



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

October, 16, 2002

CIN: A-05-02-00039

Mr. Thomas Capobianco, Chief Financial Officer
St. Joseph Hospital
2913 N. Commonwealth
Chicago, Illinois 60657

Dear Mr. Capobianco:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled "Review of Medicare Inpatient Acute-Care Bad Debts at St. Joseph Hospital for Calendar Year 1999". A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official. 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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG OAS reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (Sec 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-05-02-00039 in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Dorothy Burk Collins, Regional Administrator
Centers for Medicare and Medicaid Services
233 N. Michigan Avenue, Suite 600
Chicago, IL 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE INPATIENT
ACUTE-CARE BAD DEBTS AT
ST. JOSEPH HOSPITAL FOR
CALENDAR YEAR 1999**

**ST. JOSEPH HOSPITAL
CHICAGO, ILLINOIS**



JANET REHNQUIST
Inspector General

OCTOBER 2002
A-05-02-00039



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Mr. Thomas Capobianco
Chief Financial Officer
St. Joseph Hospital
2913 N Commonwealth
Chicago, IL 60657

Dear Mr. Capobianco:

This final report presents the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) audit titled "Review of Medicare Inpatient Acute-Care Bad Debts at St. Joseph Hospital for Calendar Year 1999". We performed this review in conjunction with a nationwide audit of Medicare inpatient bad debts. The objective of our audit was to determine if Medicare inpatient acute-care bad debts claimed by St. Joseph Hospital (St. Joseph) on its cost report for the calendar year (CY) ended December 31, 1999 met Medicare requirements. The Medicare program reimburses hospitals for bad debts resulting from Medicare deductible and coinsurance amounts that are uncollectible after all required collection efforts have been exhausted. Although our audit found that St. Joseph generally claimed inpatient acute-care bad debts in accordance with Medicare reimbursement requirements, we noted some exceptions resulting in questioned bad debt claims of \$30,964.

We are recommending that St. Joseph adjust its cost report by \$30,964 for overstated inpatient acute-care bad debts.

St. Joseph officials concurred with the findings and recommendations presented in the report. They agreed to coordinate with the Fiscal Intermediary to adjust the 1999 cost report for the overstated bad debts.

INTRODUCTION

BACKGROUND

Since hospitals have been unable to collect the beneficiary required share of the costs of inpatient care, various deductibles and coinsurance amounts, reimbursement of bad debts was authorized, if hospitals comply with established collection requirements. Under Medicare policy, costs attributable to Medicare beneficiaries are not to be shifted to non-Medicare patients. This policy was adopted in 1966 when Medicare reimbursed hospitals retrospectively under reasonable cost principles. Since the implementation of a

prospective payment system (PPS) in 1983, bad debts have been reimbursed as inpatient hospital pass-through costs, allowable for reimbursement under reasonable cost principles. Hospitals claim reimbursement for these bad debts by submitting an annual Medicare cost report.

Under Section 1861(v)(1)(T) of the Social Security Act, the amount of allowable bad debt for cost reporting periods beginning during fiscal year (FY) 1998 was reduced 25 percent. For FY 1999 and 2000, the amount of allowable bad debt was reduced 40 percent and 45 percent, respectively. For the FYs subsequent to FY 2000, it will be reduced 30 percent.

Bad debts, resulting from Medicare deductible and coinsurance amounts that are uncollectible from beneficiaries, can be reimbursed to hospitals if:

- the debt is related to covered services and derived from deductible and coinsurance amounts;
- the provider is able to establish that reasonable collection efforts were made;
- the debt was actually uncollectible when claimed as worthless; and
- sound business judgment established that there was no likelihood of recovery at any time in the future.

Many Medicare beneficiaries have a third-party coverage, responsible for deductible and coinsurance liabilities. Under certain circumstances, a State Medicaid agency may be responsible for individuals eligible for both Medicaid and Medicare, as well as other low-income individuals. If the State Medicaid agency appropriately processes and denies payment on the Medicare deductibles and coinsurance, the provider is not required to exert further collection efforts upon the individual.

The Medicare Provider Reimbursement Manual (PRM), Section 310.B, requires that the provider's collection effort be documented in the patient's file, and PRM, Part II, Section 1102, requires that listings be maintained of beneficiaries whose uncollected accounts were claimed as bad debts. Allowable bad debts must relate to specific deductibles and coinsurance amounts. Under the terms of PRM, Part I, Section 314, uncollectible deductible and coinsurance amounts are recognized as allowable bad debts in the reporting period in which the debts are determined to be worthless.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit was conducted in accordance with generally accepted government auditing standards. The objective of our audit was to determine whether Medicare inpatient acute-care bad debts claimed by St. Joseph were in accordance with Medicare requirements. The audit was performed as part of a nationwide audit of Medicare inpatient bad debts.

We limited our review to inpatient acute-care bad debt claims contained in computerized listings provided by the provider. In CY 1999, St. Joseph claimed 1,170 inpatient acute-care bad debts totaling \$890,683.

To accomplish our objective, we:

- Selected a statistical sample of 100 inpatient acute-care bad debt claims with a claim value equal to or less than \$3,000. The sampled claims amounted to \$73,962, out of a universe of \$827,628.
- Selected and reviewed all 12 inpatient acute-care bad debt claims with a value greater than \$3,000, which amounted to \$63,055.
- Examined the following documentation:
 - Patient account history,
 - Medicare remittance information,
 - Medicaid remittance information (if applicable),
 - Collection agency activity records, and
 - Communications from third party payers.

In addition, we reviewed Medicare and Medicaid bad debt criteria and St. Joseph's policies and procedures related to the accounting for and collection of patient account balances. We also met with the fiscal intermediary to discuss prior bad debt reviews performed at St. Joseph. In performing our audit work, a detailed review of internal controls was not performed because the objective of our review was accomplished through substantive testing.

We conducted our fieldwork at St. Joseph between April and June 2002.

FINDINGS AND RECOMMENDATIONS

Although St. Joseph established policies and procedures for identifying and collecting bad debts, unallowable claims of \$30,964 in inpatient acute-care bad debts were included in its CY 1999 cost report. We identified unallowable bad debts of \$22,588, pertaining to non-covered services and unallowable deductible or coinsurance amounts, ineligible beneficiaries, data entry errors, and lack of documentation and recoveries of \$8,376 made for prior years bad debts. Based on our audit tests, we identified \$13,242 in bad debts claimed that were for non-covered services or unrelated deductible and coinsurance amounts. Two sampled claims, amounting to \$7,500, were for beneficiaries who were ineligible for Medicare benefits. Before compiling the sample universe, we identified some inaccuracies in the bad debt log. We requested and received a revised log which was \$1,309 less than the original log. The provider could not explain the differences. An additional data entry error of \$155 was identified in one of the sample items, while \$382

was claimed as a bad debt when no documentation existed to support the amount claimed.

In regard to the recoveries made for prior years bad debts, totaling \$8,376, these recoveries were not netted against the reimbursable bad debt as required by Medicare regulations. We did not perform any testing of the recovery log to verify its accuracy. We discussed these errors with St. Joseph officials who agreed with our findings.

RECOMMENDATION

We recommend that St. Joseph adjust its cost report by \$30,964.

AUDITEE RESPONSE

St. Joseph officials commented on our draft report (See Appendix A) and they concur with the OIG recommendations. St. Joseph will coordinate with the Fiscal Intermediary to adjust the 1999 cost report by reducing the inpatient acute care bad debt by \$30,964

To facilitate identification, please refer to the OIG/OAS Common Identification Number (CIN) A-05-02-00039 in any correspondence related to this report.



Paul Swanson
Regional Inspector General
for Audit Services

Enclosures

APPENDIX



CATHOLIC
HEALTH
PARTNERS

Columbus Hospital

11th Avenue

Chicago

September 24, 2002

Ms. Sheri Fulcher
Department of Health & Human Services
Office of Inspector General
Office of Audit Services
233 North Michigan Avenue - Suite 1360
Chicago, IL 60601

Common Identification Number: A-05-02-00039

Dear Ms. Fulcher:

I have reviewed the draft of the report providing Saint Joseph Hospital with the results of your audit entitled, "Review of Medicare Inpatient Acute Care Bad Debts at Saint Joseph Hospital for Calendar Year 1999" dated August 21, 2002. The report provided the background of Medicare bad debts as a pass-through cost, the objective, scope, and methodology of the engagement, the findings and recommendations of the engagement, and the conclusions and recommendations of the engagement.

Based on my review of the draft report, Saint Joseph Hospital does not dispute the findings disclosed therein as related to the 1999 Medicare Cost Report only. We will act on the recommendations and will coordinate with our Fiscal Intermediary (Administar Federal) to adjust the 1999 cost report by reducing the inpatient acute care bad debt by \$30,964.

If I can be of further assistance, please do not hesitate to contact me at 773-388-5732.

Sincerely,

A handwritten signature in black ink that reads "Thomas J. Garvey". The signature is written in a cursive style with a horizontal line extending to the left.

Thomas J. Garvey
Vice President of Finance
And Chief Financial Officer

TJG/bes