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**Memorandum**

Date DEC 11 2001  
From Janet Rehnquist  
Inspector General *Janet Rehnquist*  
Subject Review of Medicare Bad Debts at the University of Alabama at Birmingham Hospital  
(A-04-00-06005)  
To Thomas Scully  
Administrator  
Centers for Medicare & Medicaid Services

This memorandum alerts you to the issuance on Thursday, December 13, 2001, of our final audit report to the University of Alabama at Birmingham (UAB) Hospital entitled, *Review of Medicare Bad Debts at the University of Alabama at Birmingham Hospital*. This audit was performed as part of a cooperative effort with the fiscal intermediary, Blue Cross and Blue Shield of Alabama. A copy of the report is attached.

The purpose of the audit was to determine if Medicare bad debts claimed by the UAB Hospital on its cost report for the Fiscal Year (FY) ended September 30, 1997 met Medicare requirements.

Our audit disclosed that UAB Hospital claimed certain bad debts on its FY 1997 cost report that do not meet Medicare reimbursement requirements. This occurred because UAB Hospital had not developed its patient accounts receivable system to properly accumulate complete, accurate, and timely Medicare bad debts. As a result of these system problems, UAB Hospital relied upon the work of a consultant to prepare its FY 1997 bad debt listing. In addition, UAB Hospital officials did not verify the accuracy of the consultant's work before claiming the bad debts on the FY 1997 cost report.

We found that \$5,428,248 of the \$7,203,293 claimed as bad debts by UAB Hospital on its FY 1997 cost report are unallowable. A lack of documentary evidence is the primary reason for these unallowable bad debts. In replying to our draft report, UAB Hospital acknowledges that documentation is lost. Accordingly, of the \$7,203,293 claimed as bad debts by UAB Hospital for FY 1997, only \$1,775,045 are allowable.

We are recommending that UAB Hospital: (1) improve its accounts receivable systems and controls, and (2) amend its FY 1997 cost report by claiming only the \$1,775,045 in bad debts determined to be valid by our review.

Officials at UAB Hospital agree with most of our recommendations. However, they disagreed with our findings related to end stage renal disease (ESRD) bad debts and accounts receivable that had not been written off the books and records. While UAB Hospital agreed that their claim for ESRD bad debts was not administratively correct, they stated there was no effect on reimbursement. Because ESRD bad debts are reimbursed differently from other bad debts, we believe it is imperative that they be reimbursed using the proper cost reporting procedures. The UAB Hospital officials further stated there is a possible misunderstanding regarding our finding that accounts receivable had not been written off the books and records before being claimed as bad debts. However, we believe that these accounts had not been truly written off and were only in a state of suspense. We have included a copy of UAB Hospital's response in APPENDIX E of the attached report.

During the course of our audit, we have been in close contact with certain Centers for Medicare & Medicaid Services (CMS) central office staff and Office of General Counsel-CMS division staff. We believe that these individuals should be closely involved in negotiating the results of our audit with UAB Hospital in order to help assure an equitable settlement. We have provided the CMS Atlanta regional office with the names of these officials.

The audit at UAB Hospital is the first of a series of audits of bad debts claimed by various hospitals located throughout the country. Our goals are not only to identify unallowable claims, but to identify systemic problems and their solutions. By doing so, we hope to prevent errors rather than merely detecting them. We invite CMS's ideas on how to make these audits more efficient and effective.

Any questions or comments on any aspect of this memorandum are welcome. Please address them to George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 786-7104 or Charles J. Curtis, Regional Inspector General for Audit Services, Region IV, at (404) 562-7750.

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICARE BAD DEBTS AT  
THE UNIVERSITY OF ALABAMA AT  
BIRMINGHAM HOSPITAL**



**JANET REHNQUIST  
Inspector General**

**DECEMBER 2001  
A-04-00-06005**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

REGION IV  
Room 3T41  
61 Forsyth Street, S.W.  
Atlanta, Georgia 30303-8909

CIN: A-04-00-06005

Mr. Martin Nowak  
Executive Director of The University  
of Alabama at Birmingham Hospital  
246 Old Hillman Building  
619 South 19<sup>th</sup> Street South  
Birmingham, Alabama 35249-6505

Dear Mr. Nowak:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, *Review of Medicare Bad Debts at the University of Alabama at Birmingham Hospital*. A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Final determination 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.

In accordance with the principles of the Freedom of Information Act, 5 USC 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 (see 45 CFR part 5). As such, within 10 business days after the final report is issued, it will be posted on the world wide web at <http://www.oig.hhs.gov>.

To facilitate identification, please refer to Common Identification Number A-04-00-06005 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles J. Curtis".

Charles J. Curtis  
Regional Inspector General  
for Audit Services, Region IV

Enclosures - as stated

Page 2 - Mr. Martin Nowak

Direct Reply to HHS Action Official:

Mr. Dale Kendrick  
Associate Regional Administrator, Region IV  
Centers for Medicare & Medicaid Services  
61 Forsyth Street, SW, Suite 4T20  
Atlanta, GA 30323-8909

# **EXECUTIVE SUMMARY**

## **BACKGROUND**

Certain bad debts, resulting from Medicare deductible and coinsurance amounts that are uncollectible, can be reimbursed by the Medicare program 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 provider must be able to establish that reasonable collection efforts were made; the debt was actually uncollectible when claimed as worthless; and sound business judgment established there was no likelihood of recovery in the future.

## **OBJECTIVE**

The objective of our audit was to determine if Medicare bad debts claimed by the University of Alabama at Birmingham (UAB) Hospital on its cost report for Fiscal Year (FY) ended September 30, 1997 met Medicare requirements.

## **RESULTS OF REVIEW**

Our audit showed that UAB Hospital claimed certain bad debts on its FY 1997 cost report that did not meet Medicare reimbursement requirements. The UAB Hospital's accounting system controls and procedures were inadequate to assure that Medicare bad debts were properly claimed. We found that UAB Hospital had not fully developed its patient accounts receivable system so it could accumulate complete, accurate, and timely Medicare bad debts. As a result, UAB Hospital used various manual methods to determine its FY 1997 claim for bad debts of \$7,203,293. Because of errors in the bad debts claimed, UAB Hospital proposed that the intermediary make a tentative reduction of \$4,143,822 and the intermediary proposed an additional adjustment of \$296,158. At the present time, the \$4,439,980 is not eligible for reimbursement as a Medicare bad debt. The UAB Hospital should not receive reimbursement for these items until evidence of their existence and accuracy is provided to the intermediary by UAB Hospital. Of the remaining \$2,763,313, our audit disclosed unallowable bad debts of \$988,268 (see APPENDIX C for details on the results of our projection). APPENDIX D summarizes the financial results of our audit.

## **RECOMMENDATIONS**

We are recommending that UAB Hospital establish and implement a plan to improve its patient accounts receivable system to possess the capability to produce accurate Medicare bad debts information and amend its 1997 cost report and claim only \$1,775,045 as bad debts.

In comments to the report, UAB Hospital officials generally agreed with our findings and recommendations with the exception of our findings related to end stage renal disease bad debts and accounts receivable that had not been written off. The UAB Hospital advised us that they are in the process of improving their systems and procedures to identify, document, and support

Medicare bad debt information. The UAB Hospital comments are further addressed in the Recommendations section of this report and are included in their entirety in APPENDIX E.

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# 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 2001, the Medicare patient is liable for a \$792 deductible for each benefit period in which he/she is admitted to a hospital. The patient is also liable for a \$198 a day coinsurance for the 61<sup>st</sup> through the 90<sup>th</sup> 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 was reimbursed under a prospective payment system (PPS). 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 by submitting annual Medicare cost reports.

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 criteria. Generally, bad debts must meet the following criteria, as set forth in 42 CFR 413.80:

- the debt must be related to covered services and derived from deductible and coinsurance amounts;
- the provider must be 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.

However, many Medicare beneficiaries have a third-party responsible for deductibles and coinsurance liabilities. Under certain circumstances, a State Medicaid agency may be responsible for individuals eligible for both Medicare and Medicaid, as well as other poor 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. The specificity required for a bad debt claim is reiterated in the PRM part II (Publication 15.2). This Center for Medicare & Medicaid Services (CMS) manual requires that certain beneficiary-specific information [such as names and Medicare health insurance number (HIC)] be sent in by providers claiming reimbursement of bad debts. APPENDIX A shows the information required.

The University of Alabama at Birmingham (UAB) Hospital was established in 1945 as a teaching hospital for the University of Alabama School of Medicine. Today, it is one of Alabama's major teaching hospitals and a modern medical complex serving approximately 35,000 patients annually. Approximately, one out of every three patients is a Medicare beneficiary. The UAB Hospital claimed more Medicare bad debts than any hospital in the nation on its 1997 Medicare cost report.

Prior to our audit period, UAB Hospital has claimed bad debts for reimbursement amounting to:

<u>Year</u>	<u>Bad Debts Claimed</u>
1993	\$1,126,965
1994	863,810
1995	1,190,121
1996	357,560

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of the audit was to determine if Medicare bad debts claimed by UAB Hospital on its Fiscal Year (FY) ended September 30, 1997 cost report met Medicare requirements. The UAB Hospital was selected for audit because of the large increase in bad debts from FY 1996 to FY 1997. Furthermore, the \$7.2 million claim for FY 1997 was the largest bad debt claim for any hospital in the nation for that year.

The UAB Hospital formally claimed \$7,203,293 for Medicare bad debts on its FY 1997 cost report dated March 2, 1998.<sup>1</sup> At the beginning of our audit, we requested a listing of patients to support the bad debts claim. The Medicare intermediary (Blue Cross and Blue Shield of Alabama, Inc., dba Cahaba Government Benefit Administrators) provided a listing totaling \$6,907,135, not the \$7,203,293 claimed. The list totaling \$6,907,135 purportedly represented unclaimed bad debts for FYs 1992-1996. The difference of \$296,158 represented FY 1997 bad debts for which a detailed bad debt listing was not provided. The intermediary proposed reducing the \$7,203,293 to \$6,907,135.

Prior to our selection of the statistical sample from the \$6,907,135 listing, the UAB Hospital discovered that this listing contained numerous errors, and verbally requested that the intermediary reduce the bad debts on the listing by \$4,143,822. The intermediary agreed although they did not actually make the adjustment to the cost report. The UAB Hospital provided the Office of Audit Services with a bad debt listing totaling \$2,763,313. These actions resulted in our sampling the \$2,763,313 bad debts revised listing. We selected a statistical sample of the remaining bad debts. The intermediary assisted us in evaluating this statistical sample.

To accomplish the objective, we:

- reviewed criteria related to Medicare bad debts and Medicare's accounting requirements;
- reviewed UAB Hospital's patient accounts receivable system procedures to accumulate bad debt amounts for the cost report;
- utilized a stratified sample approach to review a sample of bad debt claims (this included all 13 bad debts of \$5,000 or more and 400 randomly selected bad debts less than \$5,000). (For details of our sampling methodology, see APPENDIX B.);
- performed detailed audit testing on the accounts receivable records, the Medicare remittance documents, and the Medicaid remittance documents for each of the 413 sampled bad debts;
- used the RAT-STATS Variable Appraisal Program to estimate the dollar impact of improper bad debts in the total population (see APPENDIX C for details on the results of our projection); and

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<sup>1</sup>The \$7,203,293 reported on the FY 1997 cost report included both inpatient and outpatient bad debts. These bad debts were recorded on Worksheet E, Part A, line 21. However, CMS's cost report instructions show that Worksheet E, Part A, is only used for reporting inpatient hospital services, with inpatient bad debts reported on line 21. A separate Worksheet E, Part B, is to be completed for outpatient services, with outpatient bad debts reported on line 27. Although inpatient and outpatient bad debts had been combined and were included in our sample, we did not consider the outpatient bad debts to be an error if they otherwise met Medicare requirements.

- discussed the results of our review with UAB Hospital officials.

A detailed review of internal controls was not performed because the objective of our review was accomplished through substantive testing.

The fieldwork was performed at UAB Hospital, the intermediary, the Alabama State Medicaid Agency, and the Birmingham field office.

Our audit was performed in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

### **AMOUNT CLAIMED ON FY 1997 COST REPORT FOR BAD DEBTS IS INCORRECT**

Our audit showed that UAB Hospital claimed certain bad debts on its FY 1997 cost report that did not meet Medicare reimbursement requirements. The UAB Hospital's accounting system controls and procedures were inadequate to assure that Medicare bad debts were properly claimed. We found that UAB Hospital had not fully developed its patient accounts receivable system so it could accumulate complete, accurate, and timely Medicare bad debts. As a result, UAB Hospital used various manual methods to determine its FY 1997 claim for bad debts of \$7,203,293. Because of errors in the bad debts claimed, UAB Hospital proposed that the intermediary make a tentative reduction of \$4,143,822 and the intermediary proposed an additional adjustment of \$296,158. At the present time, the \$4,439,980 is not eligible for Medicare reimbursement. The UAB Hospital should not receive reimbursement for these items until evidence of their existence and accuracy is provided to the intermediary by UAB Hospital. Of the remaining \$2,763,313, our audit disclosed unallowable bad debts of \$988,268 (see APPENDIX C for details on the results of our projection). APPENDIX D summarizes the financial results of our audit.

### **DETAILED RESULTS OF REVIEW**

#### **The Basis for Accumulating Bad Debts Claimed on FY 1997 Cost Report**

The UAB Hospital's claim of \$7,203,293 in bad debts included amounts for multiple years: \$296,158 for FY 1997 transactions and \$6,907,135 for FYs 1992-1996 transactions. According to UAB Hospital officials, the basis for bad debts claimed for FY 1997 was a partial listing of 1997 bad debts generated by its Patient Financial Accounts Office. The basis for FYs 1992-1996 bad debts was a letter from a consultant with a listing of bad debts for FYs 1992-1996 transactions. This information was furnished to the preparer of the cost report, the UAB Hospital Reimbursement Office.

### **Adjustments by the Medicare Intermediary**

The bad debts claim of \$296,158 for FY 1997, according to UAB Hospital officials, was incomplete and did not include all the Medicare bad debts to which UAB Hospital was entitled. The amount was based on the bad debt amount sent to one of UAB Hospital's collection contractors. We were informed that the \$296,158 did not include other bad debts, such as, bad debts uncollectible by other collection agencies and the nonpayment of deductibles and coinsurance by Medicaid for indigent patients. We found that the UAB Hospital's patient accounts receivable system could not provide the Medicare bad debts claim amount for the 1997 cost report. Instead, the hospital has been manually calculating the bad debts for 1997.

The Reimbursement Office officials at UAB Hospital advised us that they suspected the \$296,158 was understated but submitted the amount on the cost report with the intent of establishing a correct amount later. After the cost report was submitted, UAB Hospital notified the intermediary that the \$296,158 was incomplete and that a complete amount of 1997 bad debts would be submitted at a later date. The intermediary tentatively disallowed the \$296,158 because UAB Hospital did not submit the required beneficiary-specific listing of the individual bad debts. As of April 25, 2001, UAB Hospital had not submitted a revised bad debts claim for FY 1997.

Accordingly, the \$296,158 adjustment proposed by the intermediary is not eligible for Medicare reimbursement. The UAB Hospital should not receive reimbursement for these costs until sufficient documentation as to their existence and accuracy has been provided to the intermediary.

### **Adjustments proposed by the UAB Hospital**

During the period 1992-1996, UAB Hospital officials stated that they were not aware, until advised by a consultant, that they might be entitled to recover as Medicare bad debts the deductibles and coinsurance not paid by Medicaid for indigent patients. The UAB Hospital officials stated that this entitlement to bad debts was not claimed on prior cost reports. The UAB Hospital contracted with the consultant to determine the amount of Medicare bad debts that could be claimed for FYs 1992-1996 transactions involving patients eligible for Medicare as well as Medicaid.

The consultant requested that UAB Hospital provide Medicaid remittance documents for 1992-1996 transactions in order to calculate the amount not previously claimed for indigent beneficiaries. Because Medicaid remittance documents from 1992-1996 were not readily available, the consultant, with assistance from UAB Hospital, obtained from the Alabama Medicaid Agency a listing of the Medicaid unpaid deductibles and coinsurance. In a letter to UAB Hospital dated February 5, 1998, the consultant reported that the Medicare bad debts that were related to dually eligible Medicare/Medicaid beneficiaries amounted to \$6,907,135. This amount was claimed on the FY 1997 cost report without verification to patient accounts receivable records by the UAB Hospital. The UAB Hospital reimbursement official told us there

was no time to verify the consultant’s listing before the deadline for submitting the FY 1997 cost report.

Subsequently, UAB Hospital learned the \$6,907,135 contained errors and notified the intermediary. The UAB Hospital verbally proposed that the intermediary make a tentative reduction of \$4,143,822 leaving \$2,763,313, an amount UAB Hospital thought included proper claims that could be documented. The intermediary concurred with this decision.

Accordingly, at the present time, the \$4,143,822 is not eligible for Medicare reimbursement. The UAB Hospital should not receive reimbursement for these costs until sufficient documentation as to their existence and accuracy has been provided to the intermediary.

**Computation of Claims**

This schedule summarizes the initial and revised amounts of UAB Hospital bad debts for FY 1997:

	FY 1997 Bad Debt Transactions	FYs 1992-1996 Bad Debt Transactions	Total
Formally Claimed on Cost Report	\$296,158	\$6,907,135	\$7,203,293
UAB Proposed Reduction to Eliminate Errors		<4,143,822>	<4,143,822>
Undocumented Bad Debt	<296,158>		<296,158>
Revised Amount - After All Reductions	-0-	\$2,763,313	\$2,763,313

The \$2,763,313 (\$2.8 million) constituted the starting point for our audit findings and recommendations.

**Audit of \$2.8 Million in Bad Debts Transactions**

We cooperated with the intermediary to review a sample of UAB Hospital’s revised amount of \$2,763,313, comprised of 16,513 bad debts transactions. We reviewed an unrestricted random sample of 400 bad debts less than \$5,000 and all 13 bad debts \$5,000 and over. On these 413 bad debts, we verified the correctness of the bad debt amount by comparing it to amounts on the patients’ accounts receivable records, Medicaid remittance records, and Medicare remittance records.

We projected our sample results to the universe of bad debts. Using the lower limit of the 90 percent confidence interval, we estimate that \$988,268 of the \$2,763,313 universe of bad

debts is unallowable. Below are details on the errors found in our sample of bad debts less than \$5,000 and the 13 bad debts \$5,000 and over.

### **Bad Debts Sample Items Under \$5,000**

We found that 171 of the 400 bad debts sample items reviewed were not eligible for reimbursement as Medicare bad debts for the following reasons:

- 46 bad debts for end stage renal disease (ESRD) services were improperly claimed;
- 41 bad debts had not been written off the books and records and, therefore, were still receivables;
- 15 bad debts were incorrect because the consultant's bad debt amounts were not reduced by patient, Medicaid, or insurance payments;
- 12 bad debts had already been claimed on a prior cost report;
- 52 bad debts were not supported by adequate source documentation; and
- 5 bad debts contained 2 of the above types of errors.

The 400 sampled bad debts under \$5,000 totaled \$59,691. Of that amount, \$30,071 is unallowable. Specific details on these categories of error are:

#### **End Stage Renal Disease Bad Debts**

Forty-six of the sample items were ESRD bad debts improperly claimed for reimbursement. Hospitals are required to keep ESRD Medicare bad debts separate from inpatient Medicare bad debts because the two types of bad debts are reimbursed differently.

According to 42 CFR 413.178, CMS will reimburse each renal dialysis facility its allowable Medicare ESRD bad debts up to the facility's costs in a lump-sum payment on the cost report. The facility must request payment by submitting an itemized list that specifically enumerates all uncollectible amounts.

We found that the consultant intermingled ESRD bad debts with the other bad debts, instead of submitting a separate list to UAB Hospital. We also discovered that UAB Hospital had not completed the cost report worksheet to calculate allowable ESRD bad debts. Therefore, without separately listing and calculating ESRD bad debts, we (and UAB Hospital) have no assurance that Medicare is liable for these ESRD bad debts.

### **Accounts Receivable Were Not Written Off**

Forty-one of the sample items from the consultant's listing were incorrect because they were still shown on UAB Hospital's accounts receivable records as receivables. They had not been written off UAB Hospital's books and records. Therefore, these accounts remain active and ineligible for Medicare payment.

### **Payments on Patient Bad Debts Were Not Deducted**

Fifteen of the sample items from the consultant's listing were incorrect because the bad debt amounts were not reduced by subsequent patient payments, insurance payments, and corrected Medicaid payments. For example, the bad debts amount claimed for one patient was \$77.99. The accounts receivable record showed the patient made a \$12 payment, which should have reduced the bad debt to \$65.99. Therefore, for this sample item, the allowable bad debt was \$65.99, not \$77.99.

### **Bad Debts Were Claimed on a Prior Cost Report**

Twelve of the sample items from the consultants listing were not allowable because they had been claimed on a prior cost report.

### **Bad Debts Not Supported by Adequate Source Documents**

Fifty-two of the sample items from the consultant's listing were not supported by adequate source documentation. When we requested the source documentation for these sample items, UAB Hospital provided inadequate documentation to support the bad debts. The documentation necessary to support the bad debt claims should consist of the Medicaid remittance document, the Medicare remittance document, and the patient accounts receivable records. In these 52 cases, either all or some of the source documents were not provided for our review; UAB Hospital was unable to locate them.

### **Multiple Errors**

Five of the sample items were incorrect because they had two errors that combined to make the whole bad debt claim incorrect. Four of the five bad debts were erroneous because the patient made a payment on the account that should have reduced the bad debt, and the remaining balance was not written off the patient's account. The remaining bad debt was incorrect because the patient had already made some payments, and part of the bad debt had been claimed on a previous cost report.



### **Bad Debts Sample Items \$5,000 and Over**

Of the 13 bad debts that were \$5,000 and over, 8 bad debts were found to have errors. These eight errors fell into three of the categories previously discussed above.

- Five bad debts had not been written off, and were, therefore, active accounts receivable;
- Two bad debts had not been reduced for payments made by Medicaid; and
- One bad debt was not supported by adequate documentation.

The 13 bad debts of \$5,000 and over totaled \$156,897. Of that amount, \$86,907 is unallowable.

### **Patient Accounts Receivable System Needs Improvement**

The errors discussed above can be attributed to insufficient financial data in UAB Hospital's patient accounts receivable system to properly accumulate Medicare bad debts. The patient accounts receivable system could not be used as the basis for UAB Hospital's Medicare bad debts claimed on its FY 1997 cost report. A general ledger account was not established for recording Medicare bad debts nor were transaction codes for bad debts established to classify and accumulate the various types of Medicare bad debts such as: (1) bad debts resulting from nonpayment by Medicaid for indigent patients; (2) Medicare bad debts uncollectible by UAB Hospital; (3) Medicare bad debts uncollectible by collection agencies; and (4) ESRD bad debts.

Because Medicare bad debts data was not produced by the accounting system in a manner suitable for claiming on the cost report, UAB Hospital used various manual methods to prepare the bad debts amount. The UAB Hospital has had to manually sort through listings of bad debts to identify only the Medicare bad debts, which were then totaled using an adding machine. Also, when UAB Hospital contracted with a consultant to identify previously unclaimed bad debts for indigent Medicare patients, the consultant's information contained errors. The consultant, in 1998, compiled data from 1992 through 1996, but did not verify if any activity had taken place on the patient accounts receivable records since that time. In actuality, payments that had been made, and other account activity resulted in the consultant's bad debt listing being overstated. These alternative methods proved to be unreliable and resulted in: (1) bad debts not always being claimed in the proper year; (2) incorrect or incomplete amounts being claimed; and (3) large amounts of time and effort expended in determining bad debts.

### **Conclusions**

The UAB Hospital's bad debt claim on its FY 1997 Medicare cost report was \$7,203,293. We found that \$988,268 of claimed costs did not comply with various Medicare criteria. Additionally, there was \$4,439,980 of potential bad debts that contained errors or were insufficiently documented.

The UAB Hospital management is responsible for establishing and maintaining an adequate accounts receivable system to assure all revenues to which UAB Hospital is entitled are properly collected in a timely manner. We believe that the results of our review demonstrate the need for UAB Hospital to improve its financial controls and systems to assure the integrity of financial data, the collection of all bad debts, and the efficient and timely preparation of accurate bad debt amounts on Medicare cost reports.

## **RECOMMENDATIONS**

We are recommending that UAB Hospital:

- establish and implement a plan to improve its patient accounts receivable system to possess the capability to produce accurate Medicare bad debts information; and
- amend its 1997 cost report and claim only \$1,775,045 as bad debts.

## **UAB Hospital Comments**

The UAB Hospital officials agreed with most of our findings and recommendations. However, they disagreed with two specific findings, ESRD bad debts and accounts receivable that had not been written off.

In their response to our ESRD finding, UAB Hospital officials stated that, based on calculations comparable to those in the Medicare cost report worksheet, the only cost reporting period in which reimbursement of Medicare ESRD bad debts could possibly cause reimbursement to exceed the ESRD facility's costs is the September 30, 1992 period. The UAB Hospital officials further stated that ESRD bad debts for this period can be identified and a calculation performed to determine any necessary reduction in this amount.

The UAB Hospital officials stated that there is a possible misunderstanding regarding the accounts receivable that had not been written off. The Healthquest software used by UAB Hospital keeps bad debt information active as long as the system has capacity to do so, and once that capacity has been reached these bad debt accounts are then archived, removed from the system, and placed on tape.

## **OIG Response**

We have the following comments in response to UAB officials' disagreement with our findings related to ESRD bad debts and accounts receivable that had not been written off.

We did not disallow the ESRD bad debts because they were not valid bad debts. These bad debts were not treated properly on the Medicare cost report. Accordingly, we were unable to substantiate whether or not they were allowable bad debts. Medicare rules and regulations require that ESRD bad debts be identified, segregated from other bad debts, and claimed

differently from other bad debts on the Medicare cost report. The UAB hospital did not follow Medicare rules and regulations governing the methodology that must be used to claim ESRD bad debts. Instead, ESRD bad debts were intermingled with other bad debts and claimed as ordinary bad debts. Accordingly, we disallowed the ESRD bad debt claim.

The UAB Hospital officials also disagreed with our finding that certain accounts receivable had not been written off the books and records, but were claimed as bad debts. At the time of our audit we discussed this with UAB Hospital officials. We inquired as to why some bad debts were written off while other bad debts were archived and stored on tape. The UAB Hospital officials stated that accounts that were archived could and would be reinstated if activity were to occur on that account. In our opinion, if accounts were only in a state of suspense and could be activated, they were not truly written off the books and records. Therefore, they should not be claimed as bad debts on the Medicare cost report.

**EXHIBIT 5**  
**LISTING OF MEDICARE BAD DEBTS AND APPROPRIATE SUPPORTING DATA**

PROVIDER \_\_\_\_\_  
 NUMBER \_\_\_\_\_  
 FYE \_\_\_\_\_

PREPARED BY \_\_\_\_\_  
 DATE PREPARED \_\_\_\_\_  
 INPATIENT \_\_\_\_\_ OUTPATIENT \_\_\_\_\_

(1) Patient Name	(2) HIC.NO.	(3) DATES OF SERVICE		(4) INDIGENCY & WEL. RECIP. (CK IF APPL)		(5) DATE FIRST BILL SENT TO BENEFICIARY	(6) WRITE-OFF DATE	(7) REMITTANCE ADVICE DATES	(8)* DEDUCT	(9)* CO-INS	(10) TOTAL
		FROM	TO	YES	MEDICAID NUMBER						

\* THESE AMOUNTS MUST NOT BE CLAIMED UNLESS THE PROVIDER BILLS FOR THESE SERVICES WITH THE INTENTION OF PAYMENT. SEE INSTRUCTIONS FOR COLUMN 4 - INDIGENCY/WELFARE RECIPIENT, FOR POSSIBLE EXCEPTION.

## SAMPLING METHODOLOGY

### OBJECTIVE

The objective of the audit was to determine if Medicare bad debts claimed by UAB Hospital on its FY ended September 30, 1997 cost report met Medicare requirements.

### POPULATION

The UAB Hospital initially claimed \$7,203,293 in bad debts on its 1997 Medicare cost report. After submitting the cost report, UAB Hospital notified its Medicare intermediary (Blue Cross and Blue Shield of Alabama, Inc.) that downward adjustments were needed to reduce the bad debts claim to \$2,763,313. The \$2,763,313 consisted of 16,513 bad debts. Each line item on UAB Hospital's bad debt list represents a bad debt. There were 13 items that were \$5,000 or greater and 16,500 under \$5,000.

The population is shown below:

<u>Strata</u>	<u>Number of Bad Debts</u>	<u>Dollar Amount of Bad Debts</u>
Under \$5,000	16,500	\$2,606,416
\$5,000 and Over	<u>13</u>	<u>\$ 156,897</u>
Total	16,513	\$2,763,313

### SAMPLE UNIT

The sample unit was a bad debt resulting from unpaid coinsurance and deductible amounts.

### SAMPLE DESIGN

The sample design is stratified. All items \$5,000 and greater will be included in a separate stratum for 100 percent review. We will then select an unrestricted random sample of items with values less than \$5,000.

### SAMPLE SIZE

We randomly selected 400 bad debts that were less than \$5,000, and we reviewed all 13 bad debts that were \$5,000 or greater.

## **ESTIMATION METHODOLOGY**

Using the Department of Health and Human Services, Office of Inspector General, Office of Audit Services RAT-STATS Variable Appraisal Program for stratified samples, we projected the amount of bad debts that were unsupported, associated with ESRD, not properly written off, claimed on a previous cost report, and paid by the patient or other third party.

**VARIABLE PROJECTION**

**SAMPLE RESULTS**

The results of our review are as follows:

<u>Strata</u>	<u>Number of Bad Debts</u>	<u>Sample Size</u>	<u>Value of Sample</u>	<u>Number of Errors</u>	<u>Value of Errors</u>
Under \$5000	16,500	400	\$ 59,691	171	\$ 30,071
Over \$5000	<u>13</u>	<u>13</u>	<u>\$156,897</u>	<u>8</u>	<u>\$ 86,907</u>
Totals	16,513	413	\$216,588	179	\$116,978

**VARIABLE PROJECTION**

Point Estimate                      \$1,327,354

90% Confidence Interval

Lower Limit                      \$988,268  
Upper Limit                      \$1,666,441

**Financial Results of Audit  
Bad Debts for the Year  
Ended September 30, 1997**

<u>Amount Claimed By</u>		<u>Notes</u>
UAB Hospital on Cost Report	\$ 7,203,293	(a)
Undocumented Bad Debt Self-Disclosed by UAB Hospital During Audit	< 4,439,980 >	(b)
Unallowable Bad Debt Identified by OIG during Audit	< <u>988,268</u> >	(c)
Allowable FY 1997 Bad Debts	<u>\$ 1,775,045</u>	

**NOTES:**

- (a) This amount was claimed on the FY 1997 UAB Hospital cost report dated March 2, 1998.
- (b) When, and if, UAB Hospital should document the beneficiary-specific transactions included in this amount, a potential valid bad debt would be established.
- (c) This amount represents our projection of the stratified sample results. (See APPENDIX C for details.)





Office of the Executive Director

October 9, 2001

Mr. Charles J. Curtis  
Regional Inspector General for Audit Services, Region IV  
Department of Health and Human Services  
Room 3T41  
61 Forsyth Street, S.W.  
Atlanta, Georgia 30303-8909

Dear Mr. Curtis:

This letter is written in response to your office's report entitled Review Of Medicare Bad Debts At The University Of Alabama at Birmingham Hospital (CIN) A-04-00-06005. We agree with most of the comments in the findings and recommendations section of this report and have been working to improve our systems and procedures to identify, document, and support Medicare bad debt information.

Prior to our filing the Fiscal Year 1997 Medicare Cost Report, it came to our attention that bad debts for patients covered dually by Medicare and Medicaid had not been recognized for Fiscal Year 1992-1996. In our situation, the State has an obligation to pay, but either does not pay anything or pays only part of the deductible or coinsurance because of a State payment ceiling. The Medicaid remittance advices for these transactions were lost when the hospital business office moved their operation to another building on campus. The information for these transactions was then requested from the State Medicaid Agency. Unfortunately, the information provided by the Agency, included not only those claims for which they did not pay anything but also included claims denied for various reasons.

It should be noted that we disagree with some of the findings related to end-stage renal disease bad debts and accounts receivable not written off.

With regards to end-stage renal disease bad debts, we believe, based on calculations comparable to those in the Medicare cost report worksheet, that the only cost reporting period in which reimbursement of Medicare ESRD bad debts could possibly cause reimbursement to exceed the facility's costs is the September 30, 1992 period. The ESRD bad debts for this period can be identified and a calculation performed to determine any necessary reduction in this amount.

Letter to Mr. Charles J. Curtis, Regional Inspector General for Audit Services,  
Department of Health and Human Services  
October 9, 2001  
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With regards to accounts receivable not written off, we believe that there may be some misunderstanding of the categorization of accounts written off in the Healthquest accounts receivable system.

The Healthquest software program includes the active accounts receivable balances which are included in the general ledger as well as the detail information related to bad debts which are not included in the general ledger. The detail bad debt information remains in the system, regardless of whether there is any activity related to the bad debt, until the system's storage capacity is reduced below a certain point, at which time the detail bad debt information is archived, that is removed from the system and stored on tape.

Because of potential differences in allowable bad debts related to these two items, the hospital would need to include an amount on the " Protested Amount (Non-allowable Cost Report Item)" line of the amended cost report. Hopefully, any additional calculations or support needed for these items could be resolved with the intermediary.

Sincerely,



Martin Nowak  
Executive Director/CEO

MN/crs

cc: Steve Pickett, UAB Health System CFO  
Sydney Rountree, UAB Hospital CFO