DEPARTMENT OF HEALTH & HUMAN SERVICES **OFFICE OF INSPECTOR GENERAL**

Office of Audit Services
Region II
Jacob K. Javits Federal Building
New York, New York 10278
(212) 264-4620

January 16, 2003

Our Reference: Report Number A-02-02-01031

Mr. Joel Perlman
Senior Vice President of Finance
Montefiore Medical Center
111 East 210th Street
Bronx, New York 10467

Dear Mr. Perlman:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' (OAS) report entitled "Medicare Inpatient and Outpatient Bad Debts Claimed by Montefiore Medical Center for Fiscal Year Ended December 31, 1999." A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

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

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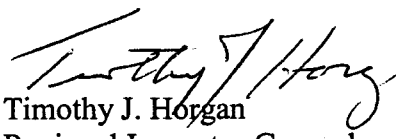
To facilitate identification, please refer to Report Number A-02-02-01031 in all correspondence relating to this report.

Sincerely yours,



Timothy J. Horgan
Regional Inspector General
for Audit Services

2 Enclosures

Direct Reply to HHS Action Official:

Ms. Sandra M. Tokayer
Acting Associate Regional Administrator
Division of Financial Management
Centers for Medicare and Medicaid Services, Region II
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26 Federal Plaza, Room 38-130
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Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

MEDICARE INPATIENT AND OUTPATIENT BAD DEBTS CLAIMED BY MONTEFIORE MEDICAL CENTER FOR FISCAL YEAR ENDED DECEMBER 31,1999

JANET REHNQUIST
Inspector General

January 2003
A-02-02-01031

Office of Inspector General

http://oig.hhs.gov/

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.

DEPARTMENT OF HEALTH & HUMAN SERVICES **OFFICE OF INSPECTOR GENERAL**

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January 16, 2003

Our Reference: Report Number A-02-02-01031

Mr. Joel Perlman
Senior Vice President of Finance
Montefiore Medical Center
111 East 210th Street
Bronx, New York 10467

Dear Mr. Perlman:

This final report provides you with the results of our audit of Medicare bad debts for inpatient and outpatient hospital services claimed by Montefiore Medical Center (Hospital).

The Medicare program reimburses hospitals for bad debts resulting from Medicare deductible and coinsurance amounts that are uncollectible if the bad debts meet Medicare reimbursement criteria. To qualify:

- The debt must be related to covered services and derived from unpaid deductible and coinsurance amounts.
- The hospital must be able to establish that reasonable collection efforts were made.
- The debt must have been actually uncollectible when claimed as worthless and sound business judgment established that there was no likelihood of recovery in the future.

Medicare guidelines also require that allowable Medicare bad debts be reduced by recoveries of previously written-off bad debts. To claim bad debts, the guidelines require that hospitals submit with the cost report certain beneficiary-specific information in a Medicare bad debt log.

The objective of our review was to determine if Medicare bad debts for inpatient and outpatient hospital services claimed by the Hospital on its cost report for fiscal year (FY) ended December 31, 1999 met Medicare reimbursement requirements. The Hospital

claimed $1,942,786 in Medicare bad debts on its FY 1999 cost report (inpatient services - $1,443,534; outpatient services - $499,252).

We found that the Hospital claimed bad debts totaling at least $283,345, which were unallowable for Medicare reimbursement, as follows:

- Bad debts claimed on the cost report did not reconcile to the supporting bad debt logs. Hospital officials could not support a total of $189,116 in claimed bad debts.

- Recoveries of $44,128 on previously written-off and FY 1999 Medicare inpatient bad debts were not offset against the current period's allowable bad debts.

- Certain bad debts listed on the inpatient bad debt log were found to be unallowable. We randomly selected 281 bad debts totaling $225,316 for detailed review, and found that 33 bad debts totaling $27,236 were unallowable, which we attribute to the following:

    - Non-systemic clerical and accounting errors in claiming 15 Medicare bad debts totaling $16,196.

    - Claiming 8 bad debts for Medicare non-covered services totaling $8,380.

    - Additional recoveries on 10 FY 1999 bad debts were not used to reduce allowable bad debts by $2,660.

  We extrapolated these sample results to the population of inpatient bad debts and estimated that the Hospital overclaimed at least $50,101.

From the outpatient bad debt log, we judgmentally sampled 42 Medicare outpatient bad debts ($56,989), and found all 42 to be allowable. Based on our risk assessment, we did not expand our detailed testing to the remaining outpatient bad debt claims.

We recommend that the Hospital:

- Coordinate with the Fiscal Intermediary (FI) to adjust its FY 1999 cost report to reduce Medicare bad debts claimed by $283,345.

- Develop and implement written procedures to:

    - Reconcile the amount claimed as Medicare bad debts on the cost report to the Medicare bad debt logs.

    - Assure that recoveries on Medicare inpatient bad debts are used to reduce the Hospital's claim for reimbursable bad debts in the period the amounts are recovered.

- Assure that Medicare inpatient bad debts claimed by the Hospital meet Medicare reimbursement requirements.

In its response to our draft report (see APPENDIX C), the Hospital fully concurred with our findings and recommendations, and thanked the audit team for its cooperative efforts in the review.

INTRODUCTION

Background

Medicare has long had a policy that beneficiaries should share in defraying the costs of inpatient care through various deductibles and coinsurance amounts. For example, during calendar year 2002, Medicare patients are liable for an $812 deductible for each benefit period in which they are admitted to a hospital. The patient is also liable for a $203 a day coinsurance for the 61st through the 90th day of an extended inpatient stay.

Historically, hospitals have been unable to collect a certain percentage of Medicare coinsurance and deductible amounts from program beneficiaries. Under a policy that costs attributable to Medicare beneficiaries are not to be shifted to non-Medicare patients, Medicare reimburses hospitals for these bad debts. This policy was adopted in 1966 when Medicare reimbursed hospitals retrospectively under reasonable cost principles. Beginning in 1983, inpatient hospital care has been reimbursed under a prospective payment system (PPS). However, under Medicare's PPS, bad debts are pass-through costs and continue to be reimbursed under reasonable cost principles. Hospitals claim reimbursement for these bad debts on their annually submitted cost reports.

As a result of the Balanced Budget Act of 1997, the Medicare program has reduced hospital claims for reimbursement of bad debts by set percentages (75 percent of claimed bad debts for 1998 and 60 percent of claimed bad debts for 1999).

Bad debts resulting from Medicare deductible and coinsurance amounts that are uncollectible from beneficiaries can be reimbursed to hospitals if the bad debts meet Medicare reimbursement requirements.

The Code of Federal Regulations, Title 42, Section 413.80, provides that:

- The debt must be related to covered services and derived from deductible and coinsurance amounts.
- The hospital must be able to establish that reasonable collection efforts were made.
- The debt was actually uncollectible when claimed as worthless.

- Sound business judgment established that there was no likelihood of recovery at any time in the future.

In addition, the Centers for Medicare and Medicaid Services (CMS) Medicare Provider Reimbursement Manual (PRM) requires that:

- The hospital's collection effort is documented in the patient's file, and that listings be maintained of beneficiaries whose uncollected accounts were claimed as bad debts. [PRM Part I, Sect. 310.B]

- Uncollectible Medicare deductible and coinsurance amounts are to be recognized as allowable bad debts in the reporting period in which the debts are determined to be worthless. [PRM Part I, Sect. 314]

- Recoveries of bad debts written-off in a prior period are to be used to reduce allowable bad debts in the reporting period in which the amounts are recovered. [PRM Part I, Sect. 316]

- Hospitals are to submit certain beneficiary-specific information (such as name, Medicare health insurance number, and amount of bad debt claimed) in a Medicare Bad Debt Log when claiming reimbursement of bad debts on annual cost reports. [PRM Part II, Sect. 140]

Objective, Scope and Methodology

The objective of our review was to determine if Medicare bad debts for inpatient and outpatient hospital services claimed by the Hospital met Medicare reimbursement requirements. Our audit covered Medicare bad debts claimed for the cost reporting period January 1, 1999 through December 31, 1999.

To accomplish our objective, we met with Empire Medicare Services FI staff to discuss their procedures for reviewing Medicare bad debts on hospital cost reports, and to review their audit working papers pertaining to the Hospital. Also, we obtained the State Medicaid agency's policies regarding Medicaid reimbursement of Medicare deductibles and coinsurance for Medicare patients who are also eligible for Medicaid.

During our review at the Hospital we:

- Examined and evaluated the Hospital's policies and procedures for the accounting for and collection of patient account balances.

- Reconciled the cost report to the inpatient and the outpatient bad debt logs. Identified a universe of 2,216 bad debts totaling $1,375,692 on the inpatient bad debt log, and 3,726 bad debts totaling $377,978 on the outpatient bad debt log.

- Reviewed the Hospital list of recoveries on previously written-off bad debts and compared the list to the bad debt logs.

- Used a stratified random sample approach to select a statistical sample of 281 bad debts totaling $225,316 from the inpatient bad debt log, as follows:

    - Strata One - 200 bad debt accounts (totaling $112,020) under $1,000.

    - Strata Two - all 63 bad debt accounts (totaling $144,286) greater than or equal to $1,000.

    - Strata Three - all 18 credit items (totaling -$30,990).

  Our sample results are presented in detail in APPENDIX A.

- Judgmentally selected for review the 42 outpatient bad debt accounts (totaling $56,989) over $1,000. Based on our risk assessment, we did not expand our detailed testing to the remaining outpatient bad debt claims.

- For the sampled Medicare bad debt accounts, performed detailed audit testing of the patient account information, Medicare remittance data, Medicaid payment information for Medicare-Medicaid eligible patients, and collection activity records.

- Used a variable appraisal program to estimate the dollar amount of unallowable bad debts recorded on the inpatient bad debt log. Our sample results and statistical projection are shown in detail in APPENDIX B.

In performing our audit work, we relied primarily on substantive testing and, as such, an understanding of internal controls of the Hospital was not required.

The review was conducted in accordance with generally accepted government auditing standards. Fieldwork was conducted at the Provider Audit Unit of Empire Medicare Services in Jericho, New York, during January 2002, and at the Hospital in the Bronx, New York, from July through November 2002.

FINDINGS AND RECOMMENDATIONS

We found that of the $1,942,786 in Medicare bad debts claimed by the Hospital on its FY 1999 cost report, bad debts totaling at least $283,345 were unallowable for Medicare reimbursement, as follows:

- Bad debts claimed on the cost report did not reconcile to the bad debt logs. The bad debt logs did not support a total of $189,116 in bad debts claimed on the cost report.

- Recoveries of $44,128 on previously written-off and FY 1999 Medicare inpatient bad debts were not offset against the current period's allowable bad debts.

- We statistically sampled 281 bad debts from the inpatient bad debt log, and found 33 bad debts totaling $27,236 to be unallowable. We extrapolated our sample results to the population of inpatient bad debts and estimated that the Hospital overclaimed $50,101.

Selected bad debts listed on the outpatient bad debt log were found to be allowable. We judgmentally sampled 42 bad debts ($56,989) from the outpatient bad debts log, and found all of the bad debts to be allowable. Based on our risk assessment, we did not expand our detailed testing to the remaining outpatient bad debt claims.

The findings from our review of Medicare bad debts are described in detail below.

Reconciliation of Cost Report to Bad Debt Logs

Medicare guidelines provide that the hospital support the amount of allowable Medicare bad debts claimed on its annual cost report. Specifically, the guidelines require that hospitals submit certain beneficiary-specific information (such as name, Medicare health insurance number, and the amount of bad debt claimed) in a Medicare Bad Debt Log when claiming reimbursement of bad debts.

Bad debts claimed on the cost report did not reconcile to the bad debts reported on the outpatient and inpatient bad debt logs. These bad debt logs did not support a total of $189,116 in bad debts claimed on the cost report, as follows:

- Of the $499,252 in allowable Medicare outpatient bad debts claimed by the hospital on its FY 1999 cost report, $121,274 was unsupported by the Medicare outpatient bad debt log. Hospital officials were unable to explain the difference found between the cost report and outpatient bad debt log.

- Of the $1,443,534 in allowable Medicare inpatient bad debts claimed by the hospital on its FY 1999 cost report, $67,842 was unsupported by the Medicare

bad debt log. Hospital officials attributed the discrepancy to clerical computation errors in compiling the allowable bad debt totals for the cost report.

Recoveries of Bad Debt Amounts Previously Written-off

Medicare guidelines provide that recoveries of bad debts previously written-off are to be used to reduce allowable bad debts in the reporting period in which the amounts are recovered.

The Medicare inpatient bad debts claimed on the FY 1999 cost report were not reduced by recoveries made in 1999 totaling $44,128.

Hospital procedures provide that recoveries be posted directly to individual patient accounts. However, there was no procedure in place to assure that the inpatient recoveries were posted to the Medicare bad debt log. To test this process, we compared a Hospital listing of FY 1999 inpatient bad debt recoveries to the inpatient bad debt log, and found that none of the recoveries totaling $44,128 was reported on the bad debt log.

Inpatient Bad Debts

For inpatient hospital services, Medicare guidelines require that bad debts result from deductible and coinsurance amounts that are uncollectible from beneficiaries and are related to Medicare covered services in order to qualify for reimbursement. Hospitals are required to submit certain beneficiary-specific information in a Medicare Bad Debt Log when claiming reimbursement of these bad debts on its annual cost report.

From the 2,216 bad debts totaling $1,375,692 in the inpatient bad debt log, we randomly selected 281 bad debts totaling $225,316 for detailed review, and found that 33 bad debts totaling $27,236 were unallowable. We attribute these unallowable bad debts to the following:

- Non-systemic clerical and accounting errors in claiming 15 Medicare bad debts totaling $16,196. For example, we found instances of adjustments within individual accounts that were posted incorrectly to the bad debt log.

- Claiming 8 bad debts for Medicare non-covered services totaling $8,380. For example, we found instances of non-covered private room charges that were claimed as bad debts.

- Recoveries on 10 FY 1999 bad debts were not used to reduce allowable bad debts by $2,660[1].

[1] In testing the individual patient accounts in the sample, we found that these 1999 recoveries were not used to reduce the FY 1999 allowable bad debts. It should be noted that these recoveries were not included in the hospital listing of recoveries totaling $44,128 previously described in this report.

Extrapolating the results of the statistical sample over the population using standard statistical methods, we are 95 percent confident that at least $50,101 of inpatient bad debts reported on the bad debt log was unallowable. We attained our estimate using a stratified variable appraisal program. The details of our sample results and statistical projection can be found in the APPENDIX B.

Outpatient Bad Debts

For outpatient hospital services, Medicare guidelines require that bad debts result from deductible and coinsurance amounts that are uncollectible from beneficiaries and are related to Medicare covered services in order to qualify for reimbursement. Hospitals are required to submit certain beneficiary-specific information in a Medicare Bad Debt Log when claiming reimbursement of these bad debts on its annual cost reports.

From the 3,726 bad debts totaling $377,978 in the outpatient bad debt log, we judgmentally selected 42 bad debts totaling $56,989 for detailed review. We found that all 42 of the bad debts were allowable. Based on our risk assessment, we did not expand our detailed testing to the remaining outpatient bad debt claims.

Recommendations

We recommend that the Hospital:

- Coordinate with the FI to adjust its FY 1999 cost report to reduce Medicare bad debts claimed by $283,345.

- Develop and implement written procedures to:

    - Reconcile the amount claimed as Medicare bad debts on the cost report to the Medicare bad debt logs.

    - Assure that recoveries on Medicare inpatient bad debts are used to reduce the Hospital's claim for reimbursable bad debts in the period the amounts are recovered.

    - Assure that Medicare inpatient bad debts claimed by the Hospital meet Medicare reimbursement requirements.

AUDITEE RESPONSE

In its January 7, 2003 response to our draft report (see APPENDIX C), the Hospital fully concurred with our findings and recommendations, and thanked the audit team for its cooperative efforts in the review.

APPENDICES

APPENDIX A

Detailed Sample Results
Inpatient Bad Debt Accounts

	No. Of Debts	Amount
Inpatient Bad Debts Over $1,000		
Bad Debts Disallowed		
Accounting Errors	9	$14,062
Non-covered services	7	$ 8,070
Total	16	$22,132
Bad Debts Allowed	47	$122,514
Total Reviewed	63	$144,286
Inpatient Bad Debts Under $1,000		
Bad Debts Disallowed		
Recoveries not Properly Offset	10	$2,660
Accounting Errors	6	$2,134
Non-covered services	1	$ 310
Total	17	$5,104
Bad Debts Allowed	183	$106,916
Total Reviewed	200	$112,020
Inpatient Bad Debts Credits		
Bad Debts Allowed	18	-$30,990
Total Reviewed	18	-$30,990

APPENDIX B

Statistical Sample Results and Projection
Inpatient Bad Debt Accounts

Sample Results

Claims in Universe	Value of Universe	Sample Size	Value of Sample	Disallowed Claims	Value of Disallowed Claims
2,216	$1,375,692	281	$225,316	33	$27,236

Projection of Sample Results
(Precision at the 90 Percent Confidence Level)

Point Estimate:	$ 76,619
Lower Limit:	$ 50,101
Upper Limit:	$103,137
Precision Percent:	34.61%

MONTEFIORE MEDICAL CENTER
The University Hospital
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APPENDIX C

JOEL A. PERLMAN
Senior Vice President
Finance

By telefax and hard copy

January 7, 2003

MONTEFIORE

Timothy J. Horgan
Regional Inspector General for Audit Services
Office of the Inspector General
Jacob K. Javits Federal Building
28 Federal Plaza
New York, New York 10278

Dear Mr. Horgan:

Montefiore Medical Center is in receipt of your draft report regarding Medicare inpatient and outpatient bad debts claimed for fiscal year ending December 31, 1999. We have carefully reviewed the contents of your draft report and have prepared responses to your audit findings and action plans in accordance with your recommendations.

We accept your findings disallowing $283,345 of the claimed $1,942,786 on the 1999 cost report. As Montefiore staff reported during the entrance conference, we were in the process of converting patient accounting systems during the 1999 fiscal year, which impacted our ability to support certain claims for that period. We reported a self-disallowance of $233,244, details of which were provided to audit staff prior to the beginning of field work and which are included in your report.

We also accept the results of the inpatient bad debt sampling and extrapolation which estimated that Montefiore over-claimed an estimated $50,101 based on various nonsystemic errors. We are pleased that the testing of 42 outpatient claims showed all claims to be allowable.

We will follow your recommendations to coordinate an adjustment with the Fiscal Intermediary to the 1999 cost report to reduce Medicare bad debts by $283,345. As stated, this review occurred in the midst of our ongoing efforts to improve our bad debt support and tracking process. We have internally reviewed our 2000 and 2001 submissions based on your recommendations and will continue to do so going forward. The results of these reviews will be used to modify our future bad debt claims, as appropriate.

We would like to thank you and your staff for your cooperative efforts in this review. If you require further assistance, please contact Eileen Cottrell at (718) 405-4024.

Very truly yours,

Joel Perlman
Senior Vice President, Finance

cc: Drew Swiss
James McNiff
Eileen Cottrell
Lynn Stansel, Esq.

I/Share/Perlman/Corr/Bad-debt.wpd

ACKNOWLEDGMENTS

This report was prepared under the direction of Timothy J. Horgan, Regional Inspector General for Audit Services. Other principal OAS staff included:

NEW YORK

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