	\$16,259,521	\$ 0	<u>\$16,259,521</u>
<u>Unrecorded Adjustments:</u>			
PORS	\$ 138,380	\$ 756,498	
PSORS	<u>22,505</u>	<u>0</u>	
	\$ 160,885	\$ 756,498	<u>\$ 917,383</u>
<u>Unrecorded Collections:</u>			
PORS	\$ 539,991	(\$ 90)	
PSORS	<u>0</u>	<u>0</u>	
	\$ 539,991	(\$ 90)	<u>\$ 539,901</u>
Unrecorded Adjustments And Collections	\$700,876	\$756,408	\$ 1,457,284
Total Overstatements	\$134,265,843	\$8,891,988	\$143,157,831
Understated Balances			
<u>Unrecorded Transfers:</u>	<u>\$18,060,982</u>	<u>\$2,039,648</u>	<u>\$ 20,100,630</u>
Net Overstatements	<u>\$116,204,86</u>	<u>\$6,852,340</u>	<u>\$123,057,201</u>
<u>Unsupported Amounts:</u>			
PORS	\$ 0	\$ 0	
PSORS	<u>146,371</u>	<u>0</u>	
	<u>\$ 146,371</u>	<u>\$ 0</u>	<u>\$ 146,371</u>

¹ Region IX totals include Region X Part B receivables as they are processed by Region IX.

² Currently not collectible.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing
Administration
Region IX

Memorandum

Date: February 16, 2000

From: Regional Administrator
Health Care Financing Administration, Region IX

Subject: Response to the Report on Regional Office Accounts Receivable in Region IX

To: Lawrence Frelot
Regional Inspector General for Audit Services

This memorandum is in response to your draft report (CIN: A-09-99-00087) dated January 14, 2000. I would like to thank you for the opportunity to comment on the report and believe the review findings will help us to improve the Regional Office's performance in this area. While we generally agree with the basic finding that the accounts receivable statements for October 1, 1998 and March 31, 1998 were overstated, we will disagree with the final amount included in the report. Our comments to the report will respond to the four recommendations found in the report on pages 7 and 8.

Recommendation 1:

Adjust the Region IX POR/PSOR accounts receivable at October 1, 1998, and for the 6 months ending March 31, 1999, to reflect a net \$123.1 million related to receivables that should be written off as closed or CNC, or collected and adjusted by the contractor, subsequently eliminated by filed cost reports, transferred by the contractor.

Response:

While we agree there was some overstatement of the accounts receivable, we believe the \$123.1 million is not correct. The review included accounts with location codes of COA (Central Office), DCC (Debt Collection Center in CO) and DJA (Department of Justice in CO). These location codes were found in both the PORS and PSOR reports. Any findings related to these locations are not within the jurisdiction of Region IX and as such, should not be reflected in our report. Our Central Office must

take any action to adjust the HCFA accounts receivables for the cases in these location.

The total amount of receivables in these locations (COA, DCC, DJA) which OIG recommended as Write off -Closed for October 1, 1998 is \$6,069,655 for the PORS Receivables and \$1,412,937 for the PSOR Receivables. For the March 31, 1999 PORS report the amount is \$456,461. We believe the total of these amounts (\$7,939,053) should not be included in the overstated balances. This would reduce the overstated balance for Write Offs-Closed to \$7,564,436.

The total amount of receivables in locations COA, DCC and DJA which were recommended for Write-Off CNC for October 1, 1998 is \$25,527,847 for the PORS Receivables and \$940,964 for the PSOR Receivables. The PORS Receivables for the March 31, 1999 period in locations COA, DCC and DJA recommended for Write-off CNC is \$7,679,119. We believe the total of these amounts (\$34,147,930) should not be included in the overstated balances. This would reduce the Write Offs - CNC to \$75,789,607.

The report cites several instances where the Regional Office should make adjustments to the current receivable amounts. Again, any adjustment to a receivable in locations COA, DCC or DJA must be made by Central Office. There is one recommended adjustment in a CO location due to an unfiled cost report for the 10/1/98 receivable report for \$647, 726. This will reduce Region IX's overstated balance for unfiled cost reports to \$15,611,795.

There is a recommendation to correct unrecorded adjustments. For the 10/1/98 PORS report \$138,380 were in CO locations and for the 3/31/99 report \$701,363 were in CO locations. This will reduce Region IX's overstated balance for unrecorded adjustments to \$77,640.

There is a recommendation to correct unrecorded collections. There is only one unrecorded collection in a Region IX location for the 10/1/98 report. This will reduce Region IX's overstated balance for unrecorded collections to \$146,086.

Based on the above revisions, Region IX believes its overstated balance for the 10/1/98 receivable report is \$99,134,429 rather than \$134,265,843. We also believe our overstated balance for the 3/31/99 receivable report is \$55,135 rather than \$8,891,988. The total overstated balance for Region IX for the two report periods is \$99,189,564 rather than \$143,147,831.

The overstated balances were offset by unrecorded transfers. The majority of the cited cases are with one contractor (Blue Cross of CA). We have instructed the contractor to research the cases and provide information to the Regional Office. These are all cases that appear on the PORS for the 10/1/98 receivable report. For the 3/31/99 PSOR report, two of the cases (providers 25295001 and 16568001) show the

Atlanta Regional Office as the location. Based on this information we believe the maximum amount of understated balances is \$19,476,794 rather than \$20,100,630.

For the unrecorded transfers we have not completed our research of each case cited in the report. Therefore, we cannot verify at this time if we agree with all of the cited cases. We will continue our review of the situation. Reminder instructions are being issued to our contractors regarding the transfer of cases. Contractors cannot consider a case transferred to the Regional Office until the contractor has received an acknowledgment letter from the RO stating the case has been accepted. This process should eliminate any future instance of an unrecorded transfer and ensure all receivables are properly recorded on either the contractor's or the RO's 750/751 report.

While the actual reports for 10/1/98 and 3/31/99 had overstated balances, direction was received from our Central Office to take specific action on most of the cases. Based on an April 28, 1999 memo we received from our headquarters, the Regional Office recommended \$17,916,166 for write off for cases cited in the 10/1/98 report period. This amount was documented in your workpapers designated Schedules B and D, which were shared with us by Paul Shultz when we met with him on February 8. Subsequent to your review we received a directive to write off an additional \$73,323,147 for the 10/1/98 report period. We were also instructed to make additional adjustments of \$7,804,764 for the 10/1/98 report period. Both projects from Central Office total \$99,044,077 which were either recommended by the RO for write off or which CO approved for write off. Since Region IX believes its overstated balance for the two review periods is \$99,189,564, the balance remaining for review and/or action by the Regional Office is \$145,487. All of the above information is summarized in a revised Schedule A (attached).

Recommendation 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.

Response:

We agree we should follow any CO instruction, policy or procedure established for the accounts receivable process. While we have received one-time instructions for the RO to recommend cases for write off or transfer, these policies (as stated in PM AB-99-26) have not as yet been established as on-going instructions. Therefore, we cannot at this time take any action to recommend or write off any debt without first receiving specific instructions from CO.

While we cannot currently write off old debts, we are engaged in an on-going project which will allow us to transfer debt to the Debt Collection System (DCS) after we have issued a demand letter with the specific Debt Collection language. Once these

cases are moved to the DCS, Central Office will determine if the cases will be referred to Treasury or the Debt Collection Center for further action, or if the cases should be written off as closed or CNC. This process should help ensure Region IX's accounts receivable reports are accurate and not overstated in the future.

Recommendation 3:

Consider improving the processes regarding reconciliation of the PORS and PSOR to supporting records, reporting of collections and adjustments by Medicare contractors, development of written procedures for handling of accounts receivable, maintenance of case files, coordination of cases referred to Regional General Counsel, and reconciliation of the PORS and PSORS to supporting records.

Response:

We agree that Region IX can strengthen its current processes for debt collection activities. As a result of this review, Region IX plans on developing or restating the policy for transfers from contractors, demand letters, bankruptcies and R751 reconciliation. The referrals to OGC or DOJ will be controlled by one individual in the division who is an attorney. We plan to develop a process for routine communication with OGC and DOJ on any debt case handled by them. This will ensure we know when a case has been closed by OGC or DOJ so we can then take the appropriate action with the receivable. Finally, we are planning to reorganize the filing system within the division to ensure all case files are easily retrieved and available for review.

Recommendation 4:

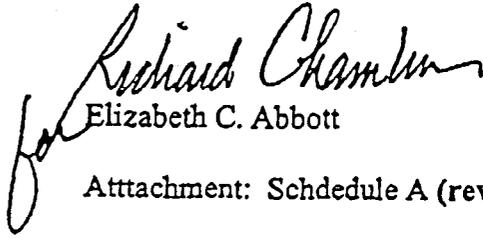
Consider writing off \$146,371 of unsupported accounts receivable if unable to find adequate documentation to determine ownership, valuation and collectibility of the accounts.

Response:

As stated in Response 1 we do not believe any recommendation made for a receivable in location COA, DCC or DJA should be cited for Region IX since these are Central Office locations. There are two accounts cited in the report as unsupported accounts. Only one is in a Region IX location. The amount of this account is \$90,000 and was on the 10/1/98 report. This account has already been recommended to CO for write off, as annotated in your workpapers at Schedule D.

As a result of this review we are taking a comprehensive look at the entire overpayment process within the Regional Office. Action will be taken to ensure all cases which have a Regional Office location have a fully developed file in the Regional Office. To help with the tracking process in all regions, an internal tracking system is being developed by one of the Regional Offices. This new system should

be available within the next few months. The planned system will greatly enhance our ability to track and timely process any referred case. If you have any questions or require additional information, please call David Sayen at (415) 744-3661 or Diane Caradeuc at (415) 744-3662.


Elizabeth C. Abbott

Attachment: Schdedule A (revised)

Region IX Revised Overstated Balances

Schedule A (rev.)

	10/01/1998	03/31/1998	TOTALS
Write Offs - Closed			
PORS	4,426,346	0	
PSOR	3,138,090	0	
	7,564,436	0	7,564,436
Write Offs - CNC			
PORS	73,347,284	0	
PSOR	2,442,323	0	
	75,789,607	0	75,789,607
Write Offs (Closed and CNC)	83,354,043	0	83,354,043
Technical Overpayments (Unfiled Cost Reports)			
PORS	15,611,795	0	
PSOR	0	0	
	15,611,795	0	15,611,795
Unrecorded Adjustments			
PORS	0	55,135	
PSOR	22,505	0	
	22,505	55,135	77,640
Unrecorded Collection			
PORS	146,086	0	
PSOR	0	0	
	146,086	0	146,086
Unrecorded Adjustments and Collections	168,591	55,135	223,726
TOTAL OVERSTATEMENTS	99,134,429	55,135	99,189,564

Attachment

Region IX Revised Understated Balances

Unrecorded Transfers

PORS	16,837,119	0	
PSOR	1,223,863	1,415,812	
	18,060,982	1,415,812	19,476,794

Net Overstatements

79,712,770

Region IX Recommendations to CO for Write-off (from universe of cases OIG identified for Write O April 28, 1999 Project (Location codes DJR, GCR, ROA) (Identified in OIG Report)

PORS	13,519,718	0	
PSOR	4,396,448	0	
	17,916,166	0	17,916,166

December 6, 1999 Project (CO approved for write off; Location codes DJR, GCR, ROA)

PORS	72,139,534	0	
PSOR	1,183,613	0	
	73,323,147		73,323,147

December 6, 1999 Project (CO approved for adjustment; Location codes DJR, GCR, ROA)

PORS	7,782,259	0	
PSOR	22505	0	
	7,804,764		7,804,764

Total RO Recommendation and/or
CO approval for Write Off or
Adjustment

99,044,077

99,044,077

Revised RO Overstatement Amount

99,189,564

Balance To Be Researched by Region IX

145,487

Unsupported Amounts (one case, RO had recommended write off for this case already)

PORS

PSOR

90,000

90,000

Region IX Revised Overstated Balances	Schedule A (rev.)		
	10/01/1998	03/31/1998	TOTALS
Write Offs - Closed			
PORS	4,426,346	0	
PSOR	3,138,090	0	
	7,564,436	0	7,564,436
Write Offs - CNC			
PORS	73,347,284	0	
PSOR	2,442,323	0	
	75,789,607	0	75,789,607
Write Offs (Closed and CNC)	83,354,043	0	83,354,043
Technical Overpayments (Unfiled Cost Reports)			
PORS	15,611,795	0	
PSOR	0	0	
	15,611,795	0	15,611,795
Unrecorded Adjustments			
PORS	0	55,135	
PSOR	22,505	0	
	22,505	55,135	77,640
Unrecorded Collection			
PORS	146,086	0	
PSOR	0	0	
	146,086	0	146,086
Unrecorded Adjustments and Collections	168,591	55,135	223,726
TOTAL OVERSTATEMENTS	99,134,429	55,135	99,189,564

Region IX Revised Understated Balances

Unrecorded Transfers			
PORS	16,837,119	0	
PSOR	1,223,863	1,415,812	
	18,060,982	1,415,812	19,476,794
<i>Net Overstatements</i>			<i>79,712,770</i>
Region IX Recommendations to CO for Write-off (from universe of cases OIG identified for Write Off April 28, 1999 Project (Location codes DJR, GCR, ROA) (Identified in OIG Report)			
PORS	13,519,718	0	
PSOR	4,396,448	0	
	17,916,166	0	17,916,166
December 6, 1999 Project (CO approved for write off; Location codes DJR, GCR, ROA)			
PORS	72,139,534	0	
PSOR	1,183,613	0	
	73,323,147		73,323,147
December 6, 1999 Project (CO approved for adjustment; Location codes DJR, GCR, ROA)			
PORS	7,782,259	0	
PSOR	22,505	0	
	7,804,764		7,804,764
Total RO Recommendation and/or CO approval for Write Off or Adjustment	99,044,077		99,044,077
Revised RO Overstatement Amount			99,189,564
Balance To Be Researched by Region IX			<i>145,487</i>
Unsupported Amounts (one case, RO had recommended write off for this case already)			
PORS			
PSOR	90,000		90,000