



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

Date: May 2, 2003
From: Gordon L. Sato
Regional Inspector General for Audit Services
Subject: Review of the Medicare Accounts Receivable Reported by the Centers for
Medicare & Medicaid Services' Region VI Regional Office
CIN: A-06-02-00035
To: James R. Farris, M.D.
Regional Administrator
Centers for Medicare & Medicaid Services

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 Medicare Accounts Receivable Reported by the Centers for Medicare & Medicaid Services' Region VI Regional Office". We audited the non-Medicare Secondary Payer accounts receivable for the quarter ended September 30, 2000, and certain Medicare Secondary Payer accounts receivable related to the "settlement cleanup" project for the quarter ended September 30, 2000. This audit was part of a nationwide OIG effort to evaluate the amount of delinquent debt related to Medicare accounts receivable.

Officials in your office have concurred with our recommendation, set forth on pages 16-17 of the attached report and have taken corrective action. We appreciate the cooperation given to us by the Regional Office officials and staff during this audit.

We would appreciate your views and the status of any further action taken or contemplated on our recommendation within the next 60 days. If you have any questions, please contact me or have your staff contact Sam Patterson, Audit Manager at (405) 605-6179.

To facilitate identification, please refer to CIN: A-06-02-00035 in all correspondence relating to this report.

Sincerely,

Gordon L. Sato
Regional Inspector General
for Audit Services

Attachments – as stated

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE MEDICARE
ACCOUNTS RECEIVABLE REPORTED
BY THE CENTERS FOR MEDICARE &
MEDICAID SERVICES' REGION VI
REGIONAL OFFICE**



JANET REHNQUIST
Inspector General

MAY 2003
A-06-02-00035



DEPARTMENT OF HEALTH & HUMAN SERVICES

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From: Regional Inspector General for Audit Services, Region VI

Subject: Review of the Medicare Accounts Receivable Reported by the Centers for Medicare & Medicaid Services' Region VI Regional Office
CIN: A-06-02-00035

To: James R. Farris, M.D.
Regional Administrator
Centers for Medicare & Medicaid Services

This report provides you with the results of our review of the Medicare accounts receivable reported by the Centers for Medicare & Medicaid Services' (CMS) Region VI Regional Office for the quarter ended September 30, 2000.

The objectives of our review were to determine whether the:

- Regional Office accurately reported and properly supported its accounts receivable balances including a "settlement cleanup" project involving certain Medicare Secondary Payer (MSP) accounts receivable for the quarter ended September 30, 2000.
- Regional Office complied with the Debt Collection Improvement Act (DCIA) of 1996 and CMS policies related to collection efforts.

The Regional Office did not accurately report and properly support its accounts receivable balances including a "settlement cleanup" project involving certain MSP accounts receivable for the quarter ended September 30, 2000. We identified four separate areas of concern related to the accounts receivable balances reported by the Regional Office:

- There was a net amount of discrepancies between the "Status of Accounts Receivable" report (CMS 751) and the Provider Overpayment Reporting (POR)/Physician Supplier Overpayment Reporting (PSOR) systems totaling approximately \$3.9 million for non-Medicare Secondary Payer (non-MSP) accounts receivable principal for the quarter ended September 30, 2000. To arrive at this net amount, we adjusted both the CMS 751 and the POR/PSOR to remove the amount for unfiled costs reports because this amount is not considered to be reportable accounts receivable.
- During the quarter ended September 30, 2000, the Medicare contractors transferred approximately \$56.2 million of non-MSP accounts receivable principal to the Regional Office. Of this amount, the Regional Office excluded approximately \$1.6

million of principal from its individual accounts receivable recorded on the Regional Office's internal records used to prepare its CMS 751.

- There was a net amount of discrepancies between the CMS 751 and the Regional Office internal records totaling approximately \$115,000 for non-MSP accounts receivable principal for the quarter ended September 30, 2000.
- There was a net amount of discrepancies between the CMS 751 and the settlement cleanup quarterly reports of approximately \$1.26 million for MSP accounts receivable principal related to the "settlement cleanup" project for the quarter ended September 30, 2000.

The Regional Office did not fully comply with the DCIA of 1996 or CMS policies related to collection efforts. The DCIA of 1996 requires CMS to refer accounts receivable over 180 days delinquent to the Department of the Treasury (Treasury) for collection. We reviewed a statistical sample of 83 non-MSP accounts receivable as of September 30, 2000, at the Regional Office location and found that, in certain instances, the Regional Office did not:

- Refer eligible accounts receivable to the Treasury or a Treasury-designated debt collection center as required by the DCIA of 1996; and
- Fully comply with CMS policies related to collection efforts involving (1) demand letters, (2) reclassifying eligible debt for write off, (3) location codes, (4) status codes and (5) documentation to support principal ending balances.

We have provided the Regional Office, under separate cover, with additional details related to the review of the 83 non-MSP accounts receivable.

In our opinion, the lack of adequate, or in some instances, any reconciliation and internal control procedures contributed to the above problems and prevented (1) the accurate reporting of accounts receivable and the MSP "settlement cleanup" amount and (2) the timely referral of delinquent accounts receivable to the Treasury. According to a Regional Office official, before the completion of our fieldwork, the Regional Office developed and implemented policies and procedures that addressed the concerns identified during our fieldwork. The Regional Office provided us a brief summary of the new policies and procedures. Although the scope of our audit did not provide for us to perform detailed tests of the Regional Office's new policies and procedures, we believe these policies and procedures address our concerns.

Subsequent to the completion of our fieldwork, CMS issued a memorandum, dated February 12, 2003, from the CMS Deputy Director of the Center for Medicare Management and the Director of Accounting Management Group Office of Financial Management, that directs the transfer of all non-MSP debts located at the CMS Central and Regional Offices back to the originating Medicare contractors in order to enhance the financial accountability for non-MSP Medicare debts. The Regional Office will be required to complete the transfer of the non-MSP Medicare debts by June 30, 2003. However, the Regional Office will be required to submit the CMS 751

to the CMS Central Office through September 30, 2003. In this regard, we are recommending that the Regional Office continue to process and report Medicare accounts receivable in accordance with its current policies and procedures through its final reporting period of September 30, 2003.

The Regional Office concurred with the findings disclosed in our report regarding the accounts receivable balances reported by the Regional Office and its compliance with the DCIA of 1996 for the quarter ended September 30, 2000. As a result of the corrective actions taken by the Regional Office and the transfer of the administration of the Medicare accounts receivable to the Medicare contractors as of June 30, 2003, our report contained only one recommendation. The Regional Office officials concurred with our recommendation to follow its revised policies and procedures through its final reporting period expected to be September 30, 2003.

We have summarized the Regional Office's comments in the CONCLUSIONS AND RECOMMENDATIONS section of the report. The APPENDIX to this report contains a copy of the Regional Office's comments.

INTRODUCTION

BACKGROUND

The Medicare program, administered by CMS, consists of two components: Hospital Insurance (Part A) and Supplementary Medical Insurance (Part B). Medicare Part A helps pay for inpatient hospital services, skilled nursing facility services, home health services and hospice care. Medicare Part B helps pay for doctor services, outpatient hospital services, medical equipment and supplies and other health services and supplies. The CMS contracts with private insurance companies, referred to as Medicare contractors, to process and pay Medicare claims submitted by health care providers. The CMS' 10 Regional Offices carry out much of the administration of the Medicare program. At the time of this review, the Region VI Regional Office had oversight responsibility for five Medicare contractors.

Medicare accounts receivable primarily represent money owed to CMS due to: (1) Medicare overpaying providers for a variety of reasons; and (2) other entities who should have paid the claims as primary insurers when Medicare was the secondary payer. The first overpayment category is referred to as non-MSP receivables, and the second overpayment category is referred to as MSP receivables. Historically, CMS required contractors to report amounts related to provider unfiled cost reports as accounts receivable. However, CMS subsequently recognized that these amounts do not represent true accounts receivable and should be excluded from the accounts receivable balances reported by the contractors. Accordingly, CMS issued a Program Memorandum dated April 18, 2001, which stated, effective for the March 31, 2001 reporting period, unfiled cost reports would no longer be reported as accounts receivable.

Medicare contractors and the CMS Regional Office each have responsibilities for managing Medicare accounts receivable. The CMS policy requires that each quarter, the Medicare

contractors and the Regional Office include Medicare accounts receivable information in their respective "Status of Accounts Receivable" reports, referred to individually as the CMS 751. The CMS 751 is a summary of all the accounts receivable activity such as the beginning balance, collections, write-offs and the ending balance. The CMS 751 does not include detailed information about each receivable. Due to system problems, the CMS Central Office required the Regional Office to include only ending balances for principal and interest on the CMS 751 for the quarter ended September 30, 2000.

The CMS policy requires its Regional Offices and Medicare contractors to submit their quarterly CMS 751s via the Contractor Administrative-Budget and Financial Management (CAFM) system. The Central Office utilizes all of the CMS 751 reports submitted by its Regional Offices and the Medicare contractors to determine the Medicare accounts receivable amount that CMS reports on its financial statements.

In addition to the accounts receivable information reported on the CMS 751, the Regional Office and the Medicare contractors also input and update non-MSP accounts receivable information in the POR or PSOR systems for Part A and Part B non-MSP accounts receivable, respectively. These systems are separate overpayment case management systems that contain information about each non-MSP Medicare overpayment. According to CMS policy, the non-MSP ending accounts receivable balance on the internal records used by the Regional Office to support the CMS 751 and the individual overpayment ending balances on the POR/PSOR systems should be reconciled, except for Part B receivables less than \$600, which are included on the CMS 751, but are excluded from the PSOR.

In March 2000, CMS issued instructions to Medicare contractors regarding a CMS financial initiative for FY 2000 that focused on MSP accounts receivable. These instructions required the contractors to identify and transfer certain MSP accounts receivable related to settlements made between CMS and seven insurance companies for such receivables. The CMS referred to this special initiative as the "settlement cleanup". The "settlement cleanup" was designed to reduce the amount of outstanding MSP accounts receivable. According to a Regional Office official, the only MSP information the Regional Office reported on its CMS 751 for the quarter ended September 30, 2000, were (1) the MSP receivables related to the "settlement cleanup" and (2) approximately \$12,000 of old MSP receivables not related to the "settlement cleanup". Therefore, we only reviewed those MSP receivables related to the "settlement cleanup".

Debt Collection Legislation and CMS Policies Related to Collection Efforts

The DCIA of 1996 (the Act) was designed to maximize collections, minimize the costs of debt collection, reduce losses arising from debt management activities, inform the public of the Government's debt collection policies, ensure the due process rights of debtors, and encourage agencies to sell their delinquent debt and rely on the experience and expertise of private sector professionals to provide debt collection services. The Act requires Federal agencies such as CMS to refer all eligible debt, over 180 days delinquent, to the Treasury or a Treasury-designated debt collection center for debt collection action. According to DCIA criteria, delinquent is defined as debt that has not been paid in full by the date specified in the first

demand letter unless other payment arrangements have been made. Debts ineligible for referral include those: (1) in bankruptcy status, (2) in an appeal status, (3) subject to an extended repayment plan, (4) under fraud and abuse investigation, (5) at the Department of Justice, or (6) where the debtor is deceased.

For the period of our review, CMS policy required both the Medicare contractors and the Regional Office to follow specific debt collection procedures in an effort to collect the amount due Medicare. If these efforts were unsuccessful, the policy required that the Regional Office refer those receivables to the CMS Central Office for subsequent disposition, including further collection efforts.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of our review were to determine whether the:

- Regional Office accurately reported and properly supported its accounts receivable balance including a “settlement cleanup” project involving certain MSP accounts receivable for the quarter ended September 30, 2000.
- Regional Office complied with the DCIA of 1996 and CMS policies related to collection efforts.

Scope and Methodology

Our review covered the non-MSP accounts receivable and the MSP accounts receivable related to the “settlement cleanup” reported by the Regional Office for the quarter ended September 30, 2000.

To review non-MSP accounts receivable, the Office of Inspector General (OIG) selected a nationwide statistical sample of 450 accounts receivable included in the POR/PSOR with a Regional Office location code as of September 30, 2000. The sample included a total of 83 accounts receivable applicable to the Region VI Regional Office that we reviewed. We reviewed this sample to determine whether the Regional Office accurately reported and properly supported its accounts receivable principal ending balance and met the requirements of the DCIA of 1996 and CMS policies related to collection efforts. We did not include in the sample or review PSOR receivables less than \$600 because CMS policy precludes such receivables from being included on the PSOR. We did not project the sample results to the total non-MSP universe.

To review MSP accounts receivable, we selected a judgmental sample of 30 accounts receivable related to the “settlement cleanup” as of September 30, 2000. We reviewed this sample to determine whether the Regional Office accurately reported and properly supported its accounts receivable balances related to the MSP “settlement cleanup” project. We did not project the sample results to the total MSP “settlement cleanup” universe.

To accomplish our objectives, we:

- ✓ Reconciled the non-MSP principal ending balances reported on the September 30, 2000 CMS 751 to the non-MSP principal ending balances reported on the POR/PSOR;
- ✓ Reviewed the fourth quarter non-MSP accounts receivable principal transfers from the Medicare contractors to the Regional Office internal records for completeness;
- ✓ Reconciled the non-MSP and MSP principal ending balances reported on the September 30, 2000 CMS 751 to the Regional Office internal records;
- ✓ Reviewed 83 principal ending balances of non-MSP receivables for compliance with the DCIA of 1996 and CMS policies related to collection efforts;
- ✓ Reviewed 30 principal ending balances of MSP receivables for compliance with the MSP "settlement cleanup";
- ✓ Reviewed the accuracy of the interest calculations related to the 30 MSP receivables;
- ✓ Held discussions with and obtained additional documentation from personnel at the Regional Office; and
- ✓ Reviewed the memorandum, dated February 12, 2003, from the CMS Deputy Director of the Center for Medicare Management and the Director of Accounting Management Group Office of Financial Management, that directs the transfer of all non-MSP debts located at the CMS Central and Regional Offices back to the originating Medicare contractors in order to enhance the financial accountability for non-MSP Medicare debts.

Our audit was made in accordance with generally accepted government auditing standards. We conducted our fieldwork at the Region VI CMS Regional Office in Dallas, Texas.

FINDINGS AND RECOMMENDATIONS

REPORTING MEDICARE ACCOUNTS RECEIVABLE BALANCES

The Regional Office did not accurately report and properly support its accounts receivable balances including a "settlement cleanup" project involving certain MSP accounts receivable for the quarter ended September 30, 2000. We identified four separate areas of concern related to the accounts receivable balances reported by the Regional Office:

- There was a net amount of discrepancies between the CMS 751 and the POR/PSOR systems totaling approximately \$3.9 million for non-MSP accounts receivable principal for the quarter ended September 30, 2000. To arrive at this net amount, we adjusted both the CMS 751 and the POR/PSOR to remove the amount for unfiled

costs reports because this amount is not considered to be reportable accounts receivable.

- During the quarter ended September 30, 2000, the Medicare contractors transferred approximately \$56.2 million of non-MSP accounts receivable principal to the Regional Office. Of this amount, the Regional Office excluded approximately \$1.6 million of principal from its individual accounts receivable recorded on the Regional Office's internal records used to prepare its CMS 751.
- There was a net amount of discrepancies between the CMS 751 and the Regional Office internal records totaling approximately \$115,000 for non-MSP accounts receivable principal for the quarter ended September 30, 2000.
- There was a net amount of discrepancies between the CMS 751 and the settlement cleanup quarterly reports of approximately \$1.26 million for MSP accounts receivable principal related to the "settlement cleanup" project for the quarter ended September 30, 2000.

Regional Office CMS 751 and POR/PSOR

There was a net amount of discrepancies between the CMS 751 and POR/PSOR systems totaling approximately \$3.9 million for non-MSP accounts receivable principal for the quarter ended September 30, 2000. We adjusted both the CMS 751 and the POR/PSOR to remove the amount for unfiled costs reports because this amount is not considered to be reportable accounts receivable.

In January 2001, the CMS Central Office provided supplemental guidance to the Regional Office that required the Regional Office to perform a quarterly reconciliation between the Regional Office's internal records used to support individual accounts receivable which it uses to prepare its CMS 751 and the individual accounts receivable ending balances reported on the POR/PSOR. Although this supplemental guidance was provided to the Regional Office after our audit period, we believe that the Regional Office should have performed this reconciliation for the quarter ended September 30, 2000.

The table below shows the net amount of discrepancies between the individual accounts receivable used to prepare both the CMS 751 and the POR/PSOR for the quarter ended September 30, 2000. The CMS 751 is a summary of the accounts receivable whereas the POR/PSOR contain more detailed information about each individual non-MSP receivable.

Comparison of the CMS 751 to the POR/PSOR (Principal Only) For the Quarter Ended September 30, 2000			
Receivable Category ¹	Amount Reported on the CMS 751 (rounded)	Amount Included in the POR/PSOR (rounded)	Net Difference
Part A Current Receivables (Non-MSP)	\$251,400,138	\$221,616,515	\$29,783,623
Part A Current Receivables (Non-MSP) Unfiled Cost Reports ²	(\$143,940,936)	(\$117,707,092)	(\$26,233,844)
Part A Currently Not Collectible (Non-MSP)	\$484,465	\$58,242	\$426,223
Part A Currently Not Collectible (Non-MSP) Unfiled Cost Reports ²	(\$48,821)	(\$48,821)	\$0
Part B Current Receivables (Non-MSP)	\$943,977	\$967,466	(\$23,489)
Part B Currently Not Collectible (Non-MSP)	\$143,844	\$149,986	(\$6,142)
Total	\$108,982,667	\$105,036,296	\$3,946,371

Some of the discrepancies identified resulted from the Regional Office:

- Recording some receivables transferred from the contractors on the individual accounts receivable records it used to prepare its CMS 751, but not updating the POR/PSOR to reflect the transfer of these receivables from the contractors to the Regional Office location;
- Not recording some receivables on its CMS 751 individual records, although the Regional Office had accepted such receivables on the POR/PSOR;
- Recording some receivables on its CMS 751 individual records, and updating the POR/PSOR to accept the transfer of the same receivables from the contractors by the Regional Office, although the individual accounts receivable ending balances differed; and
- Reporting currently not collectible receivables on the CMS 751 under both “current” and “currently not collectible” categories.

In our opinion, these discrepancies occurred because the Regional Office did not have reconciliation procedures in place to ensure the internal records used to support its CMS 751 and the POR/PSOR agreed. As a result, we could not determine the accuracy of the accounts receivable amount reported on either the CMS 751 internal records and the resulting CMS 751 report or the POR/PSOR for the quarter ended September 30, 2000.

¹ Accounts receivable are classified as “current” or “currently not collectible.” Currently not collectible accounts receivable are defined as receivables over two years old with no collection activity within the past twelve months.

² Unfiled cost reports are not considered reportable accounts receivable to Medicare. As a result, we deducted the unfiled cost report amounts from both the CMS 751 and the POR/PSOR accounts receivable balances to determine the net amount of discrepancies that should have been reconciled.

Regional Office Internal Records

During the quarter ended September 30, 2000, the Medicare contractors transferred on their individual CMS 751 reports approximately \$56.2 million of non-MSP accounts receivable principal to the Regional Office. Of this amount, the Regional Office excluded approximately \$1.6 million of principal from its individual accounts receivable recorded on the Regional Office's internal records used to prepare its CMS 751.

The CMS policy required the Medicare contractors to submit their individual CMS 751 reports quarterly via the CAFM system. Included in each of these reports is a line for non-MSP accounts receivable transferred to the Regional Office. The CMS policy required that amounts transferred from the Medicare contractors must be recorded on the Regional Office internal records. Amounts transferred from the Medicare contractors to the Regional Office are non-MSP receivables that the Medicare contractors have attempted to collect but without any success. For the period of our review, the CMS policies required Medicare contractors to transfer these accounts receivable to the Regional Office for further collection efforts by the Regional Office.

We believe the Regional Office excluded these transfers from its internal records because the Regional Office did not perform any reconciliation procedures to ensure that it updated the Regional Office internal records for receivables transferred from the Medicare contractors. As a result, the Regional Office understated its accounts receivable principal ending balance by approximately \$1.6 million on its CMS 751 report for the quarter ended September 30, 2000.

CMS 751 Non-MSP Amount Reconciliation to Regional Office Internal Records

There was a net amount of discrepancies between the CMS 751 and the Regional Office internal records for the non-MSP accounts receivable principal ending balance totaling approximately \$115,000 for the quarter ended September 30, 2000. The CMS policy requires that the Regional Office have internal records to support the amount reported on its CMS 751.

The table below shows the net amount of discrepancies between the CMS 751 and the Regional Office internal records for the quarter ended September 30, 2000.

<i>Comparison of the CMS 751 to the Regional Office Internal Records (Principal Only) For the Quarter Ended September 30, 2000</i>			
Receivable Category ¹	Amount Reported on the CMS 751 (rounded)	Amount Supported by Internal Records (rounded)	Net Difference
Part B Current Receivables (Non-MSP)	\$943,977	\$1,060,875	(\$116,898)
Part A Currently Not Collectible (Non-MSP)	\$484,465	\$482,465	\$2,000
Part A Currently Not	(\$48,821)	(\$48,821)	\$0

¹ Accounts receivable are classified as "current" or "currently not collectible." Currently not collectible accounts receivable are defined as receivables over two years old with no collection activity within the past twelve months.

Collectible (Non-MSP) Unfiled Cost Reports ²			
Part A Current Receivables (Non-MSP)	\$251,400,138	\$251,400,138	\$0
Part A Current Receivables (Non-MSP) Unfiled Cost Reports ²	(\$143,940,936)	(\$143,940,936)	\$0
Part B Currently Not Collectible (Non-MSP)	\$143,844	\$143,844	\$0
Total	\$108,982,667	\$109,097,565	(\$114, 898)

The Regional Office used an internal Access database to record and support its Part B (non-MSP) accounts receivable. However, according to a Regional Office official, the Regional Office experienced problems when downloading accounts receivable data into a new, more sophisticated internal Access database adopted by the Region to record and support such receivables. As of September 30, 2000, this new database could not provide a report of individual payments allocated between principal and interest to a specific debt. Primarily as a result of this problem, the Regional Office was unable to calculate an accurate Part B principal ending balance. Accordingly, the Regional Office had to estimate the principal ending balance for the Part B (non-MSP) receivables it reported on the CMS 751. In making this estimate, the Regional Office applied all of the payments received to reduce the accounts receivable principal balance without any consideration of interest included in those payments.

During our review, CMS corrected the new database to allow for the allocation of payments between principal and interest. Using this database, we determined that the Part B current receivables (non-MSP) principal ending balance should have been approximately \$1,060,875, rather than the \$943,977 reported by the Regional Office to CMS.

A Regional Office official attributed the remaining \$2,000 difference between the CMS 751 and the Regional Office internal records to a clerical error in determining the Part A currently not collectible receivables.

The Regional Office did not have reconciliation procedures in place to ensure the CMS 751 and its internal records agreed. As a result, the Regional Office understated its Part B non-MSP current receivables by approximately \$116,898 and overstated its Part A non-MSP currently not collectibles by \$2,000 on its CMS 751 for the quarter ended September 30, 2000.

Regional Office Corrective Actions Related to Non-MSP Receivables

As explained above, we believe that the findings related to the non-MSP receivables occurred because the Regional Office did not perform any reconciliation procedures between the (1) CMS 751 and the POR/PSOR, (2) accounts receivable transfers from the Medicare contractors and the Regional Office internal records and (3) CMS 751 and the Regional Office internal records.

² Unfiled cost reports are not considered reportable accounts receivable to Medicare. As a result, we deducted the unfiled cost report amounts from both the CMS 751 and the POR/PSOR accounts receivable balances to determine the net amount of discrepancies that should have been reconciled.

According to a Regional Office official, before the completion of our fieldwork, the Regional Office developed and implemented policies and procedures that addressed the concerns identified during our fieldwork. The Regional Office provided us a brief summary of the new policies and procedures that included: (1) a change in personnel assigned to the accounts receivable area; (2) only allowing one person to enter changes into the Regional Office internal database that supports its accounts receivable; (3) developing a process and a form for preparing, processing, approving and posting all overpayment activities that impact the accounts receivable; (4) initiating a Data Correction Project in April 2001 that was completed on December 31, 2002; and (5) developing and implementing a quarterly accounts receivable reconciliation. Although the scope of our audit did not provide for us to perform detailed tests of the Regional Office's new policies and procedures, we believe these policies and procedures address our concerns.

CMS 751 MSP Amount Reconciliation to Regional Office Internal Records

There was a net amount of discrepancies between the CMS 751 and the settlement cleanup quarterly reports of approximately \$1.26 million for MSP accounts receivable principal related to the "settlement cleanup" project for the quarter ended September 30, 2000.

In March 2000, CMS issued instructions to Medicare contractors regarding a CMS financial management initiative for FY 2000 that focused on MSP accounts receivable. These instructions required the contractors to identify and transfer certain MSP accounts receivable related to settlements made between CMS and seven insurance companies for such receivables. The CMS referred to this special initiative as the "settlement cleanup". As part of the "settlement cleanup", CMS required the Medicare contractors to:

- Identify, and transfer to the Regional Office on their CMS 751 reports, with the exception of duplicate payment accounts receivable, settlement-related accounts receivable included on the contractors' current CMS 751 reports;
- Provide a quarterly summary report¹ to the Regional Office of the amounts that they transferred to the Regional Office; and
- Provide a quarterly detailed report¹ to the Regional Office (1) listing the accounts receivable that they are transferring to the Regional Office on the CMS 751 report and (2) providing a status report on their "settlement cleanup" efforts.

The CMS instructions also required the Regional Office to report on its CMS 751 the total amount of settlement-related accounts receivable transferred from the contractors. Along with the CMS 751, the Regional Office was also required to submit to the Central Office a quarterly summary report, which contained the total "settlement cleanup" amounts reported by each contractor to the Regional Office.

¹ The quarterly summary reports and the quarterly detailed reports are referred to collectively in our report as the settlement cleanup quarterly reports.

The detailed quarterly reports provided to the Regional Office by the contractors contained the detail of each "settlement cleanup" amount and served as the Regional Office's internal records for the MSP "settlement cleanup" amounts. Although not specifically stated in the CMS policy, we believe these amounts in total should agree with the amount reported by the Regional Office on its CMS 751. The table below shows the net amount of discrepancies between the CMS 751 and the Regional Office internal records for the quarter ended September 30, 2000.

<i>Comparison of the CMS 751 to the Regional Office Internal Records (Principal Only) For the Quarter Ended September 30, 2000</i>			
Receivable Category	Amount Reported on the CMS 751 (rounded)	Amount Supported by Internal Records (rounded)	Net Difference
Part B MSP	\$5,751,584	\$6,908,965	(\$1,157,381)
Part A MSP (includes B of A)	\$5,172,382	\$5,270,843	(\$98,461)
Currently Not Collectible MSP	\$132	\$0	\$132
Total	\$10,924,098	\$12,179,808	(\$1,255,710)

The Regional Office attributed the \$1,157,381 and \$98,461 of discrepancies between the CMS 751 and the Regional Office internal records for Part A and Part B of MSP to the Medicare contractors submitting incorrect transfers and clerical errors either on their CMS 751 or their settlement cleanup quarterly reports. Further, the Regional Office reported the \$132 under both "current" and "currently not collectible" categories on its CMS 751. According to a Regional Office official, this amount should not have been reported as a currently not collectible account receivable. As a result, the Regional Office understated its Part A and Part B MSP receivables by approximately \$1.26 million and overstated its currently not collectible MSP balance by \$132 on its CMS 751 for the quarter ended September 30, 2000.

The CMS policy related to the MSP "settlement cleanup" required the contractors to maintain case files to support the settlement cleanup amounts. To verify the accuracy of these amounts, we selected a judgmental sample of 30 accounts receivable related to the "settlement cleanup" for the quarter ended September 30, 2000, and obtained a copy of the case files from the contractors. The purpose of our review was to determine whether the case files supported the amounts reported by the contractors on the settlement cleanup quarterly reports that were submitted to the Regional Office.

Of the 30 case files reviewed, 24 were incorrectly stated on the settlement cleanup quarterly reports. For these 24 accounts receivable that were incorrect, the ending principal balances were overstated by approximately \$12,000 and the ending interest balances were understated by approximately \$65,000. Because the Regional Office relied on the settlement cleanup quarterly reports to prepare the CMS 751, the CMS 751 prepared by the Regional Office was overstated and understated by the same amounts. Although we did not project these sample results to the total "settlement cleanup" universe, the sample results provide additional evidence that the "settlement cleanup" ending balances were inaccurate for the quarter ended September 30, 2000.

Regional Office Corrective Actions Related to MSP Receivables

We believe the problems stated above occurred because the Regional Office did not (1) have adequate reconciliation procedures in place to ensure the CMS 751 and the settlement cleanup quarterly reports agreed or (2) ensure the Medicare contractors reported the correct principal and interest balances on these reports. However, we do not have any recommendations for corrective action because: (1) according to a CMS Regional Office official, the "settlement cleanup" project is complete; (2) the Regional Office has reported the correct amounts to the CMS Central Office; and (3) the debts have been removed from the Medicare contractors' books.

COMPLIANCE WITH DCIA OF 1996 AND CMS POLICIES RELATED TO COLLECTION EFFORTS

The Regional Office did not fully comply with the DCIA of 1996 or with CMS policies related to collection efforts. We reviewed 83 non-MSP accounts receivable from a nationwide statistical sample of 450 accounts receivable reported on the POR/PSOR with a Regional Office location as of September 30, 2000. We reviewed this sample to determine if the Regional Office was in compliance with the DCIA of 1996 and CMS policies related to collection efforts. We have provided the Regional Office, under separate cover, with additional details related to the review of the 83 non-MSP accounts receivable.

DCIA of 1996

Our review of the 83 non-MSP accounts receivable disclosed that, in certain instances, the Regional Office did not refer eligible accounts receivable to the Treasury or a Treasury-designated debt collection center. The DCIA of 1996 requires Federal agencies such as CMS to refer all eligible debt, over 180 days delinquent, to the Treasury or another Treasury-designated debt collection center for collection. According to DCIA criteria, delinquent is defined as debt that has not been paid in full by the date specified in the first demand letter unless other payment arrangements have been made. Debts ineligible for referral include those: (1) in bankruptcy status, (2) in an appeal status, (3) subject to an extended repayment plan, (4) under fraud and abuse investigation, (5) at the Department of Justice, or (6) where the debtor is deceased.

We believe the Regional Office did not fully comply with the DCIA of 1996 because it did not have internal policies and procedures in effect during the period of our review to ensure that the Regional Office fully complied with the DCIA of 1996.

Policies Related to Collection Efforts

In order to comply with the DCIA of 1996, the CMS Central Office required the CMS Regional Offices to implement various collection efforts. However, our review of the 83 non-MSP accounts receivable disclosed that, in certain instances, the Regional Office did not:

- Have copies of demand letters from the Medicare contractors or from the Regional Office in the case files to support that the contractors or the Regional Office had sent required

demand letters requesting repayment of the accounts receivable. The CMS policy required that when a Medicare contractor identified an account receivable, the Medicare contractor should send a series of demand letters to notify the health care provider of the existence and amount of the account receivable and to request repayment. If the collection efforts failed, the CMS policy required the contractor to refer the account receivable to the Regional Office. The Regional Office then should attempt to recover the receivable by sending at least one additional demand letter to the provider. If the Regional Office did not recover the receivable or if the provider did not make repayment arrangements with the Regional Office within 60 days, the Regional Office should transfer the receivable to the CMS Central Office for disposition.

- Reclassify eligible debts for write-off as currently not collectible as required by CMS policy. In April 1999, in an attempt to comply with DCIA of 1996, CMS Central Office issued a policy requiring the write-off of currently not collectible receivables. Currently not collectible receivables were defined as accounts receivable over two years old with no collection activity within the past 12 months. Debts ineligible for write-off are those in bankruptcy, appeal, under fraud and abuse investigation or where the debtor is deceased.
- Support in its case files the accounts receivable location codes. The location codes, as shown on the POR/PSOR, identify the component currently responsible for managing each debt balance. It is imperative that contractors not remove an accounts receivable balance until a region or another collector has agreed to accept it as "transferred" and has changed the POR/PSOR location code. It is equally important that once the Regional Office has accepted the accounts receivable, it changes the POR/PSOR to reflect the proper location code to prevent duplicate reporting of the accounts receivable. If the location codes are not accurately reported on the POR/PSOR, the Regional Office and the Central Office cannot determine who is responsible for collection efforts.
- Support in its case files the accounts receivable status codes. The status codes, as shown on the POR/PSOR, identify whether each individual accounts receivable is eligible for referral to the Treasury as required by the DCIA of 1996. Receivables that are exceptions to the DCIA of 1996 include those in bankruptcy, appeal, subject to an extended repayment plan, fraud and abuse case, Department of Justice case or a deceased debtor. Misclassifying debt as an exception when it is not could result in lost opportunities to collect the receivables.
- Support in its case files principal ending balances reported on the POR/PSOR and the Regional Office internal records supporting the CMS 751. The CMS Central Office provided the Regional Office with Financial Reporting Procedures effective October 1, 2000. These procedures required the Regional Office to support its financial reports with books and records. Although these procedures were effective after our audit period, we believe that the Regional Office should have had procedures in place to ensure its case files supported the POR/PSOR and the CMS 751 for the quarter ended September 30, 2000.

We believe the Regional Office did not fully comply with CMS policies related to collection efforts because it did not have internal control procedures in place to ensure the Regional Office and the Medicare contractors complied with these policies.

Because the Regional Office did not fully comply in the above areas, the Regional Office did not accurately report its CMS 751 principal ending balance for the quarter ended September 30, 2000, and delayed potential collection efforts.

Regional Office Corrective Actions Related to DCIA of 1996 and Collection Efforts

According to a Regional Office official, before the completion of our fieldwork, the Regional Office developed and implemented policies and procedures that addressed the concerns identified during our fieldwork. The Regional Office provided us a brief summary of the new policies and procedures that included (1) correcting the status and location codes on the POR/PSOR; (2) referring all eligible debt to the Central Office by September 30, 2001; and (3) sending each Medicare contractor a memorandum listing eligible debt and instructions for monthly reporting requirements. Although the scope of our audit did not provide for us to perform detailed tests of the Regional Office's new policies and procedures, we believe these policies and procedures address our concerns.

CONCLUSIONS AND RECOMMENDATIONS

In our opinion, the lack of adequate, or in some instances, any reconciliation and internal control procedures contributed to the above problems and prevented (1) the accurate reporting of accounts receivable and the MSP "settlement cleanup" amount and (2) timely referral of delinquent accounts receivable to the Treasury. Because, as explained above in our findings, the Regional Office has implemented policies and procedures that address our concerns, we are not making any new recommendations for improvements in those policies and procedures.

Subsequent to the completion of our fieldwork, CMS issued a memorandum, dated February 12, 2003, from the CMS Deputy Director of the Center for Medicare Management and the Director of Accounting Management Group Office of Financial Management, that directs the transfer of all non-MSP debts located at the CMS Central and Regional Offices back to the originating Medicare contractors in order to enhance the financial accountability for Non-MSP Medicare debts. The Regional Office will be required to complete the transfer of the non-MSP Medicare debts by June 30, 2003. However the Regional Office will be required to submit the CMS 751 to the CMS Central Office through September 30, 2003. Because the Regional Office will be required to submit the CMS 751 through September 30, 2003, we recommend that the Regional Office continue to process and report Medicare accounts receivable in accordance with its current policies and procedures through its final reporting period of September 30, 2003.

AUDITEE COMMENTS

In their written comments to our draft report, Regional Office officials stated that they concurred with the findings included in our report for the quarter ended September 30, 2000, which

disclosed that the Regional Office did not (1) accurately report and properly support its accounts receivable balances and (2) comply, in all respects, with the DCIA of 1996. However, Regional Office officials pointed out in their written comments that during the course of the audit, they had taken the following corrective actions:

- For the reporting period ended June 30, 2001 and forward, that they developed and implemented extensive revised policies and procedures, including internal controls, to ensure the Medicare accounts receivable are accurately reported and supported by underlying records; and
- Beginning in fiscal year 2001 and forward, they developed and implemented extensive revised policies and procedures, including internal controls, to ensure that they comply, in all respects, with the Debt Collection Improvement Act of 1996.

Although the Regional Office officials did not specifically mention, in their written comments, the transfer of the Medicare accounts receivable to the Medicare contractors as of June 30, 2003, they did point out they expect their final accounts receivable reporting period to be September 30, 2003. As a result of the corrective actions taken by the Regional Office and the transfer of the Medicare accounts receivable to the Medicare contractors, our report contained only one recommendation. The Regional Office officials concurred with our recommendation to follow its revised policies and procedures through its final reporting period.


GORDON L. SATO



Memorandum

Centers for Medicare & Medicaid Services
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Date: April 17, 2003
To: Gordon L. Sato, Regional Inspector General for Audit Services
From: Regional Administrator, Centers for Medicare & Medicaid Services, Region VI
Subject: Response to the Draft Report A-06-02-00035 "Review of the Medicare Accounts Receivable Reported by the Centers for Medicare and Medicaid Services Region VI Regional Office"

This memorandum is in response to your draft report entitled "Review of the Medicare Accounts Receivable Reported by the Centers for Medicare and Medicaid Services Region VI Regional Office".

We appreciate the HHS OIG efforts during the course of the audit and the opportunity to respond to the final draft audit findings and recommendations.

The CMS Dallas Regional Office has completed its review of the OIG April 11, 2003, final draft report A-06-02-00035. We concur with your findings that, for the period ending September 30 2000, CMS Dallas Regional Office did not

- (1) accurately report and support its accounts receivable, and
- (2) comply, in all respects, with the Debt Collection Improvement Act of 1996.

During the course of the audit, the HHS OIG performed a limited review of CMS Dallas Regional Office revised policies and procedures and resulting workpackage for the accounts receivable reporting period ended December 31, 2002.

As a result of the review, we believe that we demonstrated, for the reporting period ended June 30, 2001, and forward, that the CMS Dallas Regional Office developed and implemented extensive revised policies and procedures, including internal controls, to ensure that the reported accounts receivable are accurately reported and corroborated by a quarterly accounts receivable workpackage and underlying records.

In addition, we also demonstrated that beginning in fiscal year 2001 and forward, we developed and implemented extensive revised policies and procedures, including internal controls, to ensure that we comply, in all respects, with the Debt Collection Improvement Act of 1996.

Finally, we concur with your recommendation that we continue to follow our revised policies and procedures, including internal controls, through our final accounts receivable reporting period, expected to be September 30, 2003.

Since all findings have been resolved before the issuance of your final report, it is our understanding that no further corrective actions are required by the CMS Dallas Regional Office.



James Randolph Farris, M.D.